
STRAUSS GROUP LTD.
ANNUAL REPORT
AS AT DECEMBER 31, 2014

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

STRAUSS GROUP LTD.

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STRAUSS GROUP LTD.

DESCRIPTION OF THE
CORPORATION'S BUSINESS

Unofficial Translation

Description of the Corporation's Business

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Description of the Corporation's Business

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

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

1.1 Strauss Group Ltd. (formerly Strauss-Elite Ltd., hereinafter: the "**Company**") and the companies controlled by it (for convenience sake, the Company and the companies under its control shall hereinafter be referred to as: the "**Group**") form a group of industrial and commercial companies that operate both in Israel and abroad, engaging primarily in the development, manufacture, marketing and sale of a range of branded food and beverage products. Likewise, the Group operates in the development, marketing, service and sale of products for water filtration and purification.

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: "**the 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 Mrs. Ofra Strauss, who is regarded as a joint holder with Mr. Strauss in the Company's shares.

The Group is a food and beverage company, operating in more than 20 countries worldwide with productions in 30 plants, with a strong home base in Israel, and focuses on high value-added branded products. According to StoreNext's data, the Company is the second biggest food group in Israel; it is the fourth biggest instant coffee company in the world and ranks fifth in the field of ground and roast coffee, according to Euromonitor, in terms of market share.

In 2014, The Company held 11.6% of the total food and beverage market in Israel (in financial terms²), excluding the market share of Strauss Water Ltd., and it is the food

¹ Strauss Holdings is a private Company registered in Israel. To the Company's best knowledge, the ordinary shares of Strauss Holdings are held by: (1) The Michael Strauss Assets Company Ltd. [a company held by Mr. Michael Strauss (approx. 54.7%), Ofra Strauss (approx. 20.1%), Irit Strauss and Adi Strauss (approx. 12.6%, each)] (hereinafter: "**Michael's Assets**"); (2) The Assets of Raya Strauss Ben Dror Ltd. [a company held by Raya Strauss' sons: Ben Dror, Gil Midyan (approx. 50%) and Ran Midyan (approx. 50%)] (hereinafter: "**Raya's Assets**"); (3) Strauss Holdings (approx. 29%). The effective holdings of Michael's Assets and Raya's Assets in Strauss Holdings, while neutralizing net of the shares held by Strauss Group, 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 knowledge, the voting shares in Strauss Holdings confer upon their holders the right to be invited, participate and vote in general meetings; the holders of the majority of the voting shares are entitled to appoint the majority (half plus one) of the directors on the board of Strauss Holdings.

To the Company's best 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 participate without a voting right in general meetings and to vote in general meeting, only in resolutions regarding changes 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.

group with the highest sales turnover among the Israeli food companies (according to the Group's sales turnover). The Group is also active in the coffee markets of Brazil, Russia and in Central and Eastern European countries, and is one of the leading coffee manufacturers in these countries. Likewise, the Group is active in North America, Mexico and Australia in the development, manufacture, marketing and sale of refrigerated Mediterranean salads and dips. In China and the UK, the Group is engaged in the marketing, sale and services for water filtration and purification products. In the USA, Australia, Singapore, the Philippines, Japan and Israel, the Group operates chocolate bars.

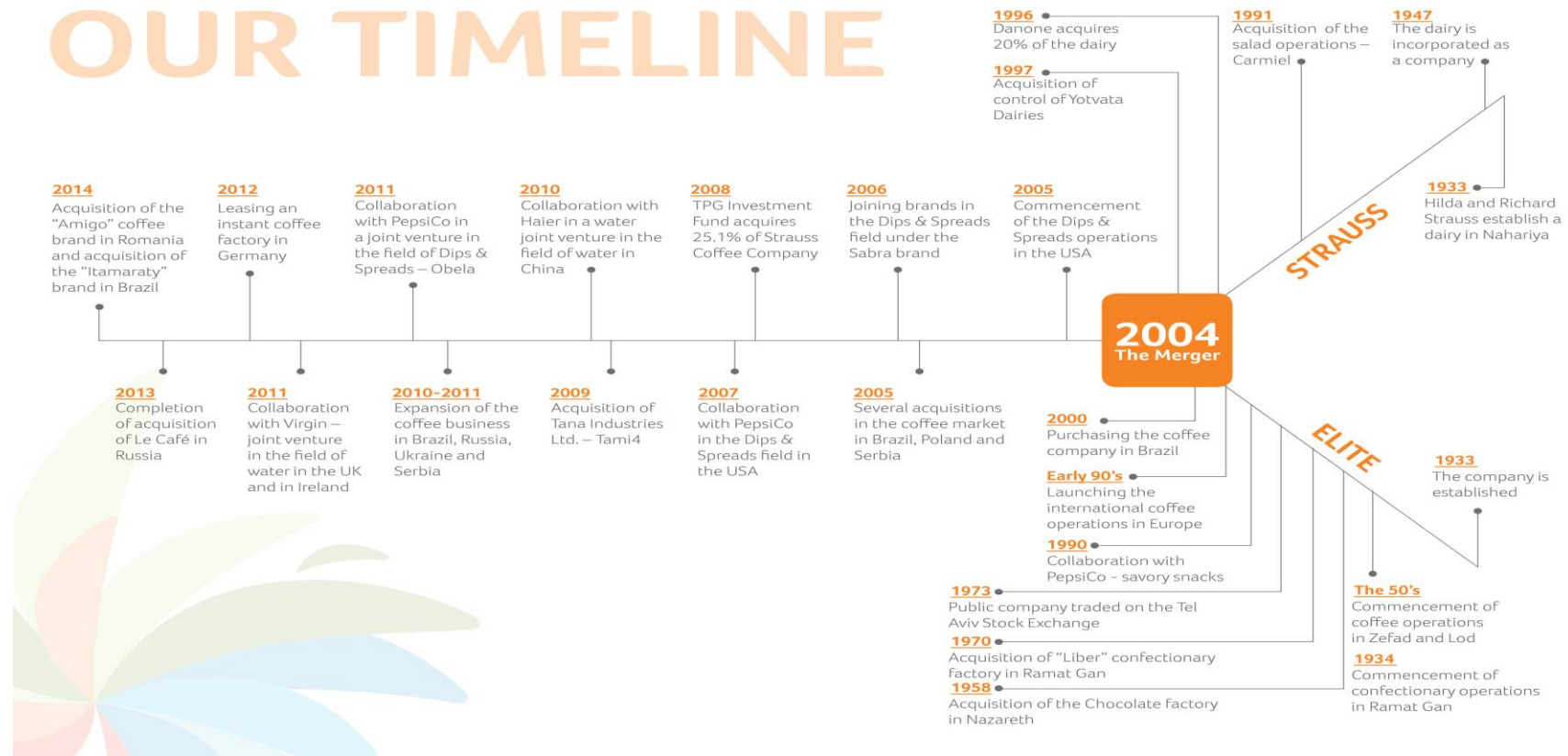
- 1.4 The Group manages and develops its business with a view to providing consumers with a broad range of top-quality branded products for different consumption opportunities. The Group has diverse production technologies and it operates through large-scale marketing, sales and distribution systems, making its products widely available to consumers. The Group's products are typically sold through a variety of channels including large retail chain outlets, supermarkets, groceries, kiosks, hotels, workplaces, convenience stores, vending machines, etc.
- 1.5 The Group has five operating segments: Health & Wellness, Fun & Indulgence, Israel Coffee, International Coffee, International Dips and Spreads, and other (the "other" operating segment also includes the activities of Strauss Water and Max Brenner). For additional details regarding the segments, see Section 2 hereunder.
- 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 snacks . In the mid-1950's, Strauss began to manufacture instant coffee in Israel. In subsequent years, the Group expanded its snacks and coffee business by building new plants and buying firms in these areas. In 1990, the Group's began collaborating with PepsiCo in the field of salty snacks.
- 1.8 In the early 1990's, the Group launched its international coffee business in Europe, principally in the roast and ground coffee market. The Group expanded its global activity to Central and Eastern Europe through the acquisition of companies that operate in this field, as well as the establishment of new operations. In late 2000, the Group began

² According to StoreNext's data. StoreNext measures the consumer goods segment in the barcoded retail market (hereinafter: "**StoreNext**").

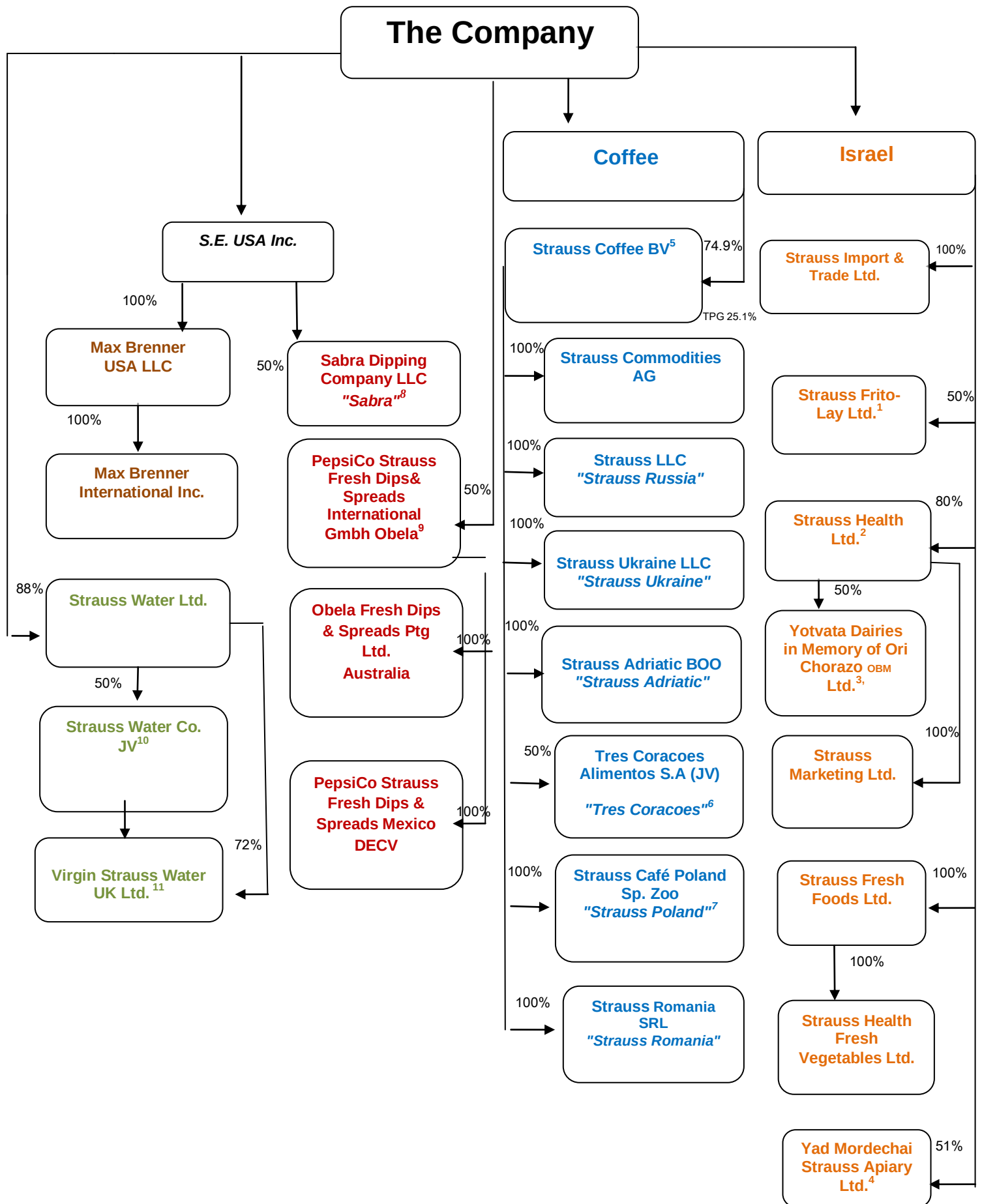
operating in South America with the acquisition of a coffee company in Brazil. During 2005, the Group significantly expanded its global coffee business through a series of acquisitions in Brazil, Poland and Serbia. The global coffee activity continued to expand in subsequent years through the acquisition of additional brands in Russia in 2010, an interest in Le-Caffe in 2011 and in 2013, the acquisition of additional brands in Brazil in 2011 and in 2014, additional brands in Romania in 2014 and the leasing of a plant in Germany in early 2012. In 2008, TGP, a private investment fund (through Robusta Coöperatief U.A) invested in a subsidiary of the Company, Strauss Coffee B.V. (hereinafter: "**Strauss Coffee**") in return for the allotment of 25.1% of the shares of Strauss Coffee. Today, the Group's entire coffee business is carried out by Strauss Coffee.

- 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 with Strauss**"), and the Group commenced operations in the field of dairy products and salads. For additional information on the Merger Transaction, see section 26.1 below. The dairy business was launched in the 1930's by Hilda 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 began operating in the field of yogurts and dairy desserts and in 1996, the French concern Danone acquired 20% of the dairy's shares.
- 1.10** In 2005, the Group entered the US refrigerated spreads and dips market. At the end of 2006, the Group expanded its business in the USA, marketing its products under the Sabra brand. At the end of 2007, the Group entered into a partnership agreement with PepsiCo, to operate in the USA and Canada through Sabra. In October 2011, an additional partnership agreement was signed with PepsiCo (50%) for the establishment of a global joint venture in this field under the Obela brand, which operates in markets other than North America.
- 1.11** In 2006, the Group expanded the Max Brenner business globally and entered the American market.
- 1.12** In 2009, the Company purchased Tana Industries Company Ltd. (hereinafter: "Tami 4"). In October 2010, an agreement was signed with Haier Group for the establishment of a joint venture in China. In November 2011, an agreement was signed with Virgin for the establishment of a joint venture in the UK and Ireland.
- On January 14, 2015, Strauss Water and the Haier Group signed a non-binding memorandum of understanding for the restructuring and expansion of the joint venture's business in China. For additional details see section 15.1(K)(1) below.

1.13 Below is a graph displaying the development in the Group's business:



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



Comments Relating to the Structure of Holding 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.

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 TPG Private Investment Fund (through Robusta Coöperatief U.A). For details on the agreement with TPG, see Section 12.13 below. For additional details concerning the holdings of Strauss Coffee, see Sections 12 and 13 below.

⁶ 50% of the shares of Três Corações (3C) are held by São Miguel Group. For a description of the joint transaction 50/50 with São Miguel Group, see Section 13.13 below. It is clarified that the Group's operations in Brazil which are described in this report, refers to the Company's activity through Três Corações (JV), the Company's joint venture in Brazil, which includes production, marketing and sales of coffee and other products, including green coffee exports. For additional details see section 13.13 below.

⁷ Strauss Poland was acquired over 15 years ago. After the acquisition date the Company realized it did not hold a state permit, formerly required for the transfer of the shares in the acquisition. This permit is no longer required in similar transactions. According to 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 non-validity 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 transaction with PepsiCo, see Section 14.13a below.

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

¹⁰ 50% of the shares of Qingdao Haier Strauss Water CO. Ltd are held by the Chinese Haier corporation. See section 15.1.k.1 below.

¹¹ 28% of the shares of Virgin Strauss Water UK Ltd. are held by Virgin. See section 15.1.k.2 below.

2. Operating Segments

The Group engages in five key business activities that are reported as segments, as specified in note 29 to the Company's financial statement as at December 31, 2014. Four out of the business activities are concentrated under two key frameworks: **the Israel Operations and the Coffee Operations**, as described below:

The Israel operations – 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 two operating segments as follows:

- a. **The Health & Wellness segment:** The Group's products in this segment respond to growing health and wellness trend; 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 and jams, natural juices manufactured by Ganir, Zhug Zehavi and long-life (UTH) 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 bars, 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.
- c. **The Coffee Operations** –the Group 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:

The Israel Coffee segment: In this segment, the Group develops, manufactures, sells, markets and distributes a range of company-branded coffee products in Israel; it also manufactures and sells chocolate powders and other drink powders.

Likewise, the Group engages in the retail sale of coffee products at points of sale in Israel. This segment includes **Strauss Coffee's** corporate headquarters (except for identified costs of different subsidiaries of Strauss Coffee, which are allocated to each subsidiary). For additional details on this segment, see Section 12 below.

The International Coffee segment: In this segment the Group develops and manufactures a range of company-branded coffee products and drink powders in Brazil, Russia and Central and East European countries, as well as markets and

distributes coffee machines. The Group manufactures and sells a range of products, as stated, in Brazil, USA and in Eastern and West European countries. For additional details on this segment, see Section 13 below.

- d. **International Dips and Spreads segment** - the Group develops, manufactures, markets and sells Group develops, manufactures, markets and sells refrigerated dips and salads 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 of December 31, 2014 as the "**Other Operations**" segment. The main activities in this segment are:

- (1) Strauss Water – under this business, the Group develops, manufactures, sells, markets and distributes in Israel, China and the UK drinking water filtration and purification facilities. 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 additional details, see Section 15.2 below.

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

To the best of the Company's knowledge, during 2013 and 2014 until the date of publication of this report, no off-the floor transactions were carried out 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 business considerations that relate to the Company's best interests.

During 2014, the Company did not distribute any dividends.

For information on the distribution of cash dividends in 2013, see note 28.3 to the Company's financial statements as of December 31, 2014.

The balance of distributable earnings, as at the date of the statement of financial position, is 1,633 million NIS.

For details on the external restriction, which may impact the Company's ability to distribute dividends in the future, see sections 22.4 below. The provisions of Series D Debentures provide that as long as they are not repaid in full, if the Company disposes of most its assets to any third party, then during a three year period after the sale date, the Company shall not distribute dividends, provided that immediately after the dividend distribution the Company fails to comply with its financial covenants.

Part II – Other Information

5. Financial Information regarding the Corporation's Operating Segments

As of 2013, the Strauss Group has been retroactively implementing IFRS 11 – Mutual Arrangements. Pursuant to the standard, the income statement and the statements of financial position, comprehensive profit, changes in equity and cash flows of businesses under the joint control of Strauss and its partner are no longer presented according to Strauss' share in the joint holding, as was the case until the implementation of standard, but rather in a separate line ("profits of investee companies accounted by the equity method" and in other statements under the relevant item). The reporting method does not change the Group's profit. It is noted that only this changes the form of reporting, and has no bearing on the scope of business or the ownership structure of the Group. From a managerial perspective, there is no change in the joint business. Given the fact that the Group's executive reports and the manner by which management measures the results of subsidiaries and companies under joint control remain unchanged, the Group continues to present the operating segments in the same manner as they were presented in prior periods.

The chapter of "Description of the Corporation's Business" in the periodic report is presented in line with the Company's operating segments, and as such all the data presented in this chapter will be in line with the Company's managerial reports, unless otherwise indicated. For details on the Company's managerial reports, see the section "Analysis of the Business Results" in the board of directors report, part B of this report.

The Company has several companies under joint control: Três Corações Joint Venture (in Brazil), Sabra Dipping Company (in the USA), Strauss Frito-Lay Ltd. (the salty snacks business in Israel) Pepsico Strauss Fresh Dips & Spreads International (the international spreads business – "Obela"), Haier Strauss Water (a subsidiary of Strauss Water in China).

It is clarified that the amounts of income, expenses, assets (including inventory, fixed assets and other assets) and the liabilities of different segments that are attributable to those segments – were attributed accordingly. Mixed activities 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 of the date of the periodic report.

The following are financial data, divided into operating segments, in millions of NIS (see also Note 29 to the financial statements of the Company, as at December 31, 2014).

2014 (based on the managerial 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	1,974	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 Variable (*)	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 that constitute 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
Profit from ordinary operations:		143	112	255	76	185	261	75	10	(146)	455
Attributed to the controlling shareholders		60	-	60	25	62	87	-	(2)	(18)	127
Attributed to the minority											
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

(*) 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 current 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 and has 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 stems from the inter-segment sale of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

2013 (based on managerial 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
Profit from ordinary operations:											
Attributable to the controlling shareholders		144 56	115 -	259 56	66 22	236 79	302 101	57 -	(2) (4)	(75) (17)	541 136
Attributable to the minority											
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	-

For an explanation on the developments that occurred in the past year, see the Board of Directors' Report on the Corporation's Business Affairs for the year ended December 31, 2014.

(*) and (**) – for an explanation see the 2014 table

(***) Reclassified to adjust for current-period presentation

2012 (based on managerial 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	1,920	981	2,901	708	3,498	4,206	522	553	-	8,182
	From other operating segments	9	28	37	22	-	22	-	1	(60)	-
	Total	1,929	1,009	2,938	730	3,498	4,228	522	554	(60)	8,182
Total attributable costs	Costs that do not constitute income in other segments:										
	Fixed:	482	254	736	195	1,003	1,198	142	225	(20)	2,281
	Variable (*):	1,233	630	1,863	455	2,247	2,702	336	355	-	5,256
	Costs constituting income of other segments	27	15	42	3	13	16	-	2	(60)	-
	Total	1,742	899	2,641	653	3,263	3,916	478	582	(80)	7,537
Income from ordinary operations:											
Attributable to controlling shareholders		133	110	243	58	176	234	44	(26)	28	523
Attributable to the minority		54	-	54	19	59	78	-	(2)	(8)	122
Total assets		931	972	1,903	618	2,620	3,238	572	1,485	-	7,198
Total liabilities		366	360	726	176	788	964	220	2,551	-	4,461

(*) and (**) for an explanation, see the 2014 table.

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

In addition to the trends and developments in the food and beverage industry and in the Group's operating segments, 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 Prices of raw materials and other production inputs - for addition details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.2 Regulatory developments in the prices of inputs – for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.3 Energy prices – for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.4 Fluctuations in foreign currency rates – for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.5 The political crisis in Ukraine - for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.6 Inflation – for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.7 Interest rates – for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.8 Operation “Solid Rock” - for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

6.9 Regulation in the food industry - for additional details see the section “Changes in the General Environment” in the Company’s Board of Directors Report as of December 31, 2014, Part B of this report.

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

Part III – Description of the Corporation's Business

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 world of Fast Moving Consumer Goods (FMCG) and among the most competitive and mature markets in Israel and globally. It is a dynamic industry that responds to the needs, demands and range of changing tastes of hundreds of millions of consumers in Israel and worldwide.

According to the Company, in 2014 mixed trends continued to prevail in the market. On the one hand, favorable economic developments in the US (economic growth and an increase in consumer spending) led to a global recovery, while on the other hand, Europe's economy suffered from a continued downturn, which led to significant depreciation in the Euro, alongside concerns due to security tensions in different parts of the world and geopolitical crises in Russia and Ukraine, which were affected by the sharp decline in oil prices in the first quarter of 2014 and led to depreciation in the Russian ruble and the Ukrainian Hryvnia and political instability. These trends enhanced the business uncertainty and the raised the challenges facing the corporate sector. For additional details see the section "Changes in the General Environment" in the Company's Board of Directors Report as of December 31, 2014, in Part B below.

During 2014 there were several mergers and acquisitions in the industry, with a few notable examples: Burger King merged with the Canadian coffee shop chain Tim Hortons (fast food service), DE Master Blenders and the coffee business of Mondelez announced a merger into a company called Jacobs Douwe Egberts, whose sales are expected to exceed \$7 billion. To the best of the Company's knowledge, the merger has not yet been completed. In 2014 negotiations began between Tnuva and the Chinese corporation Bright Food, regarding Tnuva's acquisition by the latter. To the best of the Company's knowledge, as of the date of this report, the transaction is in advanced stages and is scheduled to be completed during April 2015. US-based Keurig acquired beverage machine manufacturer Bevyz for \$220 million; Mondelez acquired 80% of Vietnamese confectionary manufacturer Kihn Do. Corp for \$370 million; Turkish Yildiz Holding acquired biscuit manufacturer United Biscuits for £2 billion; Starbucks completed the acquisition of its coffee business in Japan for \$913 million, in the purpose of exploring new concepts in Japan, such as the company's tea business; General Mills acquired the organic food marketer Annie's for \$820 million; French Lactalis acquired the dairy business of Brazilian Food Company (BRF) for \$805 million, and Coca Cola acquired 16.7% of the energy beverage company Monster Beverages for \$2.15 billion.

In addition, companies such as Nestle and Unilever continued to dispose of food businesses that are not part of their strategic focus. The brands sold by Nestle include Alete and Milsan Baby Food Brands (Germany), Juicy Juice and Power Bar. The brands sold by Unilever include Ragu and Bertoli pasta sauce and CBifi and Peperami meat snacks. In addition, Unilever separated its spreads business and established a new subsidiary (100%) called Baking, Cooking and Spreading Co., which is separate from the latter's personal care business. Likewise, Lavazza sold its coffee business in India (under the Barista brand name) to Carnation Hospitality.

In 2014 past partnerships continued and new partnerships were formed: Kraft Foods and McDonalds had a successful cooperation in the distribution of coffee under the McCafe brand and announced that this collaboration will spread throughout the US during 2015. Coca Cola increased its investment in Keurig from 10% to 16.5% and announced that the cooperation between the companies will be expanded to include the manufacture of a hot beverage machine (Honest Tea is the first brand to be included in this cooperation). Keurig added new companies to its list of partners, including a joint venture with Nestle US for the marketing of the Coffee-Mate capsules for the Keurig coffee machine. Coffee manufacturers Lavazza and Illy have funded the sequencing of the coffee Arabica genome. Soda Stream and Pepsico are exploring the production of beverages for Soda Stream's soda machines and WhiteWave launched a joint venture with Dunkin Donuts for the production and marketing of coffee creamers under the Dunkin Donuts brand.

Consumer trends – in 2014, three major consumer trends continued: (1) **Convenience Products**, identifying quick, high-quality and time-saving nutrition solutions, that can be consumed anywhere; (2) **Health & Wellness Products**, the emphasis in 2014 is to improve the flavor of healthy products and an increase in the demand for protein-rich, low-sugar products; Free-From (such as gluten-free) products and an increase in demand for different food substitutes (such as meat substitutes); and (3) **Fun and Indulgence Products**, providing solutions to the rise in the standard of living and demand for higher product quality and pleasure.

Regulation – the involvement of governments in food markets worldwide continued, aimed at maintaining public health (fighting obesity trend, environmental supervision etc.), in order to create transparency and encourage competition.

With respect to the Group's activity in the food and beverage sector, there are several critical success factors that are shared by all its operating segments, and constitute a positive factor affecting the competitive status of the Group: dominance in markets; branded products providing the end consumer with an experience and an added value; a wide variety of

products and a variety in each area of operation, appealing to the general population and to various consumption opportunities; continuous innovations in products; locating solutions to variable consumption trends; ensuring high quality and reliable products; competitive prices; a wide distribution layout, providing high availability of products in many points of sale, as well as collaborating with prominent international organizations.

The main entry barriers that are common to all of the Group's operating segments emerge from the need to maintain a relevant brand, the need for technological know-how in the manufacturing of the products and extensive investments that are necessary in order to erect the manufacturing plants; as well as the need for a sale and distribution infrastructure to customers.

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

8. The Israeli Operations

General Information on the Israeli Operations

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

8.1 Structure of the segment and changes therein

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

According to Storenext's data, the Company is the second biggest food and beverage group in Israel. In 2014, the Company concentrated its efforts in Israel in order to improve the products through high-value innovation, improvement of the ratio between weight and price, innovation with respect to variety and tastes, improvement of the nutritious value, improved comfort of consumption and improvement in the ration of cost and consideration to the customer, addressing new consumers and responding to new needs.

8.2 Changes in the business activity in the Segment and its profitability

The past few years were characterized by heightened 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 and consumer protests in the last few years have eroded retailers' profitability and placed a downward pressure on companies' profit margins.

In 2014, as in the three preceding years, the Company avoided raising prices in Israel and continued to take actions in order to reduce consumer prices. These included, among others, regular reductions in the prices of dairy products and wide-scale

campaigns, intended to maintain competitive prices. These actions impact the Company's profitability and are carried out alongside streamlining measures. The profitability was also affected by the fluctuation in the prices of raw materials in 2014. For additional details see section 6.1 above.

For details on the repercussions of the aforementioned trends and for changes in revenues and profitability in the Health & Wellness and the Fun & Indulgence segments, see the Board of Directors' Report as of December 31, 2013, in chapter B below.

8.3 Developments in the markets of the segment and changes in consumers profile

With regard to the developments in markets and the changes in consumers profile in the food and beverage industry, see the general description of the food and beverage sector in section 7 above.

According to StoreNext's data, in 2014, the food industry declined by a nominal 1.6% compared to a 3.2% growth in 2013. For additional details, see the section on the Group's activity in Israel in the Board of Directors' Report for December 31, 2014, in chapter B below. The food and beverage industry in Israel is estimated at approx. NIS 33.4 billion, in nominal terms.

The small and large private discount chains continued to expand and are opening additional stores in Israel, while the market share of the big retailers continues to diminish. According to StoreNext, in 2014 as well, the convenience store market grew at a faster pace than the entire retail market. Digital purchasing websites of large chains were improved and provide a quick and comfortable purchasing experience.

In the last few years, the large retail chains promoted the "private label" products that compete against products of food manufacturers. This trend reinforced the basic products portfolio increased competition. Notwithstanding the foregoing, and based on StoreNext's report, the private label's share in the food market slightly decreased, on average, during 2014. However, in the last quarter of 2014, the trend reversed and private labels strengthened considerably, primarily due to the renewed launch and expansion of Supersol's private label.

According to the Company, its robustness and high position in the market provide a strong tailwind that drives its success allowing it to withstand market trends.

8.4 Critical success factors in the segment and changes therein

In addition to the critical success factors that are common to all of the Group's operating segments as described in Section 7 above, there are success factors that are unique to the activity in Israel or such that are particularly significant, such as: a strong and leading corporate brand, leading brands in the different products; high 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; quick launch of new, experience-intensive products; product development and innovation; financial robustness for a considerable investment in branding; the ability to adapt existing products to evolving consumption trends; the ability to develop unique products while adapting them to different population segments and their unique requirements; replacement and refreshment of the products on store shelves; an extensive distribution system enabling the 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 segment and changes therein

In addition to the major entry barriers that are common to all 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 to the segment's products

The business in Israel is suffering from competition between food manufacturers, selling similar and substitute products. Each of the main product groups of the Group in Israel, in the areas of Health & Wellness and in the area of Fun and Indulgence there are competing products.

Products of the Company within the framework of the Israeli operations have substitute products of a competing produce, including imported products and private brands of retail networks. During the recent years, the shekel currency strengthened, in consequence thereof import to Israel of low cost competing products, most of which are not under quotas or customs, increased.

The Group continuously battles competition through the development and launch of new products; entering new areas; investment in manufacturing facilities and the

development of its technological capability; concentrating marketing and advertising efforts; building and maintenance of brands; a comprehensive distribution layout; collaborations with international concerns (Danone and PepsiCo) allowing the Group use of know-how and trademarks.

In the Company's opinion, the negative factors that impact or could impact the Group's competitiveness in Israel, include the following: actions taken by retail chains, such as reinforcement of private brands and taking over orders and shelf stocking, Extension of the operations of international food companies in the Israeli local food market; intensified import into Israel of low cost branded products and also non-branded products according to one time import sale campaigns; the enhanced regulation aimed at larger food companies; the development of brands and sale and marketing abilities of competitors.

For details on the favorable factors affecting the Group's competitiveness, see section 7 above.

8.7 Fixed assets, real estate and facilities – a logistic center (under planning) in Shoham:

The Company is leasing approximately 71,000 square meters in the Shoham business industrial park from the State of Israel's Development Authority for a period of 49 years, as of December 9, 2009, with an extension option for an additional 49 years. As at the date of this Report, an air-conditioned logistic center is in the final stage of construction on the site, to be used by the all the Group's units in Israel, including warehouses for refrigerated products, warehouses for dry products, and an office building covering a total built-up area of 40,000 square meters. The estimated total cost is NIS 440 million, including the cost of acquisition of the land; by the end of 2014, approx. NIS 400 million was spent on the project. The scheduled date for the completion of construction and operation of the logistic center is the second quarter of 2015, while the transition to the site will be done in stages and is expected to be completed by year-end 2015. Shutting down current sites, including the logistics centers in Petach Tikva, Tzrifin and Beit Shemesh is expected to take place until the end of 2015.

The information in this section regarding total estimated cost, projected completion of construction, completion of transition to the site and the shutting down of existing sites constitutes forward-looking information as the term is defined in the Securities Law, 1968 (hereinafter – “**the Securities Law**”), which is based on information available to the Company on the date of the report and includes assessments and estimates as of the

date of the report, which might not be realized. In practice, there may be additional construction costs and delays in the transition to the facility and as an outcome, delays in shutting down existing sites, among others, due to delays in the process of transition from existing logistic centers to the Shoham logistic center, failures in the new equipment and in the new systems.

8.8 Raw materials and suppliers

- a. For a description of fluctuations in the prices of raw materials used by the Company in Israel, see Section 6.1 above.
- b. During the reported period, there was no single supplier which accounted for more than 10% of the Group's total purchases of raw materials and packaging for products within the framework of the group's activity in Israel.
- c. The main packaging materials used by the Group in its activities in Israel are laminates and plastic sheets, readymade cartons, cups and bottles (primarily in the Health & Wellness segment), which are purchased from various suppliers, mostly in Israel and partly abroad (principally Europe). In the packaging market, there is a steady trend of increase in demand mainly in the area of paper and plastics in eastern countries. There is an apparent trend of transition from rigid packages to flexible packages, and there is an increase in demand for recycled paper.

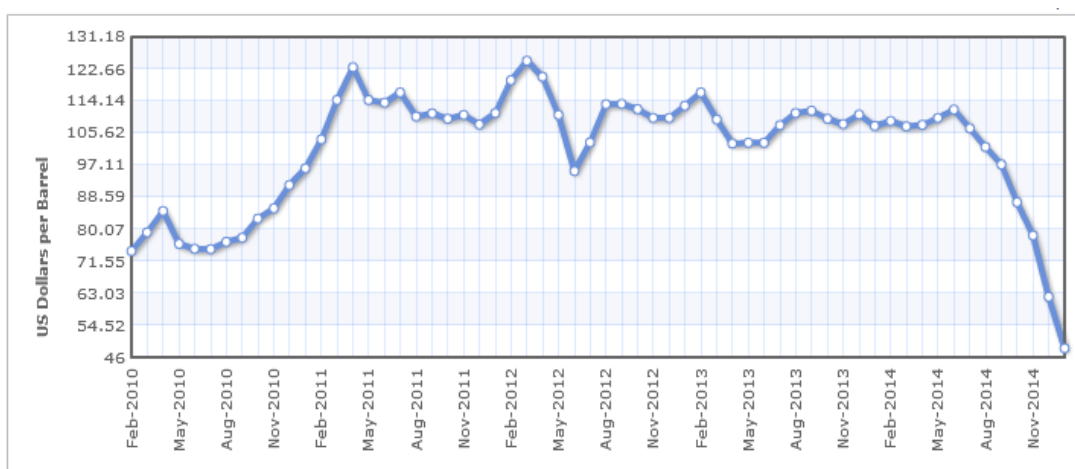
The field of packaging materials is affected by global demand and oil prices, since oil is a key component in the manufacturing of packaging materials. The trend of decline in oil prices which began in the fourth quarter of 2014 and continued in the first quarter of 2015, assuming it continues, may lower the prices of some packaging materials during 2015.

The information in this section regarding a potential decline in the prices of some of the Company's packaging materials constitutes forward-looking information as the term is defined in the Securities Law, which is based on information available to the Company on the date of the report and includes assessments and estimates as of the date of the report, which might not be realized. In practice, there could be an increase in the prices of other raw materials used in packaging materials, oil prices may start to increase again, among others, due to political, economic and graphic changes.

Geopolitical events and shale oil extraction which is used for energy production in the US continued to drive fluctuations in the Brent oil prices in 2014, which fell considerably at the end of the third quarter of 2014. At the same time, at the end

of the fourth quarter of 2014, prices fell for most energy inputs: diesel oil, benzine, liquefied petroleum gas (LPG) and natural gas. Given the fact that prices of energy inputs began declining toward the end of the fourth quarter of 2014, it had little impact on the production costs of the Company's operations in Israel during 2014.

The following graph shows the changes in the price of Brent oil (dollars per barrel) in 2010 – 2014 according to indexmundi.com:



The Group copes with the volatility in the prices of raw materials used for its products by streamlining procurement, production, sales and marketing processes, use of substitutes and changes in its product mix; 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, and it chooses its suppliers on the basis of the quality of the goods they offer, their availability, the 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). Generally, 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 continuous orders.

For further information on raw materials and suppliers in the Health & Wellness segment, see section 9.11 below, and in the Fun and 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 (4°C).

9.2 Products

As a rule, the Group's major **Health & Wellness** products are marketed in Israel under the **Strauss** corporate brands, as specified hereunder: (1) "**Strauss**" brand - "Milky", "Dany", "Daniella", "Joy" (which includes the past desserts "Maadan Hagolan" and "Taanug"), "Gamadim", "Ski", "Symphony", cottage cheese, fresh pasta products and cut vegetables; (2) under "**Achla**" brand - prepared packaged salads, including hummus, eggplants, tehina, piquant salads and the like; (3) the "**Danone**" brand – yogurts brands "Actimel", "Activi'a" and "Danchol"; (4) **Yotvata** brand – flavored dairy drinks, milk and enriched milk, fermented milk (Eshel, Leben, sour cream and sweet cream); (5) **Yad Mordechai** - honey products, olive oil and jams; (6) in addition, 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**, and long-life milk manufactured by **Ramat Hagolan Dairies**. The trend of development of products in 2014 was characterized by diversification and innovation in most areas. In the yogurt category – the launch of family yogurt drinks under the **Danone** brand. In the cheese category – the launch of cheeses in different culinary flavors under the **Symphony** brand and the production of cream cheeses, also under the Symphony brand. In the dessert category – 2014 was characterized by innovation, primarily under the **Milky** brand (by launching Milky Fruit and designated

Milky packages) and under the **Joy** Brand, by launching the creamy Joy Air desserts. The Achla Brand continued the trend of trading up and product development, which is characterized by added value through the development of new and sophisticated recipes, and based on unique agricultural raw materials (e.g. cauliflower, fresh parsley, zucchini, etc.) and diversified salads (the launch of beetroot salads, the expansion of the “Avi’s Humus” salads, the launch of Quinoa, beans and lentils salads and bottled tahini sauces) In addition, in 2014, the Company launched a new brand for the washed and packaged vegetables category called “Ta’am Hateva”. The packages were changed and new salad vegetable assortments were launched under the brand name.

In 2014 the trend of development of healthy and tasty products continued, which appealed to new consumers and responded to new needs. The process of decreasing sugar in dairy deserts and in dairy products continued, adding to the types of fat-free yoghurts, launching products with measured contents of calories and diversifying the salads category. The Company also used environmental-friendly packaging materials in order to respond to market trends and demands. This trend is also apparent in 2015 as reflected, among others, in the launch of the Company’s “Danny Parve” desserts, which addresses new consumers and new needs.

9.3 **Segmentation of revenues and product profitability (in line with the Company’s managerial reports)**

Following is information on the segmentation of the Company's income from external entities (consolidated), arising from groups of similar products in the Health & Wellness segment: "daily products" (that includes mainly yogurt, dairy desserts, white cheeses, enriched milk and flavored milk beverages); "salads" (including mainly readymade packed salads and cut vegetables); and "other health and wellness products" (including mainly grain snacks, granola, products of honey, olive oil and jams).

Group of Similar Products	Income in NIS Millions			Percentage of Group's Total Income		
	2014	2013	2012	2014	2013	2012
Dairy products	1,402	1,448	1,413	17.2%	17.8%	17.3%
Salads	290	278	260	3.6%	3.4%	3.2%
Other Health & Wellness products	282	261	247	3.1%	3.2%	3.0%
Total Health & Wellness products	1,974	1,987	1,920	23.9%	24.4%	23.5%

9.4 Competition

The main competitors of the Group's Health & Wellness products are Tnuva, Tara (part of the Central Bottling Company Group, which increased its market foothold) and Osem Nestle. Tnuva and Tara compete mainly in dairy products category, and Osem Nestle in the salad category. During 2014, a new player joined the salad market, as Supersol launched the private label in the salad category. Moreover, in every product group there are additional local competitors.

The following table presents information on the market shares of the Group and its major competitor in the years 2014 and 2013 in reference to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures for the bar-coded retail market (which includes the large food chains, bar-coded private mini-markets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2014		For 2013 ^(*)	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts ³	44.6%	36%	45.1%	37.4%
Cheeses ⁴	24.3%	59.9%	23.7%	64.3%
Dairy desserts ⁵	68.3%	22.1%	68%	24.1%
Flavored milk	63.4%	34.9%	62.3%	35.7%
Fresh milk for drinking ⁶	11%	70.2%	12.4%	72.5%
Packaged salads ⁷	33.9%	37.7%	31.7%	38.8%
Washed and packaged vegetables	44.9%	29.4%	43.1%	28.4%
Honey	61.5%	16%	59.4%	16.8%

* The 2013 data were adjusted to account for StoreNext's calculations.

9.5 Seasonality

The following data are for the years 2014 and 2013 relating to the Company's income in the Health & Wellness segment by quarter, in NIS millions:

	2014		2013	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	479	24.3%	456	22.9%

3 Including probiotic drinks

4 Including cottage cheese, cream cheeses and soft cheeses

5 Including cheese desserts for toddlers – Gamadim, Daniela, Yummy, etc.

6 Including fresh and enriched milk

7 Including the products under the Achla brand

Q2	500	25.3%	503	25.3%
Q3	530	26.9%	530	26.7%
Q4	465	23.5%	498	25.1%
Total	1,974	100%	1,987	100%

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 – these are characterized by increased consumption of dairy products.

9.6 **Production Capacity**

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

The maximum potential yearly production capacity of the Group's manufacturing sites in the Health & Wellness segment, operating in three shifts, in ton product per year in the years 2014 and 2013 was 294 thousand tons and 290 thousand tons, respectively. The average capacity utilization rate in the years 2014 and 2013 was 56% and 57%, respectively.

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 out-of-the ordinary investments in equipment and manufacturing machinery in the segment in 2015.

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

Property and Location	Site designation	Real estate area	Built-up area	Rights in the site	Lien
Dairy in the Bar-Lev industrial park	Production of dairy products	66,500 m ²	21,000 m ²	Lease from the Israel Land Authority under a capitalized lease agreement of 2003. The lease period is 49 years, from June 1997.	---
Dairy in	Production	---	6,100 m ²	Sublease of from	Floating charge on

Kibbutz Yotvata	of milk beverages and enriched milk			Kibbutz Yotvata. Part of the area of the dairy was leased until 2026 (pursuant to a lease from 1977) and another part until 2046. The sublease was not yet approved by the Israel Land Authority, however, the Company deems that there is no prevention to receipt of this approval, although receiving it will probably entail payment of capitalization fees to ILA.	the Company's property (which also applies to the land) in favor of the State of Israel, in connection with investment grants received following the granting of an "approved enterprise" status.
Carmiel	Production of salads	18,000 m ²	9,000 m ²	Ownership	---
Sde Nitzan	Cutting, mixing and packaging of fresh refrigerated vegetables.	2,800 m ²	2,560 m ²	Lease from Sde Nitzan – for a period of 23 years ending in January 2031	---
Yad Mordechai Apiary	Production of honey products, olive oil and jams.	10,400 m ²	4,300 m ²	Lease from Kibbutz Yad Mordechai for a 10 year period, as of January 1, 2003, which was renewed automatically for an additional 10 years.	---

B. Distribution, logistics and cross-docking centers

Name and Location	Site designation	Real estate area	Built-up area	Rights in the site	Lien
Logistics Center in Haifa Bay	Refrigerated distribution in the northern region of Israel	8,865 m ² (the Company holds 55% of this area)	4,735 m ² (the Company holds 55% of this area)	Lease together with Strauss Ice Cream Ltd. (hereinafter: " Strauss Ice Cream ")** from third parties for a 20 year period ending in October 2018. The Group holds in approx. 55% of Strauss Ice Cream – 45%. The rental costs and municipal rates and taxes are allocated according to the division of the area; electricity costs are allocated according to a fixed index jointly determined by the engineers of the parties; the remaining costs are allocated on the basis of actual use (according to separate suppliers' invoices).	---
Logistics Center in Petach Tikva	Refrigerated distribution in central and south region	15,000 m ²	5'790 m ²	Lease of Meirav Etgar Ltd. (a Company controlled by some of the controlling shareholders of the Company). The lease period ends on December 31, 2015. For	---

				additional details see section 8.7 above.	
Cross-Docking Site in Beit Shemesh	Refrigerated distribution in the Jerusalem area	390 m ²		Leased from a third party until July 2014. The parties signed a supplement to the Agreement, extending the lease period for 5 additional years. The Company plans to evict the site by December 2015. For details see section 8.7 above.	---
Cross-Docking Site in Beersheba	refrigerated distribution northern Negev and Lachish region	4,920 m ²		Leased from the Israel Land Authority under a capitalized lease contract for a period of 49 years ending on 2029.	---

* For information on the Company's policy for depreciating the machinery and equipment in its various manufacturing plants, see note 3.4 to the Company's financial statements as of December 31, 2014.

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

9.8 Research and Development

For a description of the research and development 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 pursuant to 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.

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 very long.

For details of costs and financial changes relating to intangible assets in the years 2014 and 2013, see note 15 to the Company's financial statements as of December 31, 2014.

9.10 Human capital

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

Below is information on the number of employees in the Group (including employees in companies that are not wholly owned) in the Health & Wellness segment (including 65 and 113 manpower agency workers), as at December 31, 2014 and December 31, 2013, respectively:

	Number of Employees as at	
	December 31, 2014	December 31, 2013
Administration	97	109
Sales and Distribution	16	14
Procurement and Logistics	263	263
Operations	615	641
Total	991	1,027

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 milk. In addition, the Group primarily uses milk powders and proteins, sugar, cocoa powder, tahini, different vegetables and legumes, frozen and crushed fruit, olive oil, honey and packaging materials.

Unprocessed milk is purchased from various dairy farmers in the Western Galilee, Emek Yizrael, Zevulun Region, Arava plain, the 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.

For information on the arrangements with respect to the definition of unprocessed milk prices, see section 9.13.b above

The following diagram presents the changes occurring in the **price of unprocessed milk** during the years 2010-2014 (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 milk in 2014 was lower than the average price in 2013. In the first half of 2014, there was a decrease in the prices of unprocessed milk, while in the second half of 2014 prices began rising again. The downward trend in prices in the first half was primarily due to a decrease in the price of grains in the world, which are imported as food for cows. Prices of corn, wheat and grains saw a global downward trend, among others, due to high crop yields in the US. In the last quarter of 2014, the trend reversed and prices rose significantly.

Prices of milk powder and butter are derived from the price of unprocessed milk, and their prices decreased in 2014, similarly to the price of unprocessed milk. During 2014 the prices of milk powder and butter fell by 4% and 3%, respectively.

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

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

9.12 Working capital

The following is the composition of working capital, in millions of NIS, in the health & wellness segment in 2014:

The carrying amount	
Operational current assets (*)	369
Operational current liabilities (**)	276
Excess of current assets over current liabilities	93

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

(**) - Including: net trade accounts payable and payable expenses

9.13 Restrictions and supervisions over 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 statement 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".

On December 31, 2014, the Company received a letter from the Antitrust Commissioner, regarding a hearing prior to declaring the Company as a monopoly in the following markets: (1) cream cheese; (2) dairy products in cups for toddlers; (3) flavored milk products; and (4) yogurt drinks. As of the date of this report, the Company is examining the repercussions of the Commissioner's letter. In addition, the Company's request to postpone the hearing was granted and as yet, a new date has not been set. For additional details see the Company's immediate report dated December 31, 2014 (reference no: 2014-01-048496).

- b. **Arrangements relating to unprocessed 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 unprocessed milk).

The Milk Sector Planning Law, 2011 (hereinafter: the "**Milk Law**") was promulgated in October 2011. This law comprehensively anchors, for the first time, the powers required for the purpose of planning and regulating the milk sector, after years in which the planning and regulation of the milk sector had been based mainly on partial legislation and many-year-long agreements between the various parties in the industry. As stated in Purposes section in the Milk Law, the purposes of the law are to develop, streamline and properly establish the milk sector in Israel in order to assure the quality and safety of the production and marketing of milk and guarantee the regular supply of milk and its products, while assuring suitable prices for manufacturers, the dairies and the public and adequate conditions for the activity of the farmers and dairies. According to the Milk Law, the Government is responsible for the definition of policy in the industry, including the total volume of unprocessed milk produced, definition of unprocessed milk quotas for farmers, regulation of the production and marketing of unprocessed milk and regulation of the quantities of unprocessed milk in the sector, by means of the Minister of Agriculture and/or Finance, as the case may be, by enacting regulations; while the policy would be implemented and executed by the Milk Council – a company for public benefit, whose members include representatives of the parties in the milk sector – the Government, the farmers' organizations and the dairies.

With regard to the target price – prior to the enactment of the law, the determination of a target price and the dairies' obligation to purchase the unprocessed milk at a price that is not 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 becoming effective, revised from time to time according to the accepted revision procedure in place prior to the enactment of the law. At the end of the aforesaid eight years, the target price will be determined in an order issued by the Ministers of Finance and Agriculture in accordance with the Control of Prices of Consumer Goods and Services Law, 1996.

Following the enactment of the law, the Milk Sector Planning Regulations (Method for updating Minimum Prices of Liter of Milk) 2012, were enacted in

April 2012, pursuant to which the manner of calculation, publication and revision of the target price were installed (hereinafter: "**the Target Price Regulation**"). The Target Price Regulations introduced certain changes in the method of calculation of the target price; however, in the Company's opinion, they do not materially affect the calculation of the target price. So far, the Milk Law or the Milk Regulations do not have a material impact on the Company's activities, however, it is impossible to evaluate what would its impact (and the effect of the regulations and orders which will still be issued by virtue thereof) on the Company's activity in the future.

In July 2012, the team for reviewing the competition and prices in the food and consumer products market, known as the Kedmi Committee, published its findings and recommendations, including recommendations to improve competitiveness and reduce prices in the dairy market. In wake of the Kedmi Committee's recommendation, a letter of principles was signed between the Prime Minister Office, the Ministry of Finance, the Ministry of Agriculture and Rural Development, the Association of Israeli Farmers, the Association of Cattle for Milk Growers and the Milk Council, to develop a multi annual plan, to streamline the cattle sector for dairy purposes (hereinafter: "**the Locker Plan**"). In the framework of the Locker Plan, which was adopted by a government resolution, it was agreed, inter alia, to make a fixed annual reduction in the target price in the next four years; to cancel two studies for revising the target price (and accordingly – "a certain stabilization" of the target price); encourage the voluntary retirement of small dairy owners (thereby increasing production efficiency) etc.

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

The Group's dairy products (Kosher Mehadrin and regular Kosher) which, as of the date of this report are subject to a price control 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 which require the Company to report profitability and prices in respect thereof.

9.14 Material Agreements

a. Agreements with Danone

For details regarding the agreement to acquire 20% of Strauss' shares by Danone, see section 9.14A in part A of the 2013 report, as published on March 26, 2014 (reference no: 2014-01-023988).

The total expenses paid in respect of license, know-how and royalties, pursuant to the agreement with Danone, as aforesaid, in the years 2014, 2013 and 2012 were NIS 12,204 thousands, NIS 13,729 thousands and NIS 10,718 thousands, respectively.

b. Agreement with Yotvata

For details regarding an agreement to acquire 50% of the issued and paid up share capital of Yotvata by Strauss Health, see section 14.9(B) in part A of the Company's annual report for 2013, as published on March 26, 2014 (reference no: 2014-01-023988).

In January 2014 there was a partial repayment of NIS 7.5 million for the capital notes issued by Kibbutz Yotvata and Strauss Health for Yotvata. As of December 31, 2014, the outstanding capital notes were capitalized. For additional details, see note 13.2 of the Company's financial statements as of December 31, 2014.

10. The Fun & Indulgence Segment

10.1 General information on the Fun & Indulgence segment

For general information on the Israeli operations, 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**" - baked products, including biscuits, cakes, personal cakes, wafers, energy snack bars, Granola Energy, energy snacks and cookies and sweet snack bars – "Mekupelet", "Kif Kef", "Tortit", "Taami", "Egosi", "Pesek Zman" and "Para" - chocolate tablets, chocolate fingers and sweet spreads; (2) "**Must**" - candies and chewing gum; (3) Salty snacks – "Tapuchips", "Shoosh", "Doritos", "Sababa", "Popcorn" "Cheetos" (potato and corn-based salty snacks and various kinds of flour) and crackers (Pita Crunch and Baguet Crunch).

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

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-meals snacks ("off the plate"), which are generally consumed on impulse, not in an organized fashion, 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 indulgence, while taking care of his health at the same time. As part of enhancing consumer experience and developing new solutions that conform to consumer trends, in 2014 the Group focused on manufacturing premium products (high cocoa percent chocolate bars, chocolate snacks under the Splendid brand), a line of health cookies under the Energy brand and flavored rice cakes in personal packs. All these deliver special added value to the consumer, products that meet the need for a light indulgence and small-quantity products (such as square chocolate bars, low weight wafers, etc.), as well as varied products in packages and clusters. In addition, the Company launched a new line of "Para" chocolate bars flavored in "Elite" snacks and a line of "Para Celebrates 80" chocolate bars. In the savory snacks category the Group's activity included salt reduction, seasoning and expanding the range of products with Baguet Crunch (baked) and oatmeal products.

The Group's Fun & Indulgence products are characterized by a relatively long shelf life from approx. 3 to approx. 18 months (apart from oatmeal, which has a shelf life of 36 months). Chocolate products are stored and transported in an "air-conditioned" environment (16-18°C), whereas the rest of the products do not require special storage and transportation conditions. Fun & Indulgence products are import-intensive and include numerous competing 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 to new categories.

10.3 Segmentation of revenues and product profitability (in line with managerial reports)

Following is information on the segmentation of the Company's income from external entities (consolidated), arising from groups of similar products in the Fun & Indulgence segment: "confectionery and bakery" (including chocolate tablet products, sweet snack

bars, chewing gum, bubblegum, confectionaries and sweet spreads, biscuits, wafers, cakes, cookies and crackers); and "savory snacks" (including potato and corn -based snacks, peanut butter and snacks based on corn flour and other flours).

Group of Similar Products	Income in NIS Thousands			Percentage of Group's Total Income		
	2014	2013	2012	2014	2013	2012
Confectionery and bakery	793	828	811	10.2%	10.2%	9.9%
Salty snacks⁸	205	185	170	2.5%	2.3%	2.1%
Total Fun & Indulgence products	998	1,013	981	12.7%	12.5%	12.0%

10.4 Competition

The major competitors of the Group's products are Unilever, Osem Nestle, Diplomat, Leiman Schlüssel and Sides. There are also additional smaller competitors. As a result of the Shekel's appreciation and the absence of customs and quotas on most Fun & Indulgence products, distribution companies importing a broad variety of well-known international brands in this product segment have multiplied and grown significantly and distribute the imported goods throughout Israel. In addition, private label products of retail chains were added and expanded. Supersol thus became the Group's competitor in the chocolate bars and wafers market. In 2014, the Company expanded its marketing activities and campaigns.

The following table presents information on the market shares of the Group and its major competitor in the years 2014 and 2013 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 mini-markets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	2014		2013*	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate for children and adults ⁹	44.3%	16.3%	45.8%	18.3%
Chewing gum	31.0%	55.9%	29.9%	54.6%
Wafers	28.5%	23.7%	29.7%	23.5%

⁸ Income from the "savory snacks" group is presented in accordance with the Company's holding in Strauss Frito-Lay (50%).

⁹ Including chocolate bars, sweet snacks (excluding Kinder Delice) and cereal bars.

Savory snacks	35.2%	50.2%	34.6%	50.1%

(*) Data for 2013 were adjusted to account for StoreNext's calculations.

10.5 Seasonality

Below are data for the years 2014 and 2013 relating to the Company's income in the Fun & Indulgence segment by quarters, in NIS millions:

	2013		2012	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	311	31.2%	302	29.8%
Q2	213	21.3%	223	22%
Q3	256	25.6%	241	23.8%
Q4	218	21.9%	247	24.4%
Total	998	100%	1,013	100%

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 before Passover. In the second quarter the scale of purchases is relatively lower, mainly because the same Fun & Indulgence products that were purchased in the previous quarter are still being consumed.

10.6 Production capacity

- The production capacity of the Group's sites in the Fun & Indulgence segment is measured in quantities of product per year. The production lines in the Group's sites in the Fun & Indulgence segment are automatic, and most of them are operated in three shifts a day.
- The maximum potential yearly production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in ton products per year in the years 2014 and 2013 was approx. 72 thousand ton and 69.7 thousand ton, respectively. The average capacity utilization rate in the years 2014 and 2013 was 54% and 58%, respectively.
- 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 preserving and increasing production capacity according to the Group's work plans. Based on the information available to the Company as of the date of the Periodic Report, the Company does not anticipate that it will be required to make out-of-the-ordinary investments in equipment and machinery in 2015.

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 Plants					
Property and location	Site designation	Real estate area	Built-up area	Rights in the site	Lien
Production plant in the Nazareth Industrial Zone	Production of confectionery and bakery products.	approx. 47,500 m ²	approx. 35,000 m ²	The Company owns about 32,000 m ² of the area. The Company has the right to be registered as owner of 10,500 m ² (the rights were acquired from the Israel Land Administration, but have not yet been registered in the Company's name and are in the process of being registered) The Company has leasing rights in additional 5,000 m ² 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 an "Approved Enterprise" status.
Production plant in the Sha'ar Hanegev industrial zone	production of salty snacks	approx. 26,400 m ²	approx. 10,000 m ²	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 an "Approved Enterprise" status.

Distribution, logistics and cross-docking centers					
Name and location	Site designation	Real estate area	Built-up area	Rights in the site	Lien
Zrifin Distribution and Logistics Center	For the distribution of Company products that do not require refrigeration in the center and south of Israel	approx. 35,000 m ²	approx. 19,000 m ² .	Leased from a third party for a period of 25 years ending in November 2021. The area was leased by the Company under a sub-lease that will commence in January 2016. For details, see section 8.7 above.	---
Acre Distribution and Logistics Center	For the distribution of Company products that do not require refrigeration in	approx. 20,000 m ²	approx. 8,695 m ² .	Leased from a third party (which leases the land from the Israel Land Administration until January 2052) for a period of 10 years ending in	---

	the north of the Israel.			February 2021. The Group has a 5-year extension option.	
Shaar Hanegev Industrial Zone	For the distribution of products of the Company that do not require Refrigeration in the south region		approx. 3,400 m ²	Leased from a third party. A lease agreement for five years as of January 1, 2014 and a two-year extension option.	---
Cross-docking sites	Most of the cross-docking sites serve the Health & Wellness segment, and a small number also serve the Fun & Indulgence segment. For information on the Group's main cross-docking sites in Israel, see Section 9.7.b above.				

- (*) The lease agreements for 5,000 square meters are not capitalized and end in August 2012 (about 500 square meters), in August 2013 (about 2,000 square meters) and July 2020 (about 2,500 square meters). The lease agreements include (each) an option to extend the lease period by an additional 49 years. The Company filed applications 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 regarding the option to acquire ownership of the plots.

At the end of 2005, the Group entered into several agreements for the acquisition of lease rights in additional 28,000 square meters in Nazareth, adjacent to the plant, as a land reserve for the plant. With respect to these plots of land, which are part of a parcel, there is a cooperation agreement with a third party. As of the date of the report, ownership of the land was transferred to the Company, but the process of registration of the lease in Group's name has not been completed.

As for the Company's policy regarding the depreciation of machinery and equipment in its different plants, see note 3.4 to the Company's financial statements, as at December 31, 2014.

10.8 Research and development

For a description of the research and development carried out by the Group, see section 20 below. Savory snacks are developed, inter alia, by using PepsiCo's know-how.

10.9 Intangible assets

a. Licenses and Franchises

Strauss Frito-Lay has a licensing agreement with PepsiCo since 1990 for the use of PepsiCo's trademarks with respect to all of the salty snacks 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 respect thereof, see section 10.14 below.

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 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 very long.

For details of the costs and financial changes in intangible assets in the years 2014 and 2013, see note 15 to the Company's financial statements as at December 31, 2014.

10.10 Human capital

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 employees in companies that are not wholly owned by the Group) in the Fun & Indulgence segment (including 259 and 229 manpower agency workers), as at December 31, 2014 and December 31, 2013, respectively:

	Number of Employees as at	
	December 31, 2014	December 31, 2013
Administration	98	94
Sales and distribution	166	148
Procurement and logistics	307	286
Operations	998	998
Total	1,569	1,526

10.11 Raw Materials and suppliers

For a description on the Group's raw materials and suppliers which are shared by the Health & Wellness and the Fun & Indulgence segments, see section 8.8 above.

The main raw materials used by the Group in the manufacture of the Fun & Indulgence products, is cocoa and its by-products (cocoa butter, cocoa mass and cocoa powder), the cost of which accounts for 30% of total purchases of raw materials and packaging. The Group also uses milk powder, sugar, corn, flour, oil, nuts, potatoes and packaging materials.

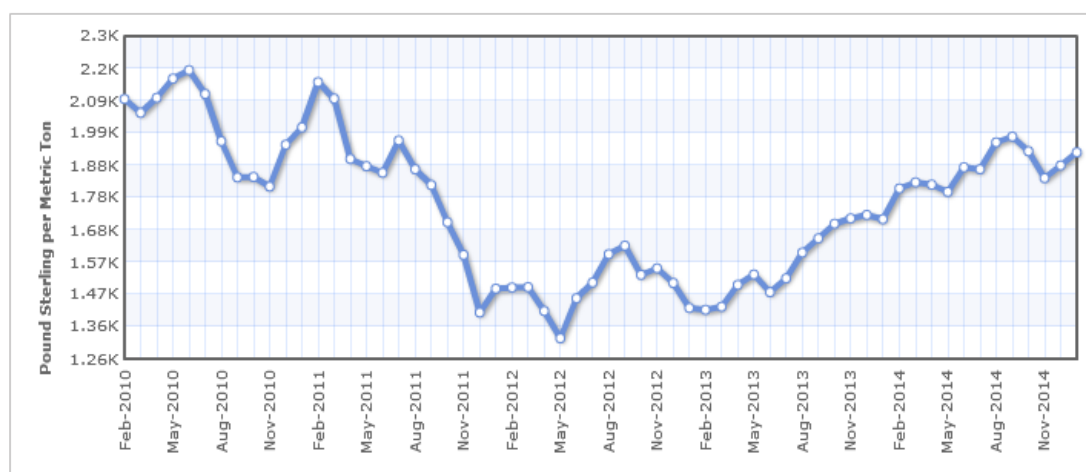
A considerable part of the abovementioned raw materials are commodities that are bought and traded on the commodities exchanges in London and New York in foreign currency (the dollar, Euro and the pound sterling). Consequently, the cost of these raw materials is exposed to fluctuations in currency exchange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

During 2014 there was a significant increase in nut prices, as a result of diminished supply due to adverse weather conditions.

After the price of cocoa beans slumped in 2011, the trend reversed and as of mid-2012 the market is on an upward trend to an increase trend in 2012. Cocoa prices increased in 2014 by 15%. 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.

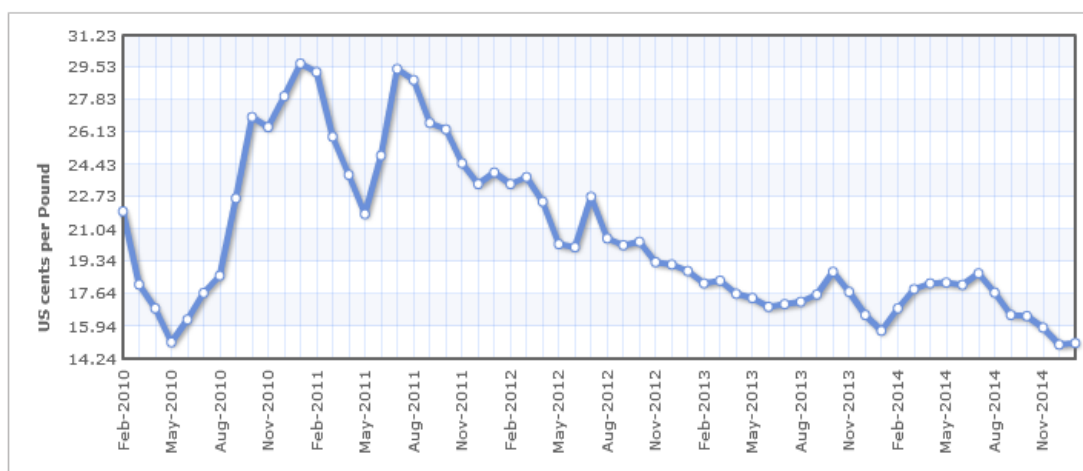
The cost of processing cocoa butter increased during the year and peaked as a result of high demands. The increase in cocoa butter prices led to a decline in the prices of cocoa powder - the byproduct in the process of producing cocoa beans.

The following graph shows the changes in prices of cocoa beans (pound sterling per ton) in the years 2010 – 2014, according to indexmundi.com website:



The downward trend in the prices of sugar continued in 2014, during which sugar decreased in value by 15%. The trend of price decrease in the last three years primarily stems from high inventories in relation to demand. According to forecasts, the trend will be curbed due to growth in demand and a decline in crop yields. In addition, significant speculative activity and decisions regarding the continued use of ethanol in Brazil could reverse the trend and lead to a price increase.

The following graph presents the changes in sugar prices (cent per pound) in the years 2010 – 2014, according to indexmundi.com website:



10.12 Working capital

The following is a composition of working capital, in millions of NIS, in the Fun & Indulgence segment in 2014:

Carrying amounts	
Operational current assets (*)	301
Operational current liabilities (**)	162
Excess of current assets over current liabilities	139

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

(**) Including: net trade payables and accrued expenses

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 market. Following the announcement, the Antitrust Commissioner issued directives to the monopoly. Pursuant to directives from 1998 (which were applied to the Company and to any company under its control, which controls the Company or is controlled by its controlling shareholders, except for Strauss Holdings) it was determined, *inter alia*, that the Group will not condition the supply or the terms of supply of chocolate bars (and any other dominant product in which respect the Group will be declared a monopoly) on an undertaking to purchase a certain type of products from the Group or from Strauss Holdings and corporations under its control; shall not engage with its customers in arrangements including exclusive agreements; the Group shall not reach agreements with its customers (as distinct from stating

the recommended retail price) regarding the retail price of any product, subject to any applicable law.

The directives are effective for five years. As at the date of the Periodic Report they have expired and no new directives have been issued. In practice, the Group continues to act in accordance with these directives and complies with them.

10.14 Material agreements

Agreements with PepsiCo

The manufacture, marketing and sale of savory 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 through its subsidiary PepsiCo Investments Europe (I) B.V. (hereinafter: "**PepsiCo Europe**"). Strauss Frito-Lay and PepsiCo are parties to a licensing agreement for the use of certain PepsiCo 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).

Regarding a licensing agreement for the use of know-how and trademarks – in 2014, 2013 and 2012, pursuant to the royalty agreement, the Group paid royalties to PepsiCo in the amount of NIS 6,037 thousands, NIS 5,773 thousands and NIS 5,436 thousands, respectively.

During 2014, the Company began marketing products under PepsiCo's Quacker brand, in accordance with the agreement between Strauss Frito-Lay and PepsiCo's subsidiaries: Beverage, Foods & Services industries, Inc. and Frito-Lay Trading Company GmbH, pursuant to which the Company was given a marketing and distribution license for these products in Israel.

11. The Coffee Segment

General Information on the Coffee Segment

Following is general information on the coffee segment, which comprises the Israel Coffee business and the global coffee business

11.1 Structure of the segment and changes therein

The Group manufactures, markets and distributes a range of coffee products (instant coffee, roast and ground coffee, and espresso capsules) in Brazil, Russia, Central and Eastern European countries and in Israel, coffee substitutes (in Israel and Russia) as

well as hot beverage powders (such as chocolate and cappuccino powders) and pudding powders and cocoa powders for baking. The Group also markets and distributes espresso machines. Likewise, as part of its coffee business in Israel, the Group is engaged (through "Elite Coffee") in the retail sale of coffee, baked products and soft drinks at 85 points of sale throughout Israel, serving customers in public places. In addition, the Group purchases, processes and sells green coffee and corn products.

The global coffee market

The following is data concerning the global coffee market according to Euromonitor's reports –

	2014	2013	2009-2014	2008-2013
Worldwide Retail Coffee Market (Without Cafes):				
Volume in consumer prices (without coffee shops)	US\$ 84.7 billion	US\$ 81.6 billion	---	---
Quantitative sales volume	5.0 million tons	4.9 million tons		
Cumulative annual growth rate (CAGR) in terms of financial value.	---	---	8.3%	8.2%
CAGR in quantity terms	---	---	2.6%	2.6%
Roasted & Ground Coffee Segment – Including fresh coffee beans and ground coffee beans:				
Percentage of the global coffee market in financial terms	62.7%	62.6%	---	---
Percentage of the global coffee market in quantitative terms	74.1%	74.5%	---	---
Financial sales volume	US\$ 53 billion	US\$ 49.6 billion	---	---
Quantitative sales volume	3.7 million tons	3.7 million tons	---	---
CAGR in financial terms	---	---	8.6%	8.4%
CAGR in quantitative terms	---	---	1.7%	1.9%

Global Retail Instant Coffee Market:				
Percentage of the global coffee market in financial terms	37.3%	37.4%	---	---
Percentage of the global coffee market in quantitative terms	25.9%	25.5%	---	---
Financial sales volume	US\$ 31.5 billion	US\$ 29.6 billion	---	---
Quantitative sales volume	1.3 million tons	1.3 million tons	---	---
CAGR in financial terms	---	---	7.8%	8.1%
CAGR in quantitative terms	---	---	4.7%	5.1%

(*) Data for 2013 were adjusted to account for Euromonitor's calculations.

The following is data on the main players in the **global retail coffee market**, based on Euromonitor's data –

	Financial Market Segment	
	2014	2013(*)
Nestle	22.3%	22.4%
Mondelez (formerly Kraft)	10.8%	11.0%
DEMB (formerly Sara Lee)	5.3%	5.3%
Keurig Green Mountain Inc.	4.7%	3.7%
Strauss	3.1%	3.1%
Tchibo	2.3%	2.4%

(*) Data for 2013 were adjusted to account for Euromonitor's calculations.

The global roast and ground coffee market is a decentralized market, which characterized by the presence of numerous companies with smaller market shares than those in the instant coffee market.

The following is data on the main players on the **global retail roast and ground coffee market**, based on Euromonitor's data.

	Financial Market Segment	
	2014	2013(*)
Mondelez (formerly Kraft)	8.2%	8.4%
Keurig Green Mountain Inc.	7.5%	5.9%
DEMB (formerly Sara Lee)	7.2%	7.3%
Nestle	7.5%	7.3%
Strauss	3.7%	3.8%
JM Smucker	2.8%	3.3%

(*) Data for 2013 were adjusted to account for Euromonitor's calculations.

The following is data on the main players in the **global instant coffee market**, based on Euromonitor's data.

	Financial Market Segment	
	2014	2013(*)
Nestle	47.1%	47.7%
Mondelez (formerly Kraft)	15.3%	15.2%
DEMB (formerly Sara Lee)	2.0%	2.0%
Strauss	1.9%	1.9%
Tchibo	1.6%	1.7%

(*) Data for 2013 were adjusted to account for Euromonitor's calculations.

Global coffee sales by geographic breakdown:

	Sales in Quantitative Terms	
	2014	2013(*)
Western Europe	26%	26%
Latin America	22%	22%
North America	18%	18%
Asia, Australia and the Pacific Ocean	17%	17%
Eastern Europe	9%	10%
Middle East and Africa	8%	8%

(*) Data for 2013 were adjusted to account for Euromonitor's calculations.

According to the International Coffee Organization (ICO), the leading countries in the production of green coffee of the Arabica species are Brazil, Colombia and Ethiopia; the leading companies in the production of green coffee of the Robusta species are Vietnam, Brazil and Indonesia (source: ICO). Procurement of Arabica green coffee is carried out on the New York commodities exchange (New York Board of Trade) and

procurement of Robusta green coffee is carried out in the commodities exchange in London (Euronext LIFFE).

Mergers and acquisitions in the global coffee segment:

For information on the merger between DE master Blenders and the Mondelez's coffee business, see section 7 above.

In addition, during 2014, there were several mergers and acquisitions in the coffee market: Nestel and Lotte set up a joint venture in Korea that focuses on the instant mixed coffee market, which is estimated in excess of \$1 billion; the MZB group (known for the Segafredo brand) acquired Boncafe Group, a company that specializes in premium coffee and coffee machines for \$85 million, in the purpose of expanding in the Asian market; Tata Global Beverages acquired, for an undisclosed amount, Earth Rules - an Australian coffee company, which sells R&D coffee and coffee pods under the MAP brand; the tea and coffee shop chain, Peet's Coffee and Tea, which is owned by JAB (owners of half of Jacobs Douwe Egberts) acquired Mighty Leaf Tea, which operates 60 stores around the US; Lavazza sold Barista, the coffee shop business (190 coffee shops) it operated in India to Carnation Hospitality for an undisclosed amount.

Consumer trends in the coffee market

In recent years, there has been a consumer trend towards qualitative, convenience and branded premium coffee products. The trend of consumption of single-serve coffee packs for domestic coffee machines has increased. The trend of espresso coffee consumption and espresso capsules for domestic espresso machines has also strengthened. The global coffee industry is enjoying the growth in café chains. The coffee consumption and coffee shop culture have exposed consumers to a broader range of coffee flavors and to premium coffee products.

The Group has established a marketing, sales and distribution network in the AFH consumption market, inter alia, in the operation of hot beverage machines, including the sale of domestic coffee machines, the sale or leasing of professional coffee machines (espresso) and the sale or lease of automatic coffee vending machines. The Group maintains designated units handling the AFH market, dealing with the development of marketing and consumption solutions that are unique to this business.

In order to closely monitor changes in consumption behaviors, the Group conducts researches, inter alia, in order to observe and respond to these changes.

11.2 Legislation, standards and special constraints applicable to this segment

Following the political crisis between Russian and Ukraine and Russia's condemnation by Western countries, Ukraine enacted regulations prohibiting imports of products from Russia. For additional details, see section "Changes in the Economic Environment" in the Company's Board of Directors' Report as of December 31, 2014, in part B below. The above prohibition required the Company in Ukraine to make an operational change in terms of the business relations between Strauss Russia and Strauss Ukraine and to discontinue the import of some of Strauss Russia's products to Strauss Ukraine, which could increase the operating costs of Strauss Ukraine.

11.3 Changes in the segment and its profitability

Changes in the segment of activity

The coffee business has expanded and grown in recent years both in and outside of Israel, which is both organic and stems from the acquisition of various operations, as well as streamlining measures, such as shutting down the instant coffee production line in Safed and the outsourcing of production in Israel and Romania (it is noted that the packaging activity remained in the plant).

As part of the implementation of the Group's global expansion strategy in the coffee business, the Company entered into several agreements, as specified hereunder:

- a. In October 2014, the antitrust commissioner in Romania granted his approval and Strauss Coffee completed the merger of the Amigo coffee brand from CIA Iguacu De Café Soluvel (hereinafter – "**Iguacu**"). The brand is sold in Romania and the sales turnover in 2014 is estimated at NIS 20 million. In return for the acquisition of the brand, Strauss coffee a total of \$20 million. The acquisition was financed with Strauss Coffee's own resources.
- b. In December 2014, Tres Coracoes (JV) acquired the coffee business of 3 Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda (formerly - Polo Participacoes Ltda) (hereinafter – "**Polo**"), a private company active in South and South-East Brazil, which is engaged in the production and distribution of coffee products under the Itamaraty, Londrina, Charm, Ourborn, Americano and Cafeare brands. Until the date of acquisition, Polo was the fourth largest player (in terms of market share) in South and South-East Brazil, according to I.C. Nielsen, which, in the Company's opinion, will bolster the competitive status, of Tres Coracoes (JV) especially in South and South-East Brazil.

The information in this section regarding the stronger competitive status of Tres Coracoes (JV), especially in South and South-East Brazil, constitutes forward-

looking information as the term is defined in the Securities Law, which is based on information available to the Company on the date of the report and includes management's estimates and assessment as of this date, which may not be realized. In practice, there may be different competitive conditions than those anticipated, and new mergers and acquisitions that are not known to the Company as of this date may affect the Company's market shares.

Changes in profitability

For information on changes in income and profitability in the Israel coffee segment and the international coffee segment, see the Company's Board of Directors' Report as at December 31, 2014.

11.4 Developments in the markets of the segment or changes in customers profile

In the Central and East European countries the trend of shifting from sales to end consumers in open markets and sales to small grocery stores to sales to organized market customers which has several points of sale (food retailers, etc.).

11.5 Critical success factors in the segment and changes therein

In addition to the critical success factors that are common to all the Group's segments as described in Section 7 above, there are success factors that are unique or highly significant to the coffee business, including: (1) in roast and ground 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 of brands; (3) know-how and complex technological capabilities in the instant coffee business; (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, at the office and in hotels); and (7) a modern and professional supply chain which enables the manufacture of high-quality products.

11.6 Major entry barriers in the segment and changes therein

In addition to the major entry barriers that are common to all the Group's operating segments as described in Section 7 above, the major entry barriers in the coffee operations 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 manufacture of high-quality products and in the AFH business there is a need for unique sales-support system 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.

11.7 Substitutes for the products in the segment and changes therein

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

11.8 Raw materials and suppliers

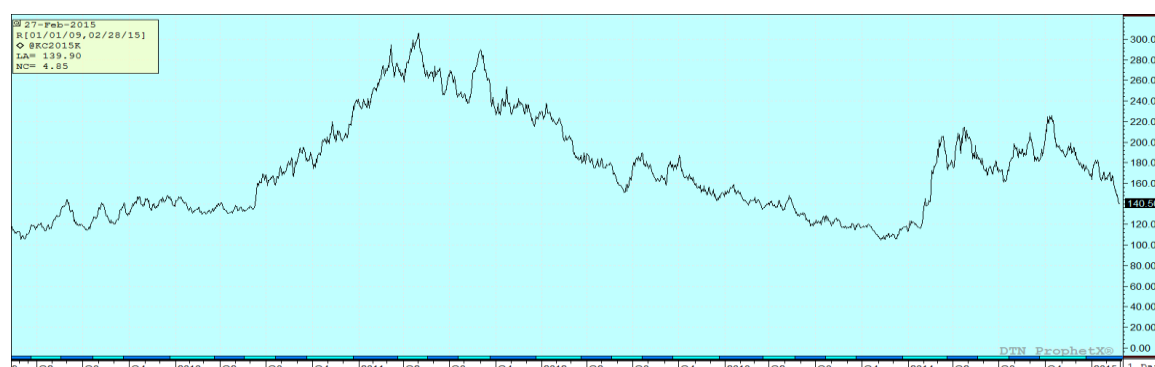
Main raw materials

The main raw material used by the Group in the Israel coffee segment, whose cost accounts for about 50% of total purchases of raw materials used in this segment, is green coffee (Arabica and Robusta). Additionally, the Group mainly uses cocoa powder and packaging materials. The Group engages, from time to time, in futures and option contracts for the purchase and sale of commodities, principally green coffee – see note 30 in the Company's financial statements as at December 31, 2014. For the characteristics of raw materials that are commodities, see section 6.1 "Raw Materials and Suppliers" above.

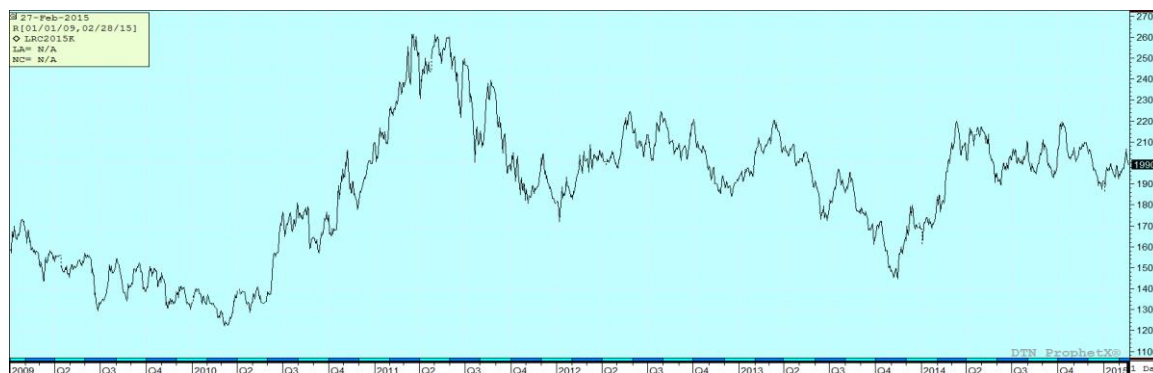
As a rule, green coffee procurement is carried out through Strauss Commodities (Switzerland), a company that is wholly-owned by Strauss Coffee, which buys the raw material for all companies in the Group, except for the jointly venture in Brazil, which purchases green coffee itself. Green coffee is purchased pursuant to agreements with third parties, and these agreements are subject to the terms and directives of the European Coffee Contract. In 2014, Arabica and Robusta coffee prices increased while in the first quarter of 2015, these prices stabilized.

The following graphs present the changes in the prices of different types of green coffee in the period 2009-2014. Source: DTN ProphetX.

Arabica (the vertical axis is in cent/lbs) traded on the New York commodities exchange:



Robusta (the vertical axis is in \$/ton) traded on the London commodities exchange:



The Company has a quality-test management system for green coffee, the aim of which is to achieve a uniform terminology and method for coffee quality control across the entire Group, the fast identification of quality problems, transparency and operational efficiency. The system is in operation in most of the Group companies, including the Company's global suppliers.

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, to the domestic market in Israel, a variety of coffee products bearing its brands, and manufactures and sells chocolate powders and other beverage powders, including pudding powders and cocoa powders for baking. Additionally, the Group engages in the retail sale of coffee products at various points of sale in Israel. Additionally, the Group (through Elite Coffee Chain) engages in retail sale of coffee products, pastries and light beverages.

The Israel Coffee segment includes Strauss Coffee's corporate headquarters, which manages and carries out the Group's coffee business (except for identifiable costs of different investees of Strauss Coffee, which are fully allocated to each investee).

12.2 Products

The Group's major products in the Israel Coffee segment are roast and ground coffee, instant coffee, chocolate powders and other beverage powders.

In Israel, the Group manufactures, sells and distributes under the "**Elite**" house brand – roast and ground, instant coffee and capsules for espresso machines (the instant coffee

products are sold under three sub-brands, "**Elite Instant Coffee**", the "**Coffee Origins Series**" and "**Aroma**"), and "**elite coffee**" for sale in cafés and at coffee stands; and also chocolate drink powder under the "**Chocolate**" brand and hot drink powders.

In recent years there is a consumer trend of shifting from agglomerated instant coffee to freeze-dried coffee, which is considered more upscale.

As a response to the global consumption trend of consuming qualitative espresso and coffee for domestic consumption, toward the end of 2012 the Company launched roast and ground espresso capsules for use in espresso machines. The coffee capsules are manufactured in the coffee plant in Israel.

As part of the worldwide health trend, the Company invests in the development of coffee health products through the renewed launch of "**Balance Coffee**" in Israel.

12.3 Segmentation of revenues and profitability of products and services (according to the Company's managerial reports)

In 2014, the revenue of the Israel coffee segment accounted for less than 10% of the Group's total income.

12.4 Competition

- a. All of the Group's coffee products have competing products. The Group leads in some categories of coffee products and milk chocolate powders. The main competitors in the different categories are as follows: (1) instant coffee - Osem- "Nestle" and "Jacobs", which is marketed by "Diplomat"; (2) in the roast and ground coffee products – "Landwer", "Jacobs" and the private brands of the marketing chains; (3) Espresso capsules – "Lavazza", which entered into cooperation with "Yellow"; (4) AFH consumption – coffee shop chains.
- b. **Market Shares** – the following table presents information on the market shares of the Group and its major competitor in relation to the Group's main products in the Israel coffee segment.

Coffee Market (instant and roast coffee)				
Market Share (in %)	2014		2013	
	The Group	Main Competitor	The Group	Main Competitor
Israel: Instant Coffee	40.0%	44.1%	42.3%	41.5%
Israel: Roast coffee	63.1%	5.6%	63.2%	5.6%
Israel: Coffee Weighted	51.0%	25.7%	52.1%	24.6%

* The market shares for the group of roast coffee products in Israel was calculated by weighing the data of StoreNext for barcode retail market from and an estimate of the non-barcode direct market sales, given the market's opinion that StoreNext's data alone does not represent this group of products.

Negative factors influencing or are likely to influence its competitive status in the Israel Coffee segment, in addition to the economic crisis, could include the potential expansion of international coffee companies in the Israeli domestic market, and the development of competing distribution capabilities, which will reduce the Group's competitive advantage.

Positive factors that affect or may affect the Group's competitive status, in the Group's opinion, in addition to the factors set forth in section 7 above, are the Group's ability to develop products and tailor its products to the tastes of the local market.

The Group continuously handles the competition in the Israel Coffee segment through concentrating marketing efforts and advertising; 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 sites and the development of technological capabilities; and adaptation of its products to the different emerging consumer trends.

12.5 **Seasonality**

Following is data for the years 2014 and 2013 regarding the Company's income in the Israel coffee segment, by quarter, in NIS millions:

	2014		2013	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	205	29.7%	207	29.0%
Q2	151	21.9%	155	21.7%
Q3	165	24.9%	168	23.5%
Q4	168	24.5%	185	25.8%
Total	689	100%	715	100%

There is no clear seasonality trend in the Israel coffee business; at the same time, revenues are high (in relative terms) in the first quarter of the year due to heightened consumption of coffee products towards the Passover holiday.

12.6 **Production capacity**

The production capacity of the Group's plants in the Israel Coffee segment is measured by quantities of product per year. The maximum potential annual production capacity of the Group's plants in the Israel Coffee segment, operating in three shifts, in tons product per year for the years 2014 and 2013 was approximately 14 thousand tons and 18

thousand tons, respectively. The average capacity utilization rate in the years 2014 and 2013 was 70% 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 preserving and increasing production capacity according to the Group's work plans. Based on information available to the Company as at the Periodic Report date, the Company does not anticipate that it will be required to make out-of-the-ordinary investments in equipment and machinery in the segment in 2015.

It is noted that in the first quarter of 2014, Strauss Coffee completed the shutting down of the instant coffee manufacturing activity in the plant located at the center of a residential neighborhood in the town of Safed, while other operations, including mixing, packing and other operations remained in the plant. The aforesaid is reflected in the comparative figures of the Company's production capacity between 2014 and 2013. For additional details see note 35 of the Company's financial statements of the Company as at December 31, 2014.

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's Israel coffee business:

Property and Location	Site designation	Real estate area	Built-up area	Rights in the Site
A plant in the new industrial zone in Safed(*)	Mixing and packaging	Approx. 16,900 m ²	Approx. 3,200 m ² .	Leased from the ILA under capitalized lease agreements, ending in March 2031 (approx. 10,500 m ²) and in January 2033 (approx. 6,400 m ²). 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 m ²	Approx. 4,441 m ²	Ownership of 4,800 m ² and a lease of approx. 800 m ² under a non-capitalized lease agreement ending in 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 area adjacent the packaging plant, on an area of 2,814 m², on which there are buildings leased to several third parties for different leasing periods. The Company renews the lease period as necessary. The assets are not mortgaged.

As to the Company's policy regarding depreciation of machinery and equipment in its different plants, see note 3.4 of the Company's financial statements as at December 31, 2014.

12.8 Intangible Assets

The Group 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 effective 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 very long.

For details on the costs and financial changes in intangible assets in the years 2014 and 2013, see note 15 of the Company's financial statements as at December 31, 2014.

12.9 Human capital

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

Following is information on the number of Group employees in the Israel coffee segment (including 34 and 34 manpower agency workers) as of December 31, 2014 and December 31, 2013, respectively:

	Number of employees as at	
	December 31, 2014	December 31, 2013
Management	7	7
Administration	53	60
Sales and distribution	401	364
Supply chain (procurement and logistics)	21	25
Operations	190	217
Total	672	673

- b. The aforementioned members of management are Strauss Coffee management, which comprises the Group's coffee business.
- c. Strauss Coffee's corporate headquarters is part of the Israel coffee segment. For a description of the organizational structure of the Group's coffee business, 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 stock options of Strauss Coffee to its senior executives. See note 25.1 of the Company's financial statements, as at December 31, 2014.

12.10 Raw materials and suppliers

- a. For a description on raw materials purchases and suppliers within the framework of the coffee segment, see section 11.8 below.
- b. During the report period, there was no single supplier in the Israel coffee segment which accounted for more than 10% of the Group's total purchase of raw materials and packages, except for inter-company purchases from Strauss Commodities and from Ngon Coffee Company Ltd. Notwithstanding the foregoing, the Company is not dependent on said supplier and can replace it without no significant cost to the Company.

12.11 Working Capital

The following is a composition of working capital, in millions of NIS, in the coffee segment in 2014:

Carrying amounts	
Operational current assets (*)	211
Operational current liabilities (**)	76
Excess of current assets over current liabilities	135

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

(**) Including: net trade accounts payable, accrued expenses and income in advance.

12.12 Restrictions and supervision of 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 powder for domestic use. For information on the Antitrust Commissioner's directives from 1998, see section 25.4.a below.

b. Antitrust Approval

Pursuant to an agreement for the acquisition of the coffee machine business of the Dutch-based company "Douwe Egberts" of Holland, the Israeli Antitrust Commissioner granted his approval for the merger which was stipulated, *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 products to hotels. Strauss Coffee is in compliance with the terms and conditions of this directive.

c. Agreed Order

Following the merger notice issued by the Company and Coffee To Go with respect to the acquisition of 26% of the shares of "Elite Coffee" (formerly Coffee To Go) by the Company and the Commissioner's opposition to discussing the notice, in February 2006, the Antitrust Court approved an agreed order between the Company and the Commissioner, pursuant to which the merger would be approved, while the Company will not be a party to a collaboration arrangement that affects the Israeli market and grants the Company a significant 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. It was further agreed in the injunction that if any agreement between the Company and Coffee To Go includes an arrangement relating to the exclusive supply of coffee to Coffee To Go by the Company, the exclusivity period will not exceed 5 years. The Company and Coffee To Go further undertook to pay, jointly and severally, an amount of NIS 300 thousand. The order was executed without containing an admission by either party of the violation of the provisions of the law. It is noted that in 2008 the Company acquired the remaining interest in Coffee To Go, and in the same year Coffee To Go was merged with Strauss Coffee, which is in compliance with the provisions of the agreed order.

12.13 Material Agreements

An agreement with private investment fund, TPG Capital

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

For additional details regarding the filing of a private draft prospectus with the US Securities and Exchange Commission by Strauss Coffee and an agreement with TPG with respect to the issuance process, the manner of allotment of the shares under the issuance and the shareholders' rights following the issuance, see immediate report dated March 23, 2015 (reference no: 2015-01-057475) (hereinafter –**"the Immediate Report"**).

It is hereby clarified that the foregoing in this section and in the Immediate Report regarding the possibility to issue and list the shares of Strauss Coffee on the New York Stock Exchange is forward-looking information as it is defined in the Securities Law, 1968, which is based on information available to the Company on the date of the report

including the Company's assessments on the date of the report which might not be realized. In practice, there is no certainty that the issuance will be completed, and if it is completed, on what date. It is also noted that the completion of the issuance is dependent on many factors which the Company and Strauss Coffee have no control over, among others, the receipt of regulatory approvals by the SEC and the New York Stock Exchange.

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 joint venture Tres Coracoes), Russia Ukraine and in Central and Eastern European countries. For additional general information on the coffee business, which is common to the Israel Coffee segment and the International Coffee segment, see section 11 above.

Brazil – during 2014, the Group's sales in Brazil increased and the Group became the leading coffee company the country. According to I.C. Nielsen, the depreciation of the local currency and the rise in inflation in 2014 led to an interest rate hike.

Russian and Ukraine – these countries are suffering from political instability and uncertainty, which brought about sanctions by Western countries, a sharp depreciation in the local currencies, the Russian Ruble and the Ukraine Hryvnia, and a rising inflation rates. Said processes led to an increase in the prices of raw materials, coffee and eroded consumers' purchasing power. While the Company's sales to these countries rose in 2014 year-over-year, the above factors hurt the profitability of Strauss' subsidiaries in Russia. As a result of currency depreciation, the shekel value of the Group's investments decreased and a commensurate write-down was recorded in its financial statements for 2014. For additional details see the section "Changes in the Economic Environment" in the Board of Directors Report, in part B below and note 15 of the Company's financial statements as of December 31, 2014, in part C below.

Eastern and Central European Countries (Poland, Romania and Serbia) – are in a recession with high rates of unemployment. The Group's sales in Poland and Serbia diminished in 2014, while its sales in Romania increased. Sales were mainly affected by intensive competition, a quantitative stagnation in the coffee market and depreciation in the local currency against the shekel. Consumers in these countries are looking for products offered at attractive prices, and demand for the private labels of large retailers is on the rise. In order to cope with the economic situation and maintain profitability and

market shares, the Group invested in the acquisition of new brands, sale promotion, sales and discounts.

13.2 **Products**

The Group's main products in the International Coffee segment are roast and ground coffee, instant coffee, espresso coffee capsules, espresso machines, chocolate powders and other beverage powders, including coffee substitutes and juice powders. During 2014 Strauss Coffee focused on enhancing and extending the presence of its brands in the market, developing new categories and flavors and promoting the espresso machines and capsule brands.

Brazil – the Group sells roast and ground coffee, instant coffee, espresso machines and capsules, cappuccino products, chocolate and beverage powders and corn products. The Group primarily operates under the following brands: **Café Tres Coracoes**, **Santa-Clara** and **Pimpinela** (instant coffee, roast and ground coffee), **"Fino Grão** (roast and ground coffee), **TRES** (espresso machines and capsules), **Itamaraty** (roast and ground coffee), **Dona Clara** (corn products) and **Leticia Frisco** (beverage powders). Within its activity in Brazil, the Group purchases, processes and exports green coffee mainly to Europe and to the US.

Russian and Ukraine – the companies in Russia and Ukraine mainly operate under the following brands: **Chornaya Karta** (as a key brand: freeze-dried coffee), **Totti** (premium branded coffee and tea), **Le-Café** (freeze dried coffee) **Ambassador** (freeze-dried coffee and espresso) and **Elite Health Line** (chicory drinks). In Russia the company places an emphasis on **Chornaya Karta** as a leading brand and **Elite Health Line** as a potential brand.

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

Poland – the Group manufactures and sells roast and ground coffee, instant coffee and espresso. The Company mainly operates under the following brands: **MK**, **Fort** and **Pedro's**. In 2014, the Company launched two new MK blends – **Mk Café Brasilia Beans** and **Mk Café Guatemala Beans** and also a new tea blend, **TeArtis**, in the AFH product category.

Romania – the Group sells roast and ground coffee, espresso coffee and instant coffee. The Group mainly operates mainly under the following brands: **Doncafé**, a super brand that includes **Doncafé Elita**, **Doncafé Selected** (instant coffee and roast and ground coffee), **Doncafé Gold** (roast and ground coffee), **Doncafe Espresso** and **Totti Café Espresso** (espresso coffee), **Amigo** (instant coffee) and **Fort** (roast and ground coffee).

Serbia – the Group mainly sells roast and ground coffee produced in its local plant. The Group operates under the following brands: **Doncafé** as a super brand that includes **Doncafé Moment**, **Doncafé Minas**, **Doncafé Strong** (roast and ground coffee) **Doncafé Mix** (instant coffee) and **C-Kafa** and **Fort** (roast and ground coffee).

13.3 Segmentation of revenues and profitability of products and services (according to the Company's managerial reports)

- a. Below is data 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 2014, 2013 and 2012:

Group of Similar Products	Income in NIS million			% of the Group's total income		
	2014	2013	2012	2014	2013	2012
In Brazil ¹⁰	1,781	1,697	1,778	21.90%	20.70%	21.70%
In former Yugoslavia countries	179	205	212	2.20%	2.50%	2.60%
In CIS countries	635	729	844	7.80%	8.90%	10.30%
In the Balkan States	244	226	257	3.00%	2.70%	3.10%
In Poland	297	368	407	3.60%	4.50%	5.00%
Other	0	5	0	0	0.10%	0
Total segment	3,136	3,230	3,498	38.50%	39.40%	42.70%

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 2014, 2013 and 2012:

	Income in NIS Millions			Percentage of Group's total income		
	2014	2013	2012	2014	2013	2012
Roast & ground coffee	1,920	2,038	2,084	23.60%	24.90%	25.50%
Instant coffee	629	642	756	7.70%	7.80%	9.20%
Other	587	550	658	7.20%	6.70%	8.00%
Total segment	3,136	3,230	3,498	38.50%	39.40%	42.70%

13.4 Competition

Brazil – the Federal Republic of Brazil is divided into 26 states, enjoying a federal status and one federal district where the capital Brasilia is situated. As a result, the market is regional and decentralized (numerous small companies without a local

Including the green coffee and corn businesses in the amount of NIS 331 million in 2014. ¹⁰

dominant manufacturer). In each area, there are one or two competitors as leading central competitors, several medium size competitors and a large number of small local manufacturers. Melitta and DEMB (previously Sara Lee) are the Group's two main competitors. In 2014, the Group reinforced its position as the largest coffee company in Brazil, according to I.C. Nielsen.

Russia – the main competitors in the ground and roast coffee market are Pauling, Orimi and Mondelez, while the Company ranks third in terms of market shares. The main competitors in the instant coffee market are Nestle, Orimi and Mondelez, while the Group is shifting between the second and third place in terms of market shares.

Ukraine – the main competitors are the global concern of Mondelez (roast, ground and instant coffee) and Nestle and Galka (instant coffee). In the Group's opinion, it has the biggest market share of the roast and ground coffee market in Ukraine.

Poland – in the roast and ground coffee market, the Group has three main competitors – Mondelez (formerly Kraft), Tchibo and DEMB (previously Sara Lee), while the Group has the second biggest market share. For details on the merger between Mondelez and DEMB, see section 7 above. In the instant coffee market, the Group has two main competitors – Nespresso (a subsidiary of Nestle), and Mondelez, while Nespresso is the leading player in the espresso capsules market. In addition, during 2014 the Group dealt with the parallel import of the German Kronung brand (Jacobs).

Romania – in the roast and ground coffee market, the main competitors are the global concern of Mondelez, Amaroy - a private label of large retail chain "Aldi" and also several small manufacturers. The Company holds the second biggest market share. In the instant coffee market, the main competitors Mondelez and Nestle, while the Group has captured the biggest market share.

Serbia – in the roast and ground coffee market, the main competitor is Atlantice Group and the Company has the second biggest market share. In the instant coffee market, there are three competitors: Nestle, Mondelez and Atlantice. In the espresso coffee market, there are four competitors: Lavazza, Meinal Gulius, Barcafe and Hausbrandt. In 2014, competition in the pricing of shelved roast and ground coffee intensified, as a result of competitive pricing by small domestic companies.

For details on the notice of merger between DE Master Blenders and Mondelez's coffee business, see section 7 above.

As of the date of this report, the Company is unable to estimate what would be the repercussions of this merger, if any, on the Company, because as of the report date, the Company has no information on the execution of the merger, the organizational structure of the merged company companies and the territories and markets on which the merged company will operate.

- 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's data.

Similar product groups	Weighted Market Share (in Percent – Financial)			
	2014		2013	
	The Group	Major competitor	The Group	Major competitor
Brazil: roasted coffee*	22.6%	17.9%	21.5%	18.9%
Brazil: instant coffee	11.5%	57.1%	10.9%	57.2%
Poland: roasted coffee	18.9%	23.5%	18.8%	23.6%
Serbia: roasted coffee	33.1%	50.8%	34.1%	50.3%
Romania: roasted coffee	24.8%	43.4%	25.1%	43.8%
Romania: Instant coffee**	28.5%	24.2%	20.6%	28%

* The market share in Brazil is based on 100% of the sales of Tres Coracoes (JV) in addition to the Group's sales.

** In the Group's opinion, it is not possible to obtain reliable data with respect to market segments in Russia and Ukraine

*** The main change in the Company's share of the instant coffee market in Romania is accounted for by the acquisition of the Amigo brand, which began to be sold in September 2014; until the acquisition of Amigo, it was the Company's main competitor in the instant coffee market.

- b.** The negative factors which, in the Group's opinion, affect or are likely to affect its competitive position in the coffee segment, include the possibility that global coffee companies will expand their activity in local markets and develop competing distribution capabilities, which will reduce the Group's competitive advantage.

The positive factors which, in the Group's opinion, affect or are likely to affect its competitive position in the Central and Eastern European countries, in addition to the factors set forth in Section 7 above, include the Group's high capabilities in product development; its ability to adapt its products to the unique tastes of domestic markets; the countries' acceptance as EU member states and the

continued lowering of customs may lead to the consolidation of production plants and increase the potential for exports and distribution to a number of countries; fiercer regulation and enforcement in these countries, may reduce the "black market" for cheap coffee products that compete with the Group's products, and a rise in consumer purchasing power, will increase the purchases of branded products.

The positive factors which, in the Group's opinion, affect or are likely to affect its competitive position in Brazil also include a trend of consolidation in the market that could eliminate small domestic manufacturers.

The Group copes with the competition in the coffee market by focusing on 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 sites 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 data for the years 2014 and 2013 on the Company's income in the international coffee segment, by quarters, in NIS millions:

	2014		2013	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	662	21.1%	782	24.3%
Q2	756	24.2%	837	25.9%
Q3	854	27.1%	786	24.3%
Q4	864	27.6%	825	25.5%
Total	3,136	100%	3,230	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 by 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 2014 and 2013 was approx. 303 thousand tons and

295 thousand tons, respectively. The average capacity utilization rate in the years 2014 and 2013 was approx. 73.5% and 69.5%, 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 purpose of increasing production capacity according to the Group's work plans. Based on information available to the Company, as at the date of the periodic report, the Company does not anticipate it will be required to make out-of-the-ordinary investments in equipment and machinery in the segment during 2015.

13.7 **Fixed assets, real estate and facilities**

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

The property	Location of the site	Site designation	Real estate area	Built-up area	Rights in the site	Mortgages
A plant in Poland	In Swadzim close to Poznan	Production of roast and ground coffee	52,689 m ²	11,540 m ²	Ownership of the land	---
A plant in Romania	Bucharest,	Production of roast and ground coffee	6,535 m ²	4,365m ²	Leased from a third party, in effect until November 2023. May be extended with a six-month early notice.	---
A plant in Brazil	Near Bello Horizonte in the state of Minas Gerais	Production of roast and ground coffee and cappuccino	73,000 m ²	13,000 m ²	Tres Coracoes (JV) holds the land ownership rights	See note 26.2 to the Company's financial statements as at Dec. 31, 2014.
A plant in Brazil	In Eusébio, in the state of Ceará	Production of roast and ground coffee	10,000 m ²	4,650 m ²	Tres Coracoes (JV) holds the land ownership rights	A mortgage of Euro 440,000 (the Company's share). See note 26.2 to the Company's financial statements as at Dec. 31, 2014.
A plant in Brazil	Natal in the state of Rio Grande do Norte	Production of roast and ground coffee, instant coffee, chocolate and cappuccino	38,000 m ²	8,200 m ²	SC Imoveis holds the land ownership rights	A mortgage of Euro 1.5 million (the Company's share). See note 26.2 to the Company's financial statements as at

						Dec. 31, 2014.
A plant in Brazil	In Nova Iguaçu in the state of Rio de Janeiro	Production of filter paper for filter coffee	5,600 m ²	3,150 m ²	SC Imoveis holds the land ownership rights	See note 26.2 to the Company's financial statements as at Dec. 31, 2014.
A plant in Brazil	In Mossoro in the state of Rio Grande do Norte	Production of corn products, beverage powders and warehouses	54,000 m ²	14,000 m ²	SC Imoveis holds the land ownership rights	A mortgage of Euro 440,000 (the Company's share). See note 26.2 to the Company's financial statements as at Dec. 31, 2014.
A plant in Brazil	In Varginha in the state of Minas Gerais	A facility used for mapping and sorting green coffee beans	70,000 m ²	7,300 m ²	Tres Coracoes (JV) holds the land ownership rights	---
A plant in Brazil	East of Minas Gerais	A facility used for mapping and sorting green coffee beans	12,300 m ²	6,500 m ²	Tres Coracoes (JV) holds the land ownership rights	
A plant in Serbia	In Simanovci nearby Belgrad	production of roast and ground coffee and mixed and instant coffee	29,484 m ²	8,500 m ²	Strauss Adriati holds the land ownership rights	---
Two plants in Russia	Vladimirskaya area, Strunino	Two plants on the same site – manufacturing roast and ground coffee and a packaging plant for freeze-dried instant coffee.	17,190 m ²	13,370 m ²	Owned by the coffee company in Russia	---
A plant in Germany	Norddeutsche Kaffeewerke GmbH	Production of roasted, instant and freeze-dried coffee	50,191 m ²	4,804 m ²	Operating lease.	For details see note 26.4.7 to the Company's financial statements as at Dec. 31, 2014, 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 Company's financial statements as at December 31, 2014.

13.8 **Intangible assets**

Trademarks and brands

Given the Group's focus on branded products, the significance of trademarks with respect to its brands is considerable. Trademarks on most of the brands set forth above, are registered in the Group's name in the countries where it is active, and are used by the Group in the international coffee segment (excluding products that are sold and distributed by the Group and are not manufactured by it).

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 very long.

For an itemization of the costs of and financial changes in intangible assets in the years 2014 and 2013, see note 15 of the Company's financial statements as at December 31, 2014.

13.9 **Human capital**

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

Below is information on the number of Group employees in the international coffee segment, including employees in companies that are not wholly owned; and including 437 and 459 manpower agency workers, as at December 31, 2014 and December 31, 2013, respectively:

	Number of employees as at	
	Dec. 31, 2014	Dec. 31, 2013
Administration	712	658
Sales and distribution	4,011	3,388
Supply chain (procurement and logistics)	330	333
Industry (operations)	1,760	1,974
Total	6,813	6,353

13.10 **Raw materials and suppliers**

- a. For details on raw materials purchases and suppliers in the coffee segment, see section 11.7 above.
- b. During the relevant reporting periods there was no single supplier which accounted for more than 10% of the Group's total purchases of raw materials and packaging in the segment.

13.11 Working capital

Below is a composition of working capital, in millions of NIS, in the international coffee segment in 2014:

Carrying amounts	
Operational current assets (*)	922
Operational current liabilities (**)	284
Excess of current assets over current liabilities	638

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

(**) Including: net trade payable, accrued expenses and income in advance.

13.12 Restrictions and supervision in the segment

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

13.13 Material Agreements

Joint venture in Brazil

For additional details see section 13.13 of part A of the Company's annual report for 2013, as published on March 26, 2014 (reference no: 2014-01-023988).

14. The International Dips and Spreads Segment

14.1 General information on the International Dips and Spreads Segment

a. Structure of the segment and changes therein

In this segment the Group manufactures, sells, markets and distributes a range of refrigerated dips and spreads mainly in the USA, Canada, Mexico, Australia and Mexico.

The Group commenced operations in this segment in August 2005 and as of March 2008 the Group is operating in cooperation with international food corporation PepsiCo.

In October 2011, the cooperation between the Company and PepsiCo was expanded with the signing of another partnership agreement with PepsiCo for the establishment of a global joint venture, Obela, that operates in Mexico and Australia. For additional details on the agreement with PepsiCo, see section 14.13 below.

b. Changes in the business activity in the Segment and its profitability

Changes in the business activity

In 2014 the consumer trends of demand for healthy gluten free, natural and organic products continued. Likewise, consumers seek products that provide added value (price, quality and brand). While the food categories struggled to present positive results, hummus is one category that continued to grow significantly, both in terms of sales and quantities. In 2014, the Group continued to lead the market in the hummus category and continues the transition from a hummus company to a company that specializes in dips. The launch of the Sabra Greek yogurt brand led to an increase in distribution and sales to key retailers. In 2014, the Group developed new products and enhanced the category of refrigerated dips and salads, improved product packages, including on-the-go packages, continued to expand its geography spread throughout the US and improved the distribution to large marketing chains. Obela continued to invest in advertising, marketing and sale in order to reach as many customers and increase awareness among consumers to the Company's products. Following the expansion of the Virginia plant, as stated in section 14.6 below, Sabra continued to invest in the brand in order to attract new consumers and increase the purchases of existing consumers.

In view of the pace of growth in hummus sales in recent years, more retailers are marketing hummus under private labels, and have increased their market share to become real competitors. For additional details, see section 14.4 below.

The hummus category has reached full capacity in existing distribution channels, while future growth will come from the optimization of current distribution channels at the expense of competing brands or at the expense of other categories. Alternative channels such as convenience stores constitute distribution opportunities.

Changes in profitability

For details on the changes in the income and profitability of the International Dips and Spreads segment, see the Board of Directors' Report as at December 31, 2014, in part B of this report.

c. Developments in the markets of the segment or changes in customer profiles

In general, US food corporations raised prices by 3.7% on average during 2014, in order to increase margins, following an increase in raw material prices in recent years. For additional details, see section 14b above.

d. Critical success factors and changes therein

For details on the critical success factors and changes therein, see section 7 above. Critical success factors in the Sabra business include: dominance in distribution channels and in US markets, development of products that offer experience and added value to consumers and address market trends, a wide distribution system, expansion of production capacity to support the increase in sale 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 the Group's operating segments, as specified in section 7 above, include: the need to make large investments in selling and distribution infrastructures, including shelf occupancy; ability to meet high production capacity, the need for advanced manufacturing technologies that can support new consumer trends.

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

The Group's products in the dips and spreads segment in the US have substitutes in the form of products manufactured by competing companies, including the private labels of retail chains. A large number of rival companies are active in this market, most of them small and regional.

14.2 Products

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 manufactures and sells fresh salsa products under two brand names: "**Santa Barbara**" and "**Sabra**". The Group also sells fresh refrigerated guacamole salads and Greek yogurt-based vegetable dips.

In Australia, Obela operates 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 popular flavors are: Red Capsicum, Pecorino Cheese & Cashew, Thai Chili, Coriander & Cashew and Lemon Grass.

CP offers a wide range of dips, such Tzatziki with layers dips, such as avocado with cream cheese in the same package.

In 2013, the Group launched the **Obela Hummus** brand, which is marketed in eight different flavors.

In June 2012, the Group launched the **Obela** brand in Mexico, which is offered in three flavors.

14.3 Segmentation of revenues and profitability of products and services (according to the Group's managerial reports)

In 2014, revenues of the international dips and 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 – Mondelez's "Athenos" and Nestle's "Cedar's" and "Tribe"; (2) Salsa – the main competitor is "Garden Fresh", which is company and brand name; (3) Guacamole, the major competitor is "Wholly" by Hormel Foods Company; (4) Dips – Marzetti. The US business is characterized by local competition against large companies with extensive distribution capabilities, as well as the private labels of retailers and the private labels of a large number of small local manufacturers, which operate in the areas in which they manufacture.

Sabra's hummus category is close to exhausting its shelf capacity in retail chains. Further expansion may be effected by more efficient use of product space at the expense of competitors and at the expense of other categories. Alternative channels, such as convenience stores present alternative distribution opportunities.

Market share

Sabra's market share (in financial terms) in the US hummus category in 2014 was approx. 63%. Private labels remained virtually unchanged compared to 2013, with a market share of approx. 10%, making them the second biggest competitor¹¹.

The Group's market share (in financial terms) in the US packaged salad market (based on the data published by Symphony IRI Group¹²) was approx. 28.3% in 2014; the second-biggest competitor in this market held a market share of 5%.

Sale volumes in Australia and Mexico are insignificant. Notwithstanding the foregoing, it is noted that the Company is leading the hummus market in Australia (with a market share of 27.1% under the "Obela Hummus" brand) and in Mexico. Both in Australia and in Mexico the Company saw an increase in sale volumes.

¹¹ According to data published by Symphony IRI Group, which provides consumer, shopper and retail market intelligence and analysis.

¹² See footnote 11 above

14.5 Seasonality

Below is data for the years 2014 and 2013 with respect to the Company's income in the international dips and spreads segment by quarters, in NIS millions:

	2014		2013	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	149	21.8%	134	22.3%
Q2	171	25.0%	159	26.5%
Q3	170	25.0%	159	26.5%
Q4	193	28.2%	148	24.7%
Total	683	100%	600	100%

According to the above data, there is no distinct trend of seasonality in the dips and 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 events such as the end of the (Gregorian) year, Independence Day, National Memorial Day, Labor Day and the Super Bowl, consumption increases.

14.6 Production Capacity

- The 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.
- The maximum potential annual production capacity of plants operating in three shifts, in ton products per year in the years 2014 and 2013 was approx. 91 thousand tons. The average capacity utilization rate in the years 2014 and 2013 was approx. 67% and 65%, respectively.
- During October 2014 the expansion of the Virginia plant, in which Sabra invested US\$68 million (for 100%) was completed, due to a steady increase in demand. Said expansion included, among others, automatic production lines and increased the Company's production capacity and warehouse capacity as from 2015, in order to meet future demand, if any. In addition, this expansion improves packaging lines and supports product innovation.

It is further noted that Sabra plans an additional expansion of the plant during 2015-2016.

The information in this section regarding rising demand for the Company's products, product innovation and additional investment in the production plant in 2015-2016 is forward-looking information as the term is defined in the Securities Law, which is based on information available to the Company on the report date

and includes management's estimates and assessments as of the report date, and there is no certainty that they will be realized. In practice, there is no certainty concerning the increase in demand for the Company's products as recorded in previous years. In addition, there is no certainty concerning additional investment, which is an outcome of demand for the Company's products in 2015 and there is no certainty that such expansion will contribute to the development of new products, among others, due to customer preferences, the entry of new competitors, market terms and economic conditions.

14.7 Fixed assets and real estate

Below is a description of the main real estate properties and other material fixed assets, which is used by the Group in the international dips and spreads segment.

The property	Location of the site	Site designation	Real estate area	Built-up area	Rights in the Site
Production plant	Colonial Heights, Virginia	Production of salads	Approx. 193,200 m ²	23,226m ²	Ownership by Sabra (which works to expand the plant's production capacity)
Production plant	Farmingdale, New York	Production of dips	Approx. 7,600 m ²	3,800 m ²	Leased from a third party until December 2035
Production plant	Oceanside, California	production of salsa	8,700 m ²	3,600 m ²	Ownership by Sabra
Production plant	In Cavan, South Australia	Production of dips	Approx. 7,930 m ²	2,000 m ²	Leased from a third party for 5 years from August 2012, with 2 five-year options.
Production plant	In Mexico City, Azcapotzalco Industrial Zone, Mexico	Production of dips	Approx. 1,639 m ²	1,639 m ²	Leased from a third party for 10 years until 2021.

The assets are not pledged.

14.8 Research and development

The Group together with PepsiCo built an excellence center, where Sabra carries out the research and development and leverages the know-how to support the business activity in Australia and in Mexico. See section 20 below.

14.9 Intangible assets

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

14.10 Human capital

- a. Below is information on the number of employees employed by Sabra and Obela, including 40 and 17 manpower agency workers, as at December 31, 2014 and December 31, 2013, respectively:

	Number of employees as at	
	Dec. 31, 2014	Dec. 31, 2013
Management	9	13
Finance, marketing, HR, IT and administration	75	80
Sales and distribution	42	39
Procurement and logistics	81	87
Operations	576	445
Total	783	664

- b. The senior employees are employed under personal employment agreements. Other employees are employed under “At Will” contracts, meaning that both employers and employees may terminate the relationship at any given time. Collective agreements do not apply to these employees.

14.11 Raw materials and suppliers

The main raw materials used by Sabra and Obela in the manufacture of their products are raw tahini, sesame, hummus grains (chickpeas), soybean oil, tomatoes, garlic and avocado. chickpeas and bran oil. The products are packaged in plastic products (containers and lids). Prices of chickpeas (hummus grains) fell during 2014, year-over-year, reflecting the downturn in the prices of commodities in the US, as a result of an increase in inventory and crop yields. Prices of soybean oil (SBO) also fell in 2014, as a result the decrease in exports alongside a general decline in commodity prices in the US. Tahini prices rose in 2014 as a result of the increase in sesame prices, amid higher demand worldwide. Prices of packaging materials (plastic containers and lids) fell in 2014 due to bulk discounts given to the Group and the oil price decline that began in the fourth quarter of 2014.

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 package supplier (without no dependence thereon) the agreement is for a period of up to four years.

14.12 Working capital

The following is a composition of the working capital, in millions of NIS, in the international dips & spreads segment in 2014:

Carrying amount	
Operational current assets (*)	117
Operational current liabilities (**)	70
Excess of current assets over current liabilities	47

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

(**) Including: net suppliers and accrued expenses

14.13 **Material Agreements**

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

For additional details 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).

b. **A global joint venture with PepsiCo**

For additional details 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 aforementioned operating segments, the income and investments therein are immaterial, and included in the Company's financial statements as at December 31, 2014 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 service of water systems for filtering and purification of drinking water, mainly in Israel, China and the UK.

The drinking water market consists of mineral water (in jars and in bottles), filtrated water in bottles, electrical filtration and purification appliances and filtration by filter pitchers (such as Brita).

In the last few years, there is a continued trend of impaired water quality in different locations worldwide. Trends such as urbanization, aging of water infrastructures and extreme changes of weather aggravated damage to the drinking water sources. Both in developed countries and in developing countries, consumption of water in bottles continued to grow slightly at the global level

thanks to the continuance of the concept of health, reduction of prices and the use of environmental friendly packages.

In Israel – in 2014, the Group focused on continuing its leadership in the water market from the aspect of brand awareness, quality concept and scope for sales.

In China – the operations of Strauss are executed together with Haier Company. (For a description of the agreement, see Section 1(15)(j)(1) below).

The operations of Haier Strauss Water focused on the establishment of relations with the retail system, creating awareness to the advantages of the products: advanced purification technology (MAZE) safety and maximum comfort, among focused publics and the sale of WaterMaker premium products: WaterMarker Young, WaterMaker Basic, an under-the-sink filter system that was launched in 2014, as well as a floor standing appliance – the L5.

In the UK - The activity is carried out in cooperation with the Virgin Group, with whom a joint venture was established in the UK and Ireland. For further information, see section 1(15)(j)(2) below and note 6.1 to the Company's financial statements as at December 31, 2014. The POU category in the UK is not developed. In 2014, the Company's UK operation focused on restructuring, establishment of the operative model, and expansion of the customer base under the Virgin Pure brand.

b. Products:

The company is engaged in the development, assembly, marketing, sale and servicing of filtration and purification systems for drinking water, based upon an innovative technology developed by the Group, consisting of a combination between innovative developments in the field of engineering, chemistry and microbiology. The Company's products include a verity of indoor and outdoor solutions.

The brand **in Israel** is Strauss Water, as the names of the appliances are based on the Tammy4 brand, e.g. Tammy4 Family, Tammy4 Primo and Tammy4 Bubble Bar, a water bar that offers, in addition to hot and cold water, soda water in three levels of carbonation.

In China the sold products are marked with the logo of Strauss and Haier, joint branding – Haier Strauss Water. The line of products is called WaterMakers and includes the Watermaker Premium, Watermaker Young and Watermaker Basic products. Similar to the Premium product, the Young product is sold in hot/cold and hot/lukewarm version while the Basic product is sold in the hot/lukewarm

version only. In addition, during 2014 the Company launched an under-the-sink product, the U3, in China, which is based on the Maze technology, as well as a Floor Standing product, the L5, also based on the Maze technology, for the business and private sector.

In the UK – the Company's brand is Virgin Strauss Water, while the consumer brand is Virgin Pure.

In additional countries - Costa Rica, Portugal, Canada and Cyprus, the brand is Strauss Water or in combination with the local company's brand. Service in these countries is executed by means of the local sales 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, Aquanova and Brita, Whirlpool and Maayanot.

The aggressive competition in the market of filtrated water solutions for the domestic sector (the POU category) continued in 2014, as the competition enhanced the category at the expense of mineral water, while the consumer showed how sensitivity to the price of the appliance and service. The Group dealt with the competition by raising new customers and preserving current customers, improving trends of comfort, water quality and price desirability opposite brands of mineral water, as well as launching a new product, the Bubble Bar, which also provides soda water.

In China – the main competitors are Qinyuan ,Midea and Angel. In 2014, the water solutions market remained stable, the number of new competing products launched continue to reach to dozens each month. Haier Strauss Water competes with the competition through creation of segmentation and preference for the purification technology and advanced functions, raising customers through the Haier marketing networks in China

In the UK – the competitors are companies selling bottled water and filters in pitchers, such as Brita. In 2014, the Group focused on recruiting new customers through digital channels and connecting to the Virgin brand.

d. Seasonality

Following is data for the years 2014 and 2013 regarding income from the water segment, by quarters, in NIS millions:

	2014		2013	
	Income (NIS millions)	% of total segment income	Income (NIS millions)	% of total segment income
Q1	137	25.00%	104	21.53%
Q2	136	24.82%	114	23.60%
Q3	136	24.82%	126	26.09%
Q4	139	25.36%	139	28.78%
Total	548	100%	483	100%

Revenues in the water segment are also affected by seasonality, in line with the increase in demand for cold water in the summer season. Generally, the third quarter is characterized by a bigger turnover in comparison to other quarters. In 2014, water sales in Israel was affected by operation Solid Rock and by the growth in sales outside Israel. In 2013, sales were affected by sales outside Israel and by the launch of Bubble Bar in Israel.

e. Customers

The Group's customers are households and the small business sector such as offices and stores, and institutional customers. Sales are executed according to orders from time to time without an accumulation of order in advance. Under service agreements customers may terminate the contract at any times (subject to the terms of the service agreement).

f. Marketing and Distribution

The marketing and distribution of products of the Group to households and businesses are carried out by direct sale in Israel and in the UK, through a call center or directly via the companies' websites. Marketing in the business to institutional customers is performed through sales agents, who are in contact directly with potential customers and are filing offers to tenders, if necessary. Sales to customers are characterized by great variance and dispersion.

China – the marketing and distribution activities are executed by means of marketing networks, mainly by means of the marketing network of Haier. The main advertising is on the internet, magazines and advertising on local billboards.

Israel - major advertising channels are the mass media, radio, television and print, and advertising on the Internet.

UK – major advertising channels are the Internet, billboards and the printed press

The BPN countries – the marketing and distribution activities are executed by means of different partners in each country, on various marketing channels or in combination of one or more, such as marketing networks, direct sales and on the Internet.

g. Fixed assets and real estate

Below are details on the main real estate properties and material fixed assets, which are used by the Group in the water segment:

The property	Location of the site	Designation of the site	Built-up area of	Rights in the Site
Production plant	The industrial zone of Kibbutz Native Ha LH	Logistic center	6,099 092 m ²	Leased from a third party for a period until January 2018
Offices (in two adjacent buildings)	Or Yehuda Industrial Zone	Management offices, call center, service and sales	8,052 m ²	Leased from a third party for a period until December 31, 2016
Offices and warehouse	Hanley Industrial Park, Pibright road, Gilford	Company offices, call centers and a warehouse for imported appliances imported	1,412 m ²	Leased from a third party for a period until December 2019
Offices	Shanghai	Company offices, customer management, finance and HR	210 m ²	Renewable monthly lease from a third party
Offices	Changzhen	Offices of the operating unit	200 m ²	Renewable monthly lease from a third party

h. Research and development and intellectual property:

The Group developed an innovative technology for water purification, consisting of a combination between innovative developments in the field of engineering, chemistry and microbiology (above and below: “**Maze**”). The technology enables a wide variety of applications in the domestic drinking water sector. In addition, Strauss Water continues to develop technologies in the field of consumption products of drinking solutions, inter alia, including cooling, heating, boiling and soda water. All the developments are supported by 23 patents and patent applications filed in a large number of countries.

i. Human capital

Below is information on the number of Strauss Water employees as at December 31, 2014 and December 31, 2013, respectively:

	Number of employees as at	
	Dec. 31, 2014	Dec. 31, 2013
Management	9	6
Finance, marketing, HR, IT, R&D and administration	232	216
Sales and distribution	691	647
Procurement and logistics	6	8
Operations	92	271
Total	1,030	1,148

The number of employees in Strauss Water by countries, as at December 31, 2014 and December 31, 2013:

	Number of employees as at	
	Dec. 31, 2014	Dec. 31, 2013
Israel	838	976
UK	27	20
China	165	152
Total (including manpower agency workers)	1,030	1,148

j. Raw materials and suppliers:

The main raw materials used by Strauss Water in the manufacture of its products, whose cost account for 20% and more of the total purchases of raw materials, are kits used in the assembly of appliances and filters. In addition, Strauss Water uses compressors and ultraviolet bulbs.

Strauss Water has no dependence on suppliers. The purchase agreements with key suppliers are subject to a prior 180-day notice.

k. Material agreements

(1) Joint Venture – Haier

On October 16, 2010, Strauss Water, through a subsidiary established in Hong Kong, Strauss Water HK Trading Company Ltd. (hereinafter: "**Strauss Water Hong Kong**"), signed an agreement with the Haier Group of China, through Haier Whole Set Distribution Co. Ltd. ("**Haier Consumer Goods**") for the establishment of a joint venture in China. The joint venture is engaged in marketing, sales and service of Strauss Water's water purification appliances using the Maze technology, which was developed by Strauss Water (hereinafter

– “**the Joint Venture**”). The joint venture is jointly owned by Strauss Water Hong Kong (50%) and Haier Consumer Goods (50%). The joint venture commenced operations in May 2011. It buys the products from Strauss Water and receives distribution, sales and services from subsidiaries of the Haier Group.

In January 2015 Strauss Water and the Haier Group signed a non-binding memorandum of understanding, for the restructuring and expansion of the Joint Venture business in China (Haier Strauss Water), such that it would include water purification products using the reverse osmosis technology that so far were owned by Haier. The parties plan to expand and merge the Joint Venture business with Haier’s reverse-osmosis water purification appliances business, which includes additional water products.

The merged company’s sales turnover (pro forma) in 2014 was NIS 215 million, with an annual growth rate of 67%, year-over-year.

In accordance with the memorandum of understanding, the merged company will be owned by companies controlled by Haier (66%) and Strauss Water (34%). In return for the increase in Strauss Water’s holding in the shares of the merged company to 34%, Strauss Water will pay Haier NIS 30 million and will give the merged company a license to use the Maze technology. Under the memorandum, Strauss Water has an option to acquire an additional 15% in the merged company. The merged company will purchase the Maze-technology products from Strauss Water, and will receive distribution and sale services from Haier Group companies.

The transaction is subject to due diligence, obtaining permits from the Chinese authorities and several binding agreements between the parties; the aforesaid will be carried out during a three month period, during which the parties have undertaken not to make other transactions relating to the water purification business in China. It is clarified that the transaction is yet to be completed and is subject to continued negotiations between the parties.

The completion of the transaction as aforesaid, including the final structure thereof, is forward-looking information as it is defined in the Securities Law, which is based on management’s estimates and assessments as of the report date, which may not be realized. In practice, there may be changes in the structure of the transaction, the transaction may not be completed and/or the date of its completion may change due to, among others, factors over which the

Company has no control, such as market conditions, the findings of the due diligence, receipt of all the required permits, etc.

(2) Joint Venture – Virgin

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

15.2 Max Brenner

The Group also 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 Bars" chain comprises 58 branches in Israel and worldwide, five of which are owned by the Group and 53 operated through franchisers, as specified hereunder: (1) Israel - six branches operate under a franchise; (2) USA – five branches are under ownership: in New York¹³, Philadelphia, New Jersey, Boston and Maryland; (3) Australia – 40 branches operate under a franchise (in 2014 seven new branches were opened); (4) the Far East – three branches in Japan and two in Singapore operate under a franchise; (5) Russia – two franchise operate under a franchise.

The Max Brenner production plant is located in Bet Shemesh, on land covering 5,500 square meters with a built-up area of 2,300 square meters. The Company is leasing the land from the Israel Land Administration (which is leasing the land from the Greek Patriarch until 2053) under a capitalized lease agreement ending in April 2043.

As of December 31, 2014, the Group employs 421 employees in the Max Brenner business, compared to 482 in 2013.

Part IV – Matters Relating to the Entire Group Operations

16. Customers

16.1 Breakdown of sales to customers

- a. The Group's customers in its business segments, both in and outside Israel (except with respect to 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, mini-

¹³ In New York, together with a partner that holds 10% of the shares.

markets, 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 opportunities to consume food and beverage products while being away from home. The AFH market offers the consumer a range of products, and the choice is limited. The purchase is usually made by the purchasing manager or a central buyer. Parameters of availability, service and price are of greater importance than the brand name. 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 made from time to time, as necessary, with no backlog orders.

- b. It is the Group's practice to divide retail customers into the "large customer market" 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 three large food chains - Shufersal, Mega - Blue Square and Co-Op Shop (previously known as Co-Op Israel), while the large private market includes Hatzi Hinam, Tiv Taam, Rami Levi, Beitan Wines, Osher Ad, Victory, Freshmarket, Yohananoff, Lahav Warehouses, Hashuk Warehouses and Cost 365. The large customer market in and outside Israel is characterized by a large number of branches and centralized bulk purchases. The Group's products are distributed directly to the various stores or to logistic centers. The Group has commercial agreements with each of the large retail chains, which are usually renewed yearly for the entire chain. Following the entry into effect of the Food Law, agreements with retailers were revised, pursuant to the Law. The revised agreements include discounts provided per sold units sold. Furthermore, the payments prohibited by law were cancelled, such as: payment for the purchase of selling space and payment of bonuses to large retailers. For additional details on the Food law, see the section "Changes in the Economic Environment" in the Board of Directors Report as of December 31, 2014. Additionally, there are different credit terms in effect between the Group and the retail chains, in accordance with the Group's policy.

Outside Israel – In Central and Eastern European countries the Group's customers are divided into three types – retail market customers, AFH customers and exports from East 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 half of the retail market. In Central and Eastern Europe the organized market consists of National Key Accounts and Cash & Carry and Discount wholesale chains, characterized by discount prices.

Refrigerated salad customers – the refrigerated salad products in the USA 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 18% of the market; Mass Merchandisers (giant chains of department stores such as Walmart) which account for 12% of the market; retail chain (nationwide and regional chain stores) – which account for 63% of the market; and convenient stores – which account for 7% of the market. The largest customer, representing 11.5% of total sales is Costco, a club chain.

The private market in and outside of Israel includes the mini-markets and grocery stores. The private market is characterized by a large number of customers, a large variance in customers as well as variance in commercial terms and credit terms provided to customers, which are determined in line with Group policy. The variance between the private and large customer markets from the Group's perspective is mainly in terms of sales volumes, selling arrangements, customer credit levels, collection processes and different compensation arrangements with distributors (in this context, see section 17.1 below).

In recent years the Group has been pressured by large customers (and to the best of the Company's knowledge, this also applies to other suppliers in the food and beverage industry) to increase its trade margins.

- c. below 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 2014 and 2013:

Customer type	Sales channels – 2014							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads ¹⁴	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	21	32	108	262	--	548	972	12.0%
Total	1,974	998	689	3,136	683	660	8,140	100%

Customer type	Sales channels – 2013							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	Other	Total Group	% of total
Large customer market	1,168	456	353	1,071	515	--	3,563	43.8%
Private market	561	358	97	1,722	56	--	2,794	34.3%
AFH	232	161	146	147	29	116	831	10.2%
Other	26	38	119	289	--	483	955	11.7%
Total	1,987	1,013	715	3,229	600	599	8,143	100%

- d. Geographical segmentation of customers – for the breakdown of sales turnover by geographical regions see note 29.4 of the Company's financial statements as at December 31, 2014.

16.2 Dependence on customers

In 2014 The Group companies in and outside Israel did not have any customers (among those mentioned below) which accounted for more than 10% of total Group revenues in the financial statements, whose loss would have a material impact on the Group's business results in the medium and long term.

17. Sales 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 Coffee products in Israel) serves about 13,000

¹⁴ Including Sabra's sales at a 50% rate only

points of sale, including supermarkets, grocery stores, mini-markets, kiosks, hotels, restaurants, cafés, workplaces, etc.

- b. Finished products are transported from the goods warehouses at the Group's production sites to four distribution centers located in Zrifin, Petach Tikva, Haifa and Acre. Additionally, there are cross-docking centers in Yotvata, Beersheba, Bet Shemesh, Tiberias and Kiryat Shemona, to which the products are transported from the distribution centers. In 2015, a gradual transition is planned to the distribution center in Shoham, which will serve as a logistic center for all of Strauss Israel's categories and will replace the logistic centers in Petah, Tikva, Zerifin and Bein Shemesh. The Shoham site will also include the sales and logistic offices.
- c. At the distribution centers, orders are gathered and issued to drivers who are Company employees and to independent distributors. Sales and distribution are effected in one of the following methods: "pre-sale", 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 the beginning of 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 mini-market, 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.
- d. The Company's distribution system is essentially based on a network of independent distributors (external system) and an internal network of distributors (Company employees).
- e. The independent distributors system mainly distributes the refrigerated Health & Wellness products (dairy products, milk beverages and fresh juices), while the internal distribution system (Company employees) mainly distributes Fun & Indulgence products, savory 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 large customer market, large customers in the private market (the "big 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 return 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 distributors the Group is engaged in an agreement, pursuant where to 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.

- f. 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 centers.
- g. 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 sells to army canteens, for the distribution of the Group's food products (except for 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.
- h. In 2013, the Group narrow down the shelf-stocking teams, that handled renewal of orders and arranging the Group's products on the shelves, in consequence of a transition of large chains, such as Supersol, Mega, Beitan Wines, Hatzi Hinam and Co-Op Shop to independent shelf-stocking in the area of dry foods.
- i. The Company takes care to maintain freshness of its products on the shelf, and collection of returns from most of the points of sale and their destruction. Where

the chain's own shelf-stocking system is in place (see section 17.1.h above), returns are handled as agreed.

- j. The Company has a distribution agreement for dry food products with Supersol, pursuant to which the Group supplies all of the orders placed by the chain's branches to a logistic center and Supersol takes care of distribution to the different branches in consideration for payment of a distribution fee.
- k. In 2014, the Company signed an additional agreement with Supersol regarding savory snacks, Yad Mordechai products and coffee, pursuant to which Supersol makes a concentrated order of the products to Supersol's logistic center in Modiin and is responsible for the current supply of the orders to Supersol's stores. Under the agreement, inventory data and store orders are transferred to the Company via StoreNext's EDI system in order to maintain sales management at store and item levels.

On January 15, 2015 the Food Law entered into force, redefining the relationship between retailers and manufacturers. For additional details on the Food Law and Company's estimates regarding the impact of said law on the Company, see section "Changes in the Economic Environment" in the Company's Board of Directors Report as of December 31, 2014, in part B below.

17.2 In Countries outside Israel

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

Brazil – the sales and distribution system serves some 57 thousand 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 Group and external carriers' 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). Strauss operates a shelf-stocking system which handles the renewal of orders and the arrangement of the products. The subject of product returns is regulated in the legislation, which determines the manner and terms and conditions of return. The law limits the quantity that may be returned. The main reason for approving returns is incompatibility between the order and the goods delivered.

Poland, Romania, Serbia, Ukraine and Russia – the retail market 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 the distribution independently through logistic centers and warehouses. Sales in the retail market are carried out using the Pre-Sale method. The AFH sales system has direct points of sale such as coffee shops, offices, institutions and hotels. And sells to independent distributors, which in turn sell to customers such as coffee shops, offices, institutions and hotels. In addition, the AFH sale system places vending machines at customers and is responsible for the service and maintenance of these machines.

Sabra – The sales and distribution system serves some 50 thousand points of sale in the USA and Canada. The distribution of the products is carried out through independent logistics centers, owned by a third party (3PL) and Sabra's production warehouses. The products are sold according to the pre-sale method, distributed directly to the logistics centers of the retail chains or by means of independent wholesale distributors, and transportation companies (3PL). There is no shelf-stocking practice among customers. Deliveries are made within up to 10 days from the day the order was received with no option to return the goods.

18. Customer relations, Advertising and Marketing Communications

The Group continues to invest in the reinforcement of its brands by means of extensive marketing communications by means of several channels. In 2014, the group continued to lead as the biggest advertiser in Israel in terms of investment in all advertising channels¹⁵, while adapting its advertising campaigns to the change in the sector, which transitions from a single-channel to multi-channel advertising. Multi-channel advertising includes enhancement of the Group's brands in the digital space, among others, through the creation of Group-owned media, and investment in the development of infrastructures, channels and contents that promote direct and daily dialogue with consumers. Dialogue with consumers is carried out through social media and various digital channels, such as the Internet, the My Strauss Community, blogs, Facebook, Twitter, Instagram, etc. In addition, the Group is building initial application capabilities for mobile phones, cellular advertising, Internet video and data process reviews, as well as on-line analysis of consumer insights, among others. The Group has also adopted and is implementing a decision-making concept that combines the expectations of interested parties (the public, customers, suppliers, etc.) in order to integrate these expectations into the business decision-making process.

¹⁵ According to data published by "Yifat Advertising Control" which, among others, provides information on the level of investments in advertising.

In determining the communications language of the Group's brands, the Group is assisted by advertising agencies, which are partners in building advertising strategy. Media planning (distribution among the media channels, spread of the budget across the various channels and media buying) is performed by an external media company on the basis of targets defined by the Company.

The Group manages its brand portfolio in all the countries where it operates, separately for each country.

The Group's advertising expenses (including advertising aids, market surveys and packaging designs) in NIS millions, in the years 2014, 2013, and 2012 are as follows:

	2013	2012	2009
Israeli business	175	189	155
Coffee business	237	224	194
Other	127	113	108
Total	539	526	457

19. **Fixed assets, real estate and facilities**

For additional details regarding the Group's real estate properties, which are not attributed to a specific segment, see notes 16.3 and 26.4.7 of the Company's financial statements as of December 31, 2014.

20. **Research and development**

The Group, as part of its business strategy, is continually developing new products and their introducing them to the market, as well as refreshing existing products, inter alia, through technological innovation and innovative packaging in response to the demands and tastes of the target audience. The development and innovations of the dairy products and salty snacks is executed through using the comprehensive knowledge in the possession of the Company's strategic partners, PepsiCo and Danone, respectively. The development of different solutions in the refrigerated salad category in Israel is made together with Sabra. In addition, the Group operates to promote technological cooperation with global companies from concurrent disciplines, such as companies of cosmetics, packing, raw materials and the like.

In 2014, the Group continued to develop innovative health-oriented products, for the purpose of improving and streamlining manufacturing processes, developing alternative energy consumption, environment preservation, and the development of new packages, which will improve maintenance of quality and freshness of the products. The technological response for the Group's needs is provided by technological teams, consisting of development personnel in

business units and teams of engineering and technology in plants. Likewise, a professional team was established of various disciplines in the management of the Group, in order to reinforce the technological leadership of the Group. The team engages in the construction of infrastructures for processes of management, professional promotion, qualification plans, designative training plans, development courses, indexes of performance and improving the profile of staff recruitment.

The Group is striving to identify, develop and implement ground-breaking technologies. To that end, it has created the Alpha Strauss Food Tech Community, which actively connects Strauss to researchers, inventors, initiators, academic institutes and venture capital funds and government research institutions. The community was established with the understanding that connecting between the vast pool of minds in Israel and the Company's know-how and assets (brands, manufacturing sites and the like) and its ability to turn technologies into products is of great value to all community participants. During 2014, numerous new technologies were examined and over 20 projects were executed. In addition, several ground-breaking projects were launched under the support of the Chief Scientist. The projects examined different technologies with value to the technological aspects of the Company's products, raw materials, unique components, processes of quality control and assurance, packages, energy, wastewater and components with health benefits.

During 2014, the Strauss group won a franchise for the construction and operation of a technological incubator as part of the Chief Scientist's incubators program. The purpose of the incubator is to reinforce the Israeli food technology by investing in early-stages 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 franchise 8-year period, the incubator is expected to host several start-ups, foster them and lead them to raise additional capital within a period of two years.

The information in this section regarding the incubator's plans to host several start-ups each year and lead them to raise capital within a period of two years is forward-looking information, as it is defined in the Securities Law, which is based on information available to the Company on the report date, which includes management's estimates and assessments as of the report date, which may not be realized. In practice, there is no certainty with regard to the number of start-ups, which the Company will host each year, including the date in which the start-ups will be ready to raise capital, among others, due to reasons of maturity, suitability to the project and market condition.

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

In the Company's opinion, the total financial resources consumed during 2014, as part of the development of new flavors and products, new packages, and streamlining of work processes, projects relating to ground-breaking technologies, etc. amounted to NIS 76 million compared to NIS 81 million in 2013.

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 Israeli operations, which manage core processes and supporting processes across the organization.
- b. Following is the diagram of the Group's organizational structure on or about the time the Periodic Report was published:



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

** The coffee operations in Israel are managed jointly by Strauss Israel and Strauss Coffee.

- c. **Senior management** – the Group is led and managed by the group management. The Group's management directs the overall strategy of the Group and its subsidiaries and follows up on the accomplishment of business results. They 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, legal counsel and Group secretary, VP Human Resources and the Chief Financial Officer (CFO).

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

The functions included in the Group's corporate headquarters are: Finance (accounting, economics & control, investor relations, treasury, insurance and risk management); IT; Human Resources; the Legal Department and Company Secretary, Corporate Responsibility, Communications and the Spokesman Unit; strategy and business development; and the chairperson's and CEO's Offices.

For information on the number of employees in the Group's headquarters in the years 2014 and 2013, see section 21.2.b below.

- e. **The business in Israeli** – the Group's activity in Israel has a separate management. Management is responsible for the day-to-day management of activities in Israel, the development of its strategy and its approval vis-à-vis the Group management. Management in Israel is responsible for the implementation of strategy, the achievement of strategic goals, and for the development of manpower 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

candies division, the manager of the savory snacks division (divisions that are part of the Fun & Indulgence segment), the manager of the Israeli coffee division, the supply chain manager, the 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 the central units (sales, supply chain, operations, marketing, finance and human resources) provide professional services to the business divisions. 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 business units).

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

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

The operations division manages most of the Company's production sites in alignment with a comprehensive operational strategy, is responsible for the execution of production plans according to the frameworks defined by the planning system in the supply chain division, manages and supports the Group's production sites in the areas of quality and safety, engineering and infrastructure, maintenance, technology and environmental quality processes.

Human resources serves 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 activity in Israel.

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

- f. The Coffee business** – the Group's coffee operations has its own separate management, that of Strauss Coffee, which is responsible for the day-to-day management of the business, building the strategy and approving it vis-à-vis Strauss Coffee's board of directors. The coffee business management is responsible for the implementation of the strategy, the achievement of strategic goals, and the development of manpower 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 manpower, operations and logistics, sales and distribution, which are directed by the management of Strauss Israel. Strauss Coffee management comprises the CEO, human resources manager, marketing manager, and finance and business development manager. Strauss Coffee management is supervised by the board of directors of Strauss Coffee, which has six directors – four representing the Company and two representing the TPG investment fund. Strauss Coffee's headquarters is located in Holland, and manages the international coffee business through the managements of the companies in different countries: Switzerland, Poland, Russia, Ukraine, Romania, Serbia, Israel and Brazil. Each company maintains separate headquarters which, in line with the activity carried out by the respective company, consists of the following: CEO, marketing manager, finance manager, supply chain manager, sales manager, AFH and human Resources manager.
- g.** The Sabra and Max Brenner operations in the USA are managed by local managements.
- h.** Strauss Water has a separate management headed by the CEO of Strauss Water. See section 15.1 above.

21.2 Staff headcount

- a.** The Group's staff is employed in 22 countries worldwide. Total Group employees amount to 13,957 and 13,565, as at December 31, 2014 and December 31, 2013 respectively (including 1,140 and 1,139 manpower agency workers, as of December 31, 2014 and December 31, 2013, respectively. Staff includes all Group employees, including jointly controlled and proportionately consolidated companies.
- b.** Following is the number of Group employees in the Group's corporate headquarters in Petach Tikva, including 5 and 1 manpower agency workers, as at December 31, 2014 and December 31, 2013, respectively.

	Number of employees as at December 31, 2014	Number of employees as at December 31, 2013
Headquarter employees	178	184

- c. Following is the number of Group employees in the Israel headquarters, the sales division and the supply chain division, who serve the Group's entire activity in Israel, including 126 and 143 temporary workers of manpower agencies, as at December 31, 2014 and December 31, 2013, respectively.

	Number of employees as at December 31, 2014	Number of employees as at December 31, 2013(*)
Employees of Israel HQ, sales division and supply chain Division	1,534	1,508

- (*) A decline in the number of employees in the sales division mainly stems from the transition to shelf stocking by the retail networks.

- d. The Group employs 10,612 thousand employees, less half of the employees of proportionately consolidated companies, according to managerial reports (the Group companies together employ 13,957 thousand employees, half of whom in Israel, as stated in section 21.a above). The Group employs a staff of 7,266 thousand employees in companies controlled by the Group (according to the 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 the Group's employees by virtue of the Company's membership in the Manufacturers Association of Israel, which relate to wage conditions, contributions to pension insurance schemes, convalescence pay, reimbursement of travel to and from work, and payment of a cost-of-living increment. Likewise, there are specific terms in collective agreements that were signed at the Group's production plants, and apply to the workers employed by respective plant, all or part thereof, which are revised from time to time, by way of negotiations between the workers unions and management of each plant. In 2013 agreements were signed in two of the Group's plants in Israel. The agreements include wage increases, seniority increments, and special welfare conditions unique to each site.

The terms of employment of other employees are determined in personal employment contracts. These include the staff of the sales division, corporate headquarters and the

staff at the main offices of the divisions in Israel. The sales staff, from time to time, or on a regular basis, receive incentives that vary according to sales in addition to their basic salary. 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 Financial Services Control (Provident Funds) Law, 2005. It is noted that pursuant to the Israeli law, each employee has the right to choose 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 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 a basic health insurance. Employees have the option to expand 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" service, a direct channel on issues of ethics and proper management, which is available to the Group's employees worldwide. The "hot line" enables employees to report on a range of matters, including: discrimination and harassment, improper or unsuitable conduct, theft, violence or menace, violation of 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 to make pension contributions for employees are governed by the relevant laws in each country, and the Group makes payments as required.

In Brazil, the Company is subject to the collective agreements in effect in each state where it operates. There is no general collective agreement applicable to all of the

Group'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, the Group's management's approach with respect to human resources is to apply a uniform policy insofar as possible, in all countries where it is active.

21.4 Investments in staff training and the development of human capital – the Group provides internal and external training for its employees 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 others, 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. The 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 motivates its employees through incentives on the basis of the accomplishment of personal objectives and objectives for the unit, according to the employee's title and rank. The objectives are drawn from the Group's work plans. As a rule, senior employees are also rewarded for obtaining long-term objectives.

21.6 Employee loans – the Group enables employees (in some of its companies) to receive loans according to company protocols, 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 interest from employees. 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, 2014 is NIS 9 million. In Brazil, there is an arrangement with the banks, pursuant to the giving of loans to employees through the banks.

21.7 Contractor employees – in Israel, the Group is engaged in agreements with a number of manpower agencies for the supply of personnel services as required by the Group and for a limited period of up to 9 month (the maximum period permitted by law, in which manpower agency workers may be employed). These agreements determine, inter alia, that no employer-employee relations shall exist between the workers of the manpower 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 manpower agencies in respect of damages or amounts which the Group will be required to pay in any case where the agreement is construed in a manner pursuant whereto employer-employee relations exist. 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, manpower agencies were compelled to re-sign a uniform agreement. The Group has formulated tools and control methods to enforce the provisions of the extension orders by the manpower agencies, including current sample testing of salary slips of such 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 over 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 Officers and managers

- a. **Option Plan** – for details on the senior officers' option plan from May 2003, see note 25 of the Company's financial statements as at December 31, 2014. For

details on option grants in 2015 until the date of the report, see note 40 of the Company's financial statements as at December 31, 2014.

- b. For details on the international plan for the allotment of non-marketable options** to the senior employees of Strauss Coffee, exercisable into shares of Strauss Coffee, which in certain cases enables the offeree to receive, in respect of stock options that have not yet vested, Company options of equal value, see note 25.4 of the Company's the financial statements as at December 31, 2014.
- c. Management incentive** – in 2013, pursuant to Amendment No. 20 to the Companies Law, the Group approved the officers' remuneration policy. On July 2, 2014, the general meeting of Company shareholders approved an amendment to the Company's remuneration policy, in accordance with the wording attached as appendix A to the Company's employment report dated May 27, 2014 (reference no: 2014-01-074055) and the supplementary report dated June 17, 2014 (reference no: 2014-01-092841). For additional details on the officers' remuneration and incentives policy, see Article 21 in the chapter "Additional Information on the Corporation".
- 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 Corporation" in part D of this report. For information on insurance and indemnification arrangements for officers of the Company, see Article 29a in the chapter of Additional Information on the Corporation.

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.

The Group has long-term liabilities to banks and non-bank financing sources which, as of December 31, 2014, amount to NIS 2,350 thousands, based on the Company's managerial reports (including current maturities and the proportionate debt in jointly-owned companies). Most of the agreements include provisions

whereby the Company has a prepayment right which is subject, in most cases, to the payment of a prepayment penalty to the lender.

For details regarding the Company's bank and non-bank loans, including debentures issued by the Company, see note 20.2 of the Company's financial statements as of December 31, 2014.

22.2 Following is the average interest rate on bank and non-bank loans, which are not designated for special purposes by the Group, in effect during 2014:

	Average interest rates, including linkage expenses* on loans not designated for specific use for 2014		
	Short-term loans	Long-term loans	Average rate
<u>Group headquarters</u>			
Bank loans	--	3.98%	3.98%
Non-bank loans (*)	--	4.08%	4.08%
Average rate	--	4.06%	4.06%
<u>International Coffee</u>			
Bank loans	4.04%	4.68%	4.37%
<u>Other</u>			
Bank loans	--	3.46%	3.46%
Non-bank loans (*)	--	3.65%	3.65%
Average rate		3.46%	3.46%

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

22.3 Reportable credit

- For details concerning debentures (Series B) and debentures (Series D) issued by the Company, see note 20.2 to the Company's financial statements as at December 31, 2014.
- On February 27, 2013, the Company published a shelf prospectus, after receiving an approval in principle from the Tel Aviv Stock Exchange, a permit from the Securities Authority and approval from the board of directors of the Company. On February 1, 2015, the Company received the Securities Authority's permit to extend the period for offering securities under the shelf prospectus by an additional 12 months, i.e. until February 27, 2016 (hereinafter – "**the Shelf Prospectus**"). On June 12, 2014 the Company issued 216,018,000 debentures (Series D) by way of expansion of an existing series, pursuant to the Company's shelf prospectus and a shelf offering report dated June 20, 2014. For additional details regarding said debentures see note 20.2 of the Company's financial statements as of December 31, 2014.

22.4 Credit restrictions

The Company has undertaken towards banks and institutional investors and also toward Harel Group and to a group of non-banking corporations, which provided 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 (except for the possibility to provide specific collateral to secure certain loans). In this framework, the Company has undertaken to comply with two financial covenants, based on the Company's financial statements: the ratio of shareholders' equity (excluding minority 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 December 31, 2014, the ratio of equity (excluding minority interests) to total assets was 27%, and the net financial debt to EBITDA ratio was 1.8. Until the date of publication of this report, there have been no material changes in the financial covenants. As of the date of this periodic report, the Company is in compliance with these covenants. On January 12, 2014, the Company issued 216,018,000 debentures (Series D) by way of expansion of an existing series, as stated in section 22.3 above. For details regarding the Company's commitment to the holders of Series D debentures to meet the financial covenants, see note 22.3 of the Company's financial statements as at December 31, 2014.

The subsidiary in Brazil (which is presented at its proportionate share in line with the Company's managerial reports) received short and long-term bank credit, which, at the date of this report, amounts to NIS 266 million (50%). Pursuant to undertakings to the banks, changes in the ownership of the company in Brazil without the prior approval of the lender, will lead to immediate repayment of the loan.

22.5 Credit received between the date of the financial statements and close to the date of the periodic report

In the period between December 31, 2014 and close to the date of the periodic report, credit in an amount of NIS 41 million was received, according to the Company's managerial reports.

22.6 Draw-down on credit facilities: out of the unsecured credit facilities, amounting close to the date of the report to NIS 2,573 million, by the proportionate consolidation method, as of the said date the Group used a total of NIS 928 million.

22.7 Floating-rate loans: the following table presents the Group's floating-rate credit in 2014:

	Change mechanism	Interest range	Amount of credit as at December 31, 2013 (NIS millions)	Interest rate close to date of the report
Group headquarters	Dollar – LIBOR	2.23%-2.25%	43	2.26%
International Coffee	Real – TJLP/TR/CDI	5.0%-12.72%	1	5.5-12.75%
International Coffee	Dollar – LIBOR	1.10%-3.15%	127	1.12%-3.17%
International Dips and Spreads	Dollar – LIBOR	1.93%-1.94%	40	1.96%
Other	Dollar – LIBOR	1.98%-1.99%	20	2.01%
Other	NIS – Prime / on call	1.95%-4.75%	95	1.8%-4.1%

22.8 Credit rating

On August 20, 2014, Maalot re-affirmed the ilAA+ rating 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 June 9, 2014, Midroog re-affirmed the Aa1 rating with a stable outlook for the outstanding Series B and Series D Debentures. See the Company's Immediate Report dated June 9, 2014 (reference no: 2014-01-086355).

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

23. Taxation

23.1 Tax laws applicable to the Group companies

For details, see notes 37.1 and 37.2 of the Company's financial statements as at December 31, 2014.

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

For details, see note 37.3 of the Company's financial statements as at December 31, 2014.

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 37.1 and 37.2 of the Company's financial statements as at December 31, 2014.

23.4 The main tax rate compared to the Company's effective tax rate – for information on the tax rate, see note 37.2 of the Company's financial statements as at December 31, 2014.

23.5 Unutilized losses for tax purposes unutilized tax credits – for deferred taxes in respect of losses, see note 37 of the Company's financial statements as at December 31, 2014. For losses in respect of which no deferred taxes were recorded, see note 37 of the Company's financial statements as at December 31, 2014.

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

24. The Environment

24.1 General environmental risks 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 assumes 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, among others, containing organic substances, oils and sodium, which are liable to increase the pollutant concentration in wastewater, cause odor and sanitary nuisances. This wastewater should be treated, inter alia, pursuant to the policy of returning wastewater for irrigation in Israel, requiring purification of wastewater according to high quality in order that they can be used for irrigation.
- b. **Air pollution** – energy consumption in the Group's sites and fuel consumption for the manufacturing operations of the Group (the use of steam boilers and ovens) and as part of the day-to-day activities (the use of electricity and fuel consumption for the distribution of the Group's products), as well as the use of Freon and ammonia cooling fluids in part of Group's units. 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. Further potential for the pollution of rivers and streams exists in some of the units abroad, 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 shared by all the Group's sites worldwide. Failure to save water is liable to intensify the situation of Israel's water economy and to cause salinity and pollution of Israel's sparse sources of water. In the Group's plants abroad water consumption is not a critical aspect, as these countries are water rich (in Brazil there is a well in each site).
- e. **Waste treatment** – industrial activity generates large amounts of waste. Defective treatment of waste such as improper burial or transferring waste for burial rather than reusing it is liable to cause land and water pollution, use up land reserves and impair potential recycling efforts.

24.2 Laws and regulations relating to the environmental which apply 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 Sewage Corporations Law, 2001 and the rules prescribed thereunder, including the Rules of the Water and Sewage 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 Sewage Corporations (Plant Wastewater Discharged into the Sewage System), 2014 (“Wastewater Quality Rules”), which, on July 1, 2014, replaced the

Rules of the Water and Sewage Corporations (Plant Wastewater Discharged into the Sewage System), 2011, which 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 them. Effluent quality rules prescribe a mechanism for reliefs in the discharge of “exceptional wastewater” by water and sewage corporations and also require renewed approval by the Government Water Authority for past agreements regarding wastewater treatment, which were signed with wastewater treatment plants or water and sewage corporations, prior to the entry into effect of these rules.

It is noted that in addition to the provisions that were amended or added to the rules, which came into effect in July 2014, the provision of section 16(c) allows water and sewage corporations to impose charges in respect of wastewater discharge, even in cases where the discharge was made in accordance with reliefs granted to production plans, in the framework of permits or licenses held by the plant, in contrast to the provisions of the rules from 2011. The said provision exposed many plans, including some of the Company’s plants to the risk of hefty charges by virtue of the rules, in cases where these plants were unable to reduce the levels of discharge in respect of which said reliefs were granted. On December 28, 2014, the Manufacturers Association of Israel filed a petition against the Government Authority for Water and Sewage with the High Court of Justice, contesting the validity of the 2014 rules. Under the petition, the court was asked to issue an interim order to suspend section 16(C) above. The court granted the motion to issue an interim order to suspend the validity of section 16(C) of the 2014 rules, until the hearing on the petition, which was scheduled for May 29, 2015.

The implication of the court’s decision is that at this stage and until the petition is heard in May 2015, the water and sewage corporations are not authorized to impose excess penalties in respect of irregular wastewater discharge that are either prohibited or subject to approval, in cases where the discharge was made in accordance with reliefs granted to the plant, under permits or licenses held by the plant. It is noted that as of the report date, the Company has not yet been charged by virtue of this section.

Monitoring and control of sewage plans were determined by the water and sewage corporations or regional councils (where there are no corporations) for

some of the Company's sites of the Company, including the production plants, in accordance with the wastewater quality standards. In several events, payment charges were received due to deviation in wastewater discharge, which as of the date of this Report are in dispute and are under clarification with the various water and sewage corporations and/or the Environmental Protection Ministry. At the same time, the Company acts routinely to repair malfunctions and to execute changes and improvements in the sewage systems, where it is necessary.

In addition, the business licenses and toxic permits that are given to each plant may include provisions for the treatment of sewages.

- b. **Air pollution and damage to the ozone layer** – the Clean Air Law, 2008, and the regulations installed on its strength, are intended to bring about an improvement in the air quality, in order to protect the life and health of individuals and protect the environment. The law deals with many of air quality, among others, imposing a duty on various industrial sectors listed in it to be equipped with emission permits, as a condition to the continuance of their operation, as stated by law for each sector. For operations that are not listed by the law and which involve emissions of contaminants to the air, relevant provisions will be determined in the business license of the plant. The Company's sites are not required to hold an emission permit, as stated, and the provisions on the issue of air emissions of contaminants are assimilated, where necessary, in the business licenses of plants of the Group. 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. Production sites receive a poison license, on and the strength of this law. In some of the sites of the Group, there is use and possession of hazardous materials for purposes of cleaning and treating sewages. All the sites of the Group, holding hazardous materials, that require a toxic permit, obtain a valid toxic permit, under the Safety at Work Regulations (Safety Data Sheet, Classification, Packing, Labeling and Marking), 1998, which dictate the method of work with hazardous materials and the manner of their storage.

Policy of separation distances in stationary hazardous sources - a circular by the Director General of the Ministry of Environmental Protection regarding “Policy of separation distances in stationary hazardous sources” was published in October 2011, and updated by the Ministry of Environmental Protection in March 2014. This 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, the 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 gasses, 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 treatment in 2014, and received authorization for 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.

As of the date of the report, there is a Draft Law for the Prevention of Soil Contamination and Rehabilitation of Contaminated Soils, 2011, which imposes extensive duties on an owner/holder of a land and anyone causing contamination of soil. According to the best knowledge of the Company, this is a draft law and there is no certainty as to the final drafting, which will be finally accepted, if any.

In addition, in February 2015, following receipt of public comments for the draft published in May 2014, the Ministry published a policy document regarding contaminated lands. The principles set forth in this document reflect the policy carried out by the Ministry, as reflected, among others, by the environmental conditions attached to the business license and the toxic permits issued by the Ministry, as well as other actions it takes, in accordance with the authority 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 draft law, but does not reflect all the arrangements stipulated therein, which are subject to legislation.

- d. **Waste of natural resources (energy and water)** – the Energy Resources Regulations (Supervision of the Efficiency of Energy Consumption), 1993 define the appointment of a supervisor to advance the efficient consumption of energy and describe the supervisor's duties. Supervisors, as stated, are active in sites of the Company in Israel.
- e. **Waste treatment** – the Maintenance of Cleanliness Law, 1984 defines the removal of waste to sites that are authorized according to the type of waste. The Regulation of Processing Packages Law, 2012, ("**the Packages Law**") defines the manufacturers' responsibility for handling waste created by packaging, defines recycling targets for various packaging materials, and defines the reporting mechanisms regarding quantities and types of packaging waste.

The Company in Israel established a system of measurement, reporting and control for product packages that are dispatched to the market, all of that according to the duty of reporting waste of packages, applying to the Group according to the Packages Law. Strauss Company participates on the board of directors of T.M.I.R. Corporation, it has signed contracts with T.M.I.R, as a manufacturer of waste of packages, and is compliance with all the requirements of the Packages Law. The coffee plants outside Israel maintain collect packages for recycling, according to the requirements of local regulations. It is noted that most of the Group's sites outside Israel are subject to local regulations concerning recycling of packages.

The Environmental Handling of Electric and Electronic Equipment and Batteries Law, 2012, (hereinafter: "**the Electronic Waste Law**"). The law, which entered validity on March 1, 2014, determines arrangements with respect to environmental handling of electric and electronic equipment and batteries, inter alia, by way of imposing expanded liability on manufacturers and importers of electric and electronic equipment and batteries, pursuant to the execution of approved recycling of equipment and battery waste, as per the targets stated in the law. The law compels manufacturers and importers to commit with an recognized application organization, pursuant to the fulfillment of their duties by law, as they are required to finance all the cost of evacuation and handling of electronic waste. The law further compels anyone holding a business electronic waste (those who

are not private households) to contract with a recognized organization for the disposal of the electronic waste. The company in Israel has contracted with Ecommunity in order to exercise its duty.

- f. **Registration and reporting duty** – The Environmental Protection Law (Emissions and Transfer of Contaminants – Duty of Reporting and Registration) 2013, defines methods of public reporting of emissions to the environment of ground, air and water contaminants, and also wastewater treatment. Strauss dairy in the Barlev Industrial Zone and Yotvata dairy, both Strauss' plants, which are required to report pursuant to the PRTR Law, are compliant with the law.

- g. **Integrative Regulation (Integrated Environmental Licensing)** -

The Ministry of Environmental Protection established a mechanism for integrated environmental licensing of the large industrial plants according to the principles of the IPPC - Integrated Pollution Prevention Control, aimed at reducing emissions of the large industrial plants into the environment, having significant potential adverse effect on the environment (hereinafter: "Integrated Environmental Licensing"). The Integrated Environmental Licensing is executed by sectors, relating to all their impact on the environment, such as: air, water sources and soil emissions, waste generation, use of raw materials, efficient use of energy, noise, prevention of events, all in order to achieve a high level of protection of the environment and human health.

On April 6, 2014, the Government unanimously approved the Integrated Environmental Licensing plan. It is noted that the Government Resolution determined that a formulated memorandum of law will be submitted by the end of December 2014, but so far the Ministry has not yet published a formulated memorandum of law.

In the first stage, the Integrated Environmental Licensing is implemented through the conditions in the business license of the plants that are required to submit an application for an airborne emission permit under the Clean Air Law. It is noted that the Company's plants are not required to submit an application for an emission permit under the Clean Air Law.

The Group's production plants abroad - are subject to local environmental legal provisions, according to the rules and laws of each country. The production sites in countries that are EU members are subject to environmental directives. In Brazil, national regulation is determined by two entities: CONAMA and IBAMA, as both have

the authority to determine and enforce regulations; CONAMA defines professional requirements and IBAMA enforces them (and prescribes requirements with respect to implementation and control). Similar to the situation in Israel, the plants are required to comply with both the laws of the countries where the plant is situated and municipal bylaws of the authority where the plant is located. In addition there is a requirement to hold an operating license, approval of 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 different European countries, and as a consequence, the Group's coffee manufacturing plants in Europe are subject to a regulatory duty to treat packages vis-à-vis the local package recycling corporations.

24.3 Major environmental events

a. In Israel:

The Strauss Dairy in the Bar Lev Industrial Zone

In August 2014, the Dairy received notification from the Mateh Asher Regional Council with respect to a charge due to alleged exceptional and prohibited effluents discharge under the effluents quality rules. It is noted that the sampling conducted by the Regional Council does not reflect the quality of the effluents at the dairy, as independent tests of the dairy's effluents carried out by the Company on dates close to the sampling dates indicated lower values. Therefore, the Company applied to the Council requesting that calculation of the charge will be executed for the period of time between the test conducted by the Council and the test conducted on behalf of the Company (a few days earlier), whose results were in order. The company's position was accepted by the Council.

In 2014, the Dairy completed a risk survey for separation distances of hazardous materials from public receptors, which was approved by the Ministry of Environmental Protection.

The Instant Coffee Plant in Safed – during the first quarter of 2014, Strauss Coffee completed the shutting down of the instant coffee manufacturing operation in the plant located at the center of a residential neighborhood in Safed, while other manufacturing operations, including packaging remained at the plant.

During 2014, the production systems were dismantled and removed from the site. During the first quarter of 2015, after the removal of the heavy equipment was completed, excavation and removal of crude contaminated soil is carried out at the

site in coordination with and the approval of the relevant authorities, including the Ministry of Environmental Protection. The execution of the above mentioned actions involves costs that are not material to the Company.

In 2013, the plant received notifications from the Peleg Hagalil Water and Sewage Corporation - the Regional Water and Sewage Company Ltd. with respect to a charge due to alleged exceptional and/or prohibited effluents discharge during 2012 and 2013. These notifications did not include a total of the charge the Company is required to pay or a payment voucher. The Company made several requests for clarification from the Water and Sewage Corporation. As of the date of the report, no response has been given by the Corporation.

The Strauss Salads Plant – deviations in the effluent quality were recorded. During 2014 the plant took action to remediate the sewage treatment system and took measures to prevent organic load releases from the plant to the sewage system. In the last few months, there has been considerable improvement in the quality of the treated wastewater.

In February 2015, a letter of warning under section 5 of the Prevention of Environmental Nuisances (Civil Actions) Law, 1992, and under section 20v of the Water Law, 1959 (hereinafter; the “**Water Law**”) was received from the Public Council for the Prevention of Noise and Air Pollution in Israel (Malraz Registered Association) regarding alleged prohibited effluents discharge by the plant. The Company is currently studying the letter received and its response to it.

The coffee plant in Lod – the plant received complaints about odor nuisances due to malfunction in the odor treatment facility. The matter was handled by the Company and no further complaints were made.

During 2014, the Ministry of Environmental Protection submitted new requirements to the plan with regard to air and sewage quality. The plan is developing a work plan to comply with the new requirements.

The Strauss confectionary plant in Upper Nazareth – An event of fuel oil discharge to the soil occurred due to human error in operating the fuel oil tanks. The plant immediately reported to the Ministry of Environmental Protection and urgently removed soil, while removing and evacuating the underground crude tanks. These sums are not material to the Company.

The Strauss distribution center in Haifa - charges were imposed on the distribution center in 2013 due to alleged prohibited effluents discharges by the Mei Carmel Water and Sewage Corporation Ltd. The Company submitted an appeal to the Water and Sewage Government Authority to cancel the stated charge notification. In February 2015, attachments were imposed on the Strauss Holdings Ltd. and Marketing Ltd., which holds the distribution center. The Company applied to the Corporation and the Water Authority to cancel the attachment and the charge and to reach a decision in the appeal submitted by it. A decision has not yet been reached. These sums are not material to the Company.

Coffee plants abroad – during 2014 there were no violations and environmental incidents that are likely to create material exposure. Possible repercussion to the Company that may be caused by these events are the temporary loss of the business license of the plant until the faults mentioned have been remedied; as well as exposure to legal action by the environmental authorities in that country.

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, 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). At Corporate headquarters and at the Company's sites work processes are in place for the identification of environmental legal requirements, review of the extent of compatibility and correction of faults, identification of material environmental impacts, definition of environmental objectives and creation of a yearly and multiyear work plan for the reduction of environmental impacts. The six main production sites of Strauss Israel are certified in accordance with the ISO14001 (EMS) standard from the Standards Institution. The production volume of these units accounts for 86% of all production in Strauss Israel.

Water Strauss was certified by the Standards Institution in 2014 for the Israeli Standards ISO14001 and OHSAS18001. The Company implemented work procedures to identify environmental law requirements, examine level of suitability and correct deficiencies, identify material environmental impacts, define environmental objectives and prepare annual and multi-annual work plans for reduction of the environmental impacts. Furthermore, the Company received a green label for its products in 2014, provided on behalf of the Standards Institution and the Ministry of Environmental Protection for products that have less impact on the environment.

- b. At the start of 2012, the coffee company determined multi-annual goals with regard to the environment, to reduce the consumption of energy, greenhouse gas emissions, use of water and disposition of waste in landfill sites, per ton of product. In 2014, the system for collecting environmental data from the coffee company's production sites was improved, and the Mossoro site in Brazil and the coffee site in Russia were added to the system. In addition, there was a quarterly monitoring of environmental data and the Company's goals as part of the coffee company's environmental management system. Most of the Group's coffee plants received ISO 14001 certification. In 2014, the Eusebio coffee plan in Brazil was also certified in accordance with the ISO 14001 standard. In 2014, various environmental projects for saving and conserving energy as well as a project for reducing water consumption and disposal of waste in landfills were carried out at the coffee production sites in the different countries.

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.

- c. **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, using this tool.
- d. **Wastewater treatment** – the Group's sites in Israel where activity involves a significant environmental risk from this aspect are applying increased wastewater treatment, both in an attempt to reduce pollutants at source and in building wastewater treatment facilities.

- e. **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 2013, the Company continued the process of testing and improving the hazardous materials management system in the plants and in the distribution system, and also containment pallets were installed and upgraded. The Group's plants abroad operate according to local regulation requirements with respect to each site.
- f. **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 2014, 34% 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 coffee plants outside Israel have a target of reducing 15% emissions per ton products until 2016 (based on 2011 data). By year-end 2014, greenhouse gas emissions in the coffee plants overseas were reduced by 33%. The use of Freon exists in most of the Group's cooling systems. However, new systems are adjusted to use more environmental friendly coolers.
- g. **Waste separation and recycling** – at the Group's production and logistic sites action is being taken to separate and recycle waste. The Group is acting 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 coffee plants outside Israel have set a goal of reducing deposited waste per ton product by 15% in the years 2012 to 2016 (based on 2011 data). In addition, coffee plants outside of Israel operate in accordance with local directives, pertaining to the separation and recycling of waste in sites, as this issue is very developed in various sites in Europe.
- h. **Treatment of waste packages** – the Company in Israel has built a measurement, reporting and control system for packaging of products that are dispatched to the market, in accordance with the duty to report package waste applicable to the Group, pursuant to the Regulation of Packaging Waste Treatment Law, 2011. In

the coffee plants outside Israel there is a system for collecting packages, in accordance with local regulations requirements, at the various sites in Europe.

- i. **Saving electricity and energy** – the Group is taking action to increase electricity saving at its production plants sites through different operational projects, such as programs for saving electricity, use of economic light bulbs, use of sunlight for illumination, switching to the use of gas in various production processes, utilization of energy produced in one process for the heating of other and operating a different processes, increasing the efficiency of cooling systems, insulation of piping, etc. The coffee plants outside Israel have set a goal to reduce energy consumption by 10% per ton product by 2016 (based on 2011 data). By the end of 2014, there was a 30% reduction of energy consumption per ton product in the Company's coffee sites overseas.
- j. **Saving water** – the Group in Israel defined a strategic goal for the reduction of 20% of its water consumption per ton product by 2015, based on 2008 figures. By the end of 2014, the Company reduced 18% of its water consumption per ton product. The coffee plants outside Israel are required to 5% of the water consumption per ton product by 2016 (based on 2011 data). By the end of 2014, there was an 8% reduction of the water consumption per ton product in the Company's coffee sites overseas.

24.5 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 plants; 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 2014 the Group invested approximately NIS 10.5 million in Israel and abroad in infrastructures and projects to improve the environmental aspects of its production sites and to minimize the risks arising from its activity, and an additional NIS 11 million were invested in the day-to-day management, in overhead and current expenses, environmental monitoring, and payment to the recycling corporations for product packages 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 plans any irregular investments in 2015.

The information in this section regarding the intention not to make irregular investments for purposes of complying with environmental requirements in 2015 is forward-looking information, as the term is defined in the Securities Law, which is based in information available to the Company on the report date, and which includes management's estimates and assessments as of the report date, which may not be realized. In practice, there may be material deviations in the Group's production sites or requirements may change, which would require additional substantial investments.

As 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 reported year and it did not incur any costs in respect of legal actions relating to environmental issues.

25. Restrictions and Supervision on 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 others, 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, marking 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 insured for third-party liability and product liability insurance.

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

Outside Israel – the Group's activities outside Israel are subject to regulatory directives in the different countries, which generally regulate subjects 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 marking of the products. As countries where the Group is active join the European Union, they may also be subject to relevant regulatory directives which apply in EU member states.

25.2 Control over product prices

- a. The Regulation 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 (inter alia, 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 section 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 sections 9.13 above.
- c. At the end of March 2014, the Promotion of Competition in the Food Industry Law, 2014 was passed by the Knesset (above and below – “**the Food Law**”). The Law is intended to increase competition in the food and consumer products industry, in order to reduce consumer prices, by imposing prohibitions and restrictions on actions and arrangements between different organizations that operate in the market, by delegating enforcement powers to the Antitrust Commissioner and by imposing on obligation to publish prices. For additional details, see the section “Changes in the Economic Environment” in the Board of Directors’ Report as of December 31, 2014, in part B below.
- d. On April 10, 2014, the Antitrust Authority (in this section below – “**the Authority**”) published an opinion regarding “prohibition on over-pricing that applies to owners of monopolies”. The opinion details 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 owners of the monopoly to rake significantly bigger profits than they would have under competitive market conditions. The opinion includes three main measures taken 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 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 charged 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 comes within 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 gap between the product's price and its production cost, calculated according to the guidelines in the document, does not exceed 20%.

25.3 Operating licenses

In Israel – the Group's production sites and distribution centers operate under business licenses, which are awarded under the Licensing of Businesses Law, 1968, and as at the date of the Periodic Report they are valid, except for part of the points of sale of "Elite Coffee", which Group is handling receipt of business licenses in their respect. The validity of the business licenses is permanent or for defined periods, in which case they must be renewed on expiry.

Additionally, the Group companies operate under manufacturer's licenses awarded by the Ministry of Health pursuant to the Regulation of Prices of Goods and Services Order (Trading, Production and Storage of Food), 1960, which are awarded for a period of one year. As at the date of the Periodic Report these licenses are valid.

Furthermore, some of the Group's sites are required to hold poison permits awarded by the Ministry of the Environment under the Hazardous Substances Law, 1993. The Group is in possession of valid poison licenses.

Plants outside of Israel – generally, in the countries where the Group operates licenses and permits are required according to the legislation in each country. As at the date of the Periodic Report they are valid, or that the Group is acting toward their renewal.

25.4 Antitrust

a. Monopoly Declarations

Regarding monopoly declarations relating to the Company and the Antitrust Commissioner's instructions in this regard, see section 9.13.a – (dairy desserts); section 10.13.a – (chocolate bars), and section 12.12.a – (instant coffee and cocoa powder for domestic consumption).

For details regarding a hearing prior to declaring the Company a monopoly, see section 11.8 above.

b. Agreed orders pursuant to the Antitrust Law

As for agreed orders with respect to chocolates and sweets and with respect to the announcement of the merger with "Elite Coffee", see note 26.1.2.3 of the Company's financial statements as at December 31, 2014, and section 12.12.c above, respectively.

25.5 Kashrut – 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 snacks, 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 LeMehadrin and also marketed to the ultra-Orthodox market. The certificates of Kashrut are given for defined periods, and at the end of each period the Group handles their renewal.

25.6 Approved Supplier to the Ministry of Defense – the Company and part of its subsidiaries in Israel are an Approved 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, marking, packaging, etc.

Additionally, the Group's manufacturing sites in Israel and part of its sites abroad are ISO 9001 certified, as well as certified under the food safety control standard, HACCP (Hazard Analysis & Critical Control Points), the ISO 22000 standard and other elective standards such as ISO 14001. The Group has internal enforcement processes in place to

ensure compliance with the standards and regulations with respect to food, quality of the environment and safety.

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, generally based on control applied by the production workers themselves. The plants have an experienced team of tasters. The Group measures on a monthly basis the number of complaints of consumers as well as the satisfaction of consumers approaching the customer service, and it acts successfully in order to diminish complaints and raise satisfaction of consumers from the products and services.

25.9 Insurance –in management’s opinion, its 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, and with the assistance of certified insurance counsellors. In the US and Brazil, due to the unique insurance arrangements in these countries and the composition of the partnerships, the insurance policies are prepared in accordance with country-specific requirements, as well as the business practices developed by local managements and the Group’s partners, with the assistance of local insurance counsellors.

26. Material Agreements

In addition to the material agreements described in each segment of activity, the 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 12.13 of 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 note 20 of the Company’s financial statements as at December 31, 2014.

27. Legal proceedings

For information on class actions and other lawsuits against the Company, see notes 26.1.1 and 26.1.2, respectively, to the Company’s financial statements as at December 31, 2014.

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.

In 2010, the Group refreshed its visionary goals. In 2011 the Group executed a process of formulating a portfolio strategy, in which framework Group Management defined the directions of business development for the next few years, as well as key strategic directions for the continued business development of its business units.

From 2011, the Company customarily executes, on an annual basis, a process of strategic revitalizing, encompassing all the fields of operations of the Group, as well as updating the strategic course according to the development in markets and the promotion of the business affairs of the Company.

The Company continuously develop its international growth drivers, particularly Strauss Coffee Company, Strauss Water Company, 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 that it will be able to establish a leadership position.

The Group believes that its entrepreneurial culture, multi-dimensional growth model (diverse business categories, mergers and acquisitions and organic growth), as well as its ability to adjust and develop its business activity 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 sustainability in its business units.

28.1 Strauss Israel

Among the major goals the Group has set for coming years are leadership of the Israeli food market in existing business areas and improvement of the consumer's quality of life, while achieving growth and improving its competitiveness, 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 improving its competitive position in Israel through product innovation – the development of products and solutions with unique added value for the consumer alongside the development of high-quality, affordable products, the development of operational excellence in the various systems in the Company, streamlining, empowerment of its brands, placing focus on sales, and by

contending with the growing strength of local and international competitors, in alignment with changes in the retail market.

In addition to the growth targets and the improvement of its competitive position, the Company in Israel has a number of additional strategic objectives in the crystallization of the Group's business and cultural character for coming years.

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 the global coffee business the Group focuses on the development, manufacture, marketing and sale of branded coffee products in different international markets – Israel, Central and Eastern European, Russia and Brazil. The world coffee market is especially large, with annual sales totaling tens of billions of dollars. See also section 11.1 above.

The growth of the global coffee market has undergone changes in recent years. Emerging markets have become the fastest growing markets in coffee in the past few years, while in the developed markets growth in the traditional retail market has been moderate. In developed markets rapid growth was prominent in the away-from-home (AFH) coffee consumption market.

The Group specializes in the development and acquisition of local brands in the countries where it operates.

The Company focuses on locating expansion opportunities in several main directions:

- a. Operational excellence and continued improvement of supply and production chain processes.
- b. Focusing on the brand equity development of the Company's brands.
- c. Continued processes of innovation and development of new products.
- d. Exploring possibilities for acquisition and geographic expansion and reviewing other attractive locations worldwide for potential operations in the future.

Concurrently with the implementation of its mergers and acquisition strategy, the Company considers the acceleration of the organic growth of its coffee business in countries where it operates as highly important. The Company plans to invest resources

to accelerate organic growth by developing innovative products, channels and categories in which the Company is partially active, by transferring knowledge and experience between countries and leveraging the Company's development center.

28.3 Refrigerated dips and spreads – Sabra, Obela

The refrigerated dips and spreads market, particularly hummus, is characterized by accelerated growth in the USA and has high market potential. This activity is one of the Group's main growth drivers.

Through Sabra, the Group has led the freshness revolution in this market owing to 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 USA in particular.

The partnership with PepsiCo in Sabra in North America and is a highly important strategic step in the development of the Group's business outside of Israel in general and in the USA 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 and advanced salad production facility with an investment of \$68 million. The plant (in the state of Virginia) is one of the advanced of its kind in the world and is based on the most innovative production technologies.

Due to a continued increase in demand, Sabra made an addition investment in the plant during 2014, in order to increase production and meet future demand, if any. For additional details, see section 14.6 above. In light of the success of the operations 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.

28.4 Other Operations

a. Strauss Water operations

In the framework of realizing the Group's vision to improve 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 regards the development of technology for qualitative drinking water solution at home and outdoor a way of improving the living quality of millions of people throughout the world.

Strauss Water developed an innovative water purification technology integrating breakthrough developments in the fields of engineering and physics with innovative developments in chemistry and microbiology, some of which have been registered as patents.

At present, Strauss Water Israel is leading the Israeli market 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 for the home and institutional markets.

Strauss Water intends to preserve its status as the leading POU company in Israel, and maintain a rapid growth rate in international operations.

b. Max Brenner

In the framework of exploring the possibility to leverage its capabilities in additional business areas, the Company decided to use the prestige chocolate brand Max Brenner as a vehicle for the creation of a novel consumption experience in the chocolate and chocolate beverage category and to establish, independently and through franchises, Max Brenner "Chocolate Bars" in Israel and abroad.

28.5 In the next few years the Group plans to focus on the development of its activities in Israel and globally, while placing special emphasis on continued international development in coffee, water, 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 team work. 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 areas of activity. 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 details on the geographical regions where the Group operates, see note 29.4 of the Company's financial statements as at December 31, 2014.

29.2 For explanations on geographic developments, see the Company's explanations in the Board of Directors' Report as at December 31, 2014.

29.3 Exposure to risks due to the activities 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 local 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, as described below:

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. As customs rates are high or rise in these countries the Company's import costs rise, 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. Exposure to changes in exchange rates – 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 vis-à-vis local currencies (in Israel, also the Euro and the Pound Sterling). Any appreciation in the dollar or 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 boycotting Israeli produce in overseas countries due to political reasoning and a risk of an anti-Israeli policy or against businesses 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 could have a general adverse impact on the Company's sales turnover, undermine its ability to collect debts from customers encountering financial difficulties, hurt the supply of 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. Most of the Company's liabilities are linked to the CPI, where as a small part is exposed to changes in the interest rate. An increase in the Index will cause the Company's financing expenses to rise, while an increase in the interest rate has a smaller impact on financing expenses, due to the current liability mix and hedging activities performed by the Company. An increase in the interest rate will also cause the increment of new loans, to the extent that they are taken by the Company, and in consequence thereof are liable to cause a future increase in the financing expenses.

Industrial 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 goods, whose price and availability depend on

factors, such as weather, an outbreak of epidemics in the crop environment and political stability in the source countries. 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 fluctuation of prices, which are 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. Because 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 material fluctuations.

8. Customer credit – the Group's sales to its customers (including distributors) in Israel and abroad are usually made on credit, as is the customary practice in the market. Part of the credit to retail customers in the private market in Israel (that are not part of the organized retail market) is guaranteed by credit insurance (including a deductible) and various securities, 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 focuses on a small number of customers that account for a large part of the Group's sales; therefore the non-payment of this credit by any of the large customer market customers could have a material impact on the Group's cash flows and business results in the short term. The bulk of the credit 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, also as a result of concerns of illness or other injuries to health that are 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 (removal from the shelf or collection from consumers' homes) and will be exposed to legal action by consumers harmed by them (if any). Defects in the Group's products are also liable to be damaging to its reputation and 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 unprocessed milk – the price of unprocessed milk, a major raw material in the manufacture of dairy products and milk drinks, and business in the dairy market in Israel, are determined according to various arrangements. Any change in the price of unprocessed 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.
12. Private brands – the growing strength of retail chains in Israel and globally has led to the development of private brands aimed at replacing the product brands manufactured and marketed by various vendors such as the Group. The continued penetration of private labels to the retail 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 and other matters. Changes of this kind, if enacted in legislation, could impact both the product offering and the costs involved in production. Passing costs on to customers by way of a price increase could hurt sales volumes and turnover. Some of the Group's products are price controlled in accordance with the Control of Prices of Products and Services Law. Changes in these prices which reduce the maximum price or limit the possibility to raise prices will impair the Group's ability to revise prices in line with the increase in input prices, and could hurt the Group's competitiveness with regard to these products. Furthermore, the possibility of controlling the price of additional products could hurt the Group's profitability in the future.
14. The ability to anticipate changes and develop new products – the Group's success is conditional on forecasting new tastes, new consumption habits and changes in

consumption preferences, and 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, health and indulgence products. A change in the consumption habits could also emerge 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 do not necessary comply with these tendencies. On the strategic level, the Group takes action to adapt its product range in order to respond to changing consumption trends. Failure in this regard means the 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 waning demand for the Group's products and consequently, lead to a negative impact on sales turnovers, income and revenues.

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 26.1 of the Company's financial statements as at December 31, 2014.
16. Operating in a competitive market – the food and beverage industry is highly competitive. Some of the Group's competitors in the markets where it is active are large multinational corporations that possess greater financial resources than the Group. 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. During recent years, we witnessed events in Israel and abroad, where much pressure is applied, including active protests on the part of consumers against food manufacturers and retailers. These protests can be expressed through demonstrations, actions on various social media and also articles on the printed media or on the television. As pressures are also

referred to retailers, in many cases they bring about the pressure on the part of the retailers against the manufacturers. The consumer protest could also be an accelerator for regulatory actions and reforms, intended to bring about a change in the economic environment, which could to erode the Company's profitability and hurt its financial results.

18. The Group's products may contain ingredients that could cause pecuniary and non-pecuniary damage 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 damage are liable to lead to legal actions, damage to income, expenses due to recalling products, 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 brands – 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 (such as 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 others 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 – the loss of a substantial customer could to reduce the Group's income and damage its profitability. Furthermore, due to the fact that the number of large customers is small, the Company is subject to possible pressure and bargaining by these customers with respect to the prices of its products. These risks are liable to intensify to the extent that the large retailers continue to grow.
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 whose breach could impair usage rights (with the exception of Haier). Additionally, the continued success of the brands depends on the business results and the 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. Strauss Holdings and all the companies it controls have been declared a monopoly in dairy desserts. Declaration as a monopoly could lead to price control for 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 11.8 above.
23. Concentration of production at several sites – a considerable part of the Group's activity is concentrated at a limited number of sites, including sub-contractor's 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 joint venture in Brazil and in Strauss Frito-Lay, pursuant to the provisions and mechanisms set forth in the shareholders' agreements with these partners. The combined sales turnover of these companies, following inter-company eliminations, in the years 2014 and 2013 was NIS 1,985 million and NIS 1,882 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 implementation of growth and profitability forecasts and certain market and competitive conditions. An unsuccessful assimilation of the acquired companies and failure to implement these forecasts could inhibit the achievement of the

added value in these acquisitions and lead to the impairment of their intangible and tangible assets.

26. Environmental issues – the activity of production sites and the urban development of the surrounding cities could lead to the Group's exposure to environmental legal action and the risk of shutting down polluting plants.
27. Computer and communication systems crash – computer and communication systems crash, including the ERP system, could cause considerable difficulties to the Group. An incident of this kind that continues for a long period of time will hurt 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 confidentiality 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, their production or any other use. 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 sales 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 jointly venture 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 its business operations, some of which are under a 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 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. Santa Clara, 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 selling its investment, postpone the sale or 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 by them, 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 is 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. A new logistic center in Shoham – the Group is in the midst of a process, in which the Company's logistic centers will be relocated from Tsrifin and Petach Tikvah to a new center in Shoham. Significant failures in the execution of the transition could cause disruptions in product supply and hurt the Company's business results in Israel.

34. Recruiting, retaining and training key personnel:

The success of the Company depends on its ability to hire and maintain high-quality manpower in a range of professional and managerial fields. Failure by the Company could hurt its business results its ability to meet its targets.

30.2 The following table presents the risk factors described above according to their nature (macro risks, industrial risks and risks unique to the Group). These factors have been graded according to the estimates of the 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
<u>Macro risks</u>			
1. Financial crisis and/or economic slowdown in the world market	+		
2. Customs in countries where the Company operates			+
3. Exposure to changes in exchange rates	+		
4. Lack of economic and political stability	+		
5. Security risk		+	
6. Exposure to interest and CPI		+	
<u>Industrial risks</u>			
7. Fluctuations in raw material prices	+		
8. Customer credit		+	
9. Defective product quality	+		
10. Kashrut			+
11. Price of unprocessed milk		+	
12. Private brands		+	
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			
<u>Risks unique to the Group</u>			
19. Brand dependence	+		
20. Dependence on customers	+		
21. Licenses and franchises	+		
22. Declaration as a monopoly		+	
23. Concentration of production 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. Transition to a new logistics center		+	
33. Financial debt		+	
34. 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, 2014**

**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 CORPORATION'S BUSINESS

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 Corporation's Business".

For information on the corporation's areas of activity – see section 2 in the chapter "Description of the Corporation's Business".

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

SEASONAL EFFECTS ON THE RESULTS OF THE COMPANY'S BUSINESS OPERATIONS

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

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

International coffee sales in local currency are usually higher in the fourth quarter of the year, a period that is characterized by increased purchases of coffee products due to the timing of the Christian holidays and the end of the (Gregorian) year.

In International Dips and Spreads, as a rule, there are no significant seasonal effects, but in summer months consumption of these products is slightly higher compared to their consumption in winter. Additionally, on public holidays and special occasions such as end-of-the-year celebrations, Independence Day, National Memorial Day, Labor Day and the Super Bowl championship, consumption increases.

Income in the water business is also influenced by seasonality, as the demand for cold water solutions increases in the summer. Usually, the third quarter each year is characterized by greater activity volumes than the other quarters. In 2014 seasonal effects on water sales in Israel were influenced by Operation Protective Edge as well as by sales growth outside of Israel. In 2013 the seasonality of sales was impacted by sales growth outside of Israel and by the launch of the Bubble Bar in Israel.

CHANGES IN THE ECONOMIC ENVIRONMENT

Prices of raw materials and other production inputs – The commodities markets account for a substantive component of the materials used in the manufacture of the Group's products. As opposed to the corresponding period last year, 2014 was characterized by increases in the average yearly prices of some of the raw materials used by the Company such as green coffee, cocoa and sesame, along with increases in some of the other production inputs such as municipal rates and taxes. By contrast, the average yearly prices of sugar, oil, raw milk (target price) and grains (wheat and corn) decreased.

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

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 whereunto the minimum monthly wage will 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.

Energy prices – In the past few years through to the first half of 2014, energy prices were relatively stable, with a rise as a result of an increase in world demand as well as geopolitical changes. In mid-2014 oil prices dropped dramatically, with the decrease gaining momentum toward the end of the year and continuing, at lesser intensity, in 2015. The drop in energy prices has a direct impact on the costs of production, transport and raw materials, as well as on packaging costs. This impact has not yet been significantly expressed in the financial statements of the Company as at December 31, 2014. Conversely, the drop in energy prices has indirect influences, such as a strong correlation between the decrease in oil prices and the weakening of the Russian Ruble against the Dollar (additional information on the subject is presented below).

Exchange rate fluctuations – In some countries where it is active the Group operates as an importer, mainly in the procurement of raw materials. Most of the currency exposure in these countries arises from the exchange rate between the US Dollar and the local currencies. Any strengthening of the Dollar raises the prices of raw materials and *vice versa*. Financial assets and liabilities are mainly held in the functional currencies, and consequently the impact of changes in exchange rates on profit or loss is lower. Any strengthening of the Shekel versus the Group's functional currencies reduces (increases) the reported profit, assets and liabilities in Shekels, and equity as a result of translation. For further information on foreign exchange risk, see also Note 30.4 to the financial statements as at December 31, 2014. In the course of 2014 most of the currencies in the countries where the Group is active weakened in relation to the Shekel, principally the Russian Ruble and the Ukrainian Hryvnia. Conversely, the Dollar strengthened versus the Shekel. For an analysis of the impact on the Group's sales, see further on in this report. The changes in the exchange rates of the various currencies, compared to the corresponding period last year, led to a decrease in the Shekel value arising from the translation into Shekels of the Company's business results in some markets, and to a decrease in the shareholders' equity of the Group.

The political crisis in Ukraine – Due to the crisis and the complex relationship between Russia and the West, the Dollar appreciated significantly against the Ukrainian and Russian currencies since the beginning of 2014 and thereafter, compared to the end of 2013 (approximately 183% and 83%, respectively, on or about the date of publication of this report). In an effort to stem the continued devaluation of the Ruble, the Central Bank of Russia raised the interest rate a number of times in 2014, from 5.5% to 17%, and since the beginning of 2015 the interest rate has been lowered to 14% (the interest rate on or about the date of publication of this report).

The Group is unable to predict future developments in the currency markets, but is taking the necessary steps, according to the best of its judgment, to be prepared for the different scenarios and to deal with them in the optimal manner.

The Group continuously monitors macroeconomic developments in the markets in which it is active.

The following table presents the average exchange rates versus the Shekel in 2014 and in the fourth quarter, compared to the corresponding periods last year:

Currency		Average exchange rate in		% change	Avg. exchange rate in 4 th quarter		% change
		2014	2013		2014	2013	
United States Dollar	USD	3.576	3.611	-1.0	3.829	3.526	8.6
Ukrainian Hryvnia	UAH	0.313	0.449	-30.4	0.274	0.435	-37.2
Russian Ruble	RUB	0.095	0.114	-16.9	0.082	0.109	-24.7
Serbian Dinar	RSD	0.040	0.043	-4.9	0.040	0.042	-5.3
New Romanian Leu	RON	1.070	1.088	-1.6	1.080	1.080	0.0
Polish Zloty	PLN	1.134	1.143	-0.8	1.134	1.147	-1.1
Brazilian Real	BRL	1.526	1.688	-9.6	1.510	1.555	-2.9
Renminbi (China)	CNY	0.581	0.587	-1.1	0.623	0.579	7.6
Canadian Dollar	CAD	3.238	3.508	-7.7	3.370	3.361	0.3
Australian Dollar	AUD	3.223	3.499	-7.9	3.275	2.369	0.2
Mexican Peso	MXN	0.269	0.283	-5.1	0.276	0.270	2.1

The following table presents the average exchange rates versus the Dollar in 2014 and in the fourth quarter, compared to the corresponding periods last year:

Currency		Average exchange rate in		% change	Avg. exchange rate in 4 th quarter		% change
		2014	2013		2014	2013	
New Israeli Shekel	ILS	0.280	0.277	1.0	0.261	0.284	-7.9
Ukrainian Hryvnia	UAH	0.085	0.124	-31.5	0.071	0.123	-42.4
Russian Ruble	RUB	0.026	0.031	-17.3	0.021	0.031	-31.7
Serbian Dinar	RSD	0.011	0.012	-4.1	0.010	0.012	-12.8
New Romanian Leu	RON	0.299	0.301	-0.7	0.282	0.306	-7.9
Polish Zloty	PLN	0.317	0.316	0.2	0.296	0.325	-8.9
Brazilian Real	BRL	0.426	0.465	-8.3	0.394	0.441	-10.5

Inflation – In 2014 inflation in Israel was marginal at 0.1% (on the basis of the known Index), compared to 1.9% and 1.4% in 2013 and 2012, respectively. In all countries where the Group is active inflation in 2014 was single-digit, except for Russia where the CPI rose by 11.4%. The Company has Index-linked liabilities on a significant scale (Debentures Series B, 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 30.5 to the financial statements as at December 31, 2014.

Interest – The Bank of Israel rate of interest fell in recent years from 0.1% 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 10% at the end of 2013 to 11.75% at the end of 2014, and to 12.25% 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 a level of 14%. In the other major countries where the Group operates, interest was single-digit and on a declining trend. 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 influence the Group's business operations and financial results in the future as well. 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 30.2 to the financial statements as at December 31, 2014.

Operation Protective Edge – In July-August 2014 Operation Protective Edge took place. Throughout the entire period, the Company made every effort so that production and sales operations in its plants and sites in southern Israel would not be adversely affected despite the situation in the region. In spite of a certain slowdown in the Company's sales in this period and the many actions taken by the Company to alleviate the situation for its

employees in the Gaza envelope communities and in southern Israel, the military operation did not significantly impact the Group's business results in 2014.

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 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 parties operating in the market, by granting the Antitrust Commissioner enforcement powers and by imposing the obligation to publish prices. The law determines, *inter alia*, prohibitions and limitations on actions and arrangements between the food suppliers and retailers, including: large suppliers or parties acting on their behalf are prohibited from arranging the products in the stores of a large retailer (in this regard, the Antitrust Commissioner has exempted most of the large retailers from switching to their own arrangement operation in respect of 2015); large suppliers are prohibited from intervening with retailers regarding retail prices charged by the retailer; prohibition against engagements between large suppliers and retailers regarding shelf space; prohibition against making purchases of one product conditional on purchases of another product; retailers are prohibited from cumulatively allocating very large vendors total shelf space in the store that exceeds 50%; the Antitrust Commissioner is granted the power to determine the shelf space a retailer will allocate to a particular product of a particular supplier, and others. The law also defines arrangements aimed at promoting and ensuring competition in the retail market on the regional level, and the Antitrust Commissioner has been granted powers to approve or not to approve the opening of new stores by a retailer in a particular geographical region in certain circumstances. The Food Law determines, *inter alia*, instructions for large retailers regarding the obligation to publish current information by electronic means on products sold in each of their stores (such as a list of the products, their prices, campaigns and their terms and conditions, etc.). The provisions of the Food Law applying to the Company took effect on January 15, 2015.

In the reporting period a provision for impairment in respect of deferred expenses in an amount of NIS 32 million (NIS 20 million net of tax and non-controlling interests) was recorded, classified under other expenses in the consolidated statements of income.

To prepare for the changes arising as a result of the Food Law, the Group established a cross-divisional project for the management and assimilation of the Food Law, headed by a Strauss Group Management steering committee. In December 2014 the Company made all process and structural changes required, among other things by revising trade agreements with retailers, implementing an internal enforcement program and providing relevant training to all employees. As at the date of publication of this report, independent store arrangement by the retailers is being done in dry and refrigerated products in the Supersol, Mega, Co-Op Shop and Yenot Bitan chains, and at one Machsaney Hashuk outlet.

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

Other than as described below, as at the end of the fourth quarter and compared to the end of 2013, 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, 2013. For further information, see also Note 30 to the financial statements and section 30 in the chapter "Description of the Corporation's Business", 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 the practice until then, 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. Neither does this signify any managerial change in the jointly held businesses.

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

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

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

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, 2014 and 2013 (in NIS millions)*:

	Year			Fourth Quarter		
	2014	2013	% Chg	2014	2013	% Chg
Sales	8,140	8,143	0.0	2,080	2,074	0.3
Cost of sales	5,021	5,029	(0.2)	1,330	1,276	4.2
Gross profit	3,119	3,114	0.1	750	798	(6.0)
% of sales	38.3%	38.2%		36.1%	38.5%	
Selling and marketing expenses	1,939	1,896	2.3	503	513	(1.9)
General and administrative expenses	434	449	(3.3)	104	127	(17.5)
Operating profit	746	769	(3.1)	143	158	(10.1)
% of sales	9.2%	9.4%		6.8%	7.6%	
Financing expenses, net	(83)	(134)	(38.3)	(13)	(32)	(59.9)
Income before taxes on income	663	635	4.4	130	126	2.7
Taxes on income	(174)	(190)	(8.2)	(20)	(26)	(24.8)
Effective tax rate	26.2%	29.8%		15.1%	20.6%	
Income for the period	489	445	9.8	110	100	9.9
Attributable to:						
The Company's shareholders	371	329	12.6	84	70	18.4
Non-controlling interests	118	116	1.7	26	30	(10.8)

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

¹ Três Corações(3C) – Brazil – a company jointly held by the Group (50%) and by São Miguel Holding e Investimentos S.A. (50%) (data reflect Strauss Coffee's share (50%) unless stated otherwise).

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, 2014 and 2013 (in NIS millions)*:

	Year			Fourth Quarter		
	2014	2013	% Chg	2014	2013	% Chg
Israel						
Net sales	2,972	3,000	(0.9)	683	746	(8.4)
Operating profit	315	315	0.0	64	67	(4.1)
Coffee						
Net sales	3,825	3,944	(3.0)	1,032	1,009	2.4
Operating profit	348	403	(13.8)	56	85	(34.9)
International Dips and Spreads						
Net sales	683	600	13.9	192	148	30.1
Operating profit	75	57	31.2	18	11	59.2
Other						
Net sales	660	599	10.0	173	171	0.1
Operating profit (loss)	8	(6)		5	(5)	
Total						
Net sales	8,140	8,143	0.0	2,080	2,074	0.3
Operating profit	746	769	(3.1)	143	158	(10.1)

Following are the condensed financial accounting statements of income (GAAP) for the years and quarters ended December 31, 2014 and 2013 (in NIS millions)*:

	Year			Fourth Quarter		
	2014	2013	% Chg	2014	2013	% Chg
Sales	5,415	5,605	(3.4)	1,364	1,451	(6.0)
Cost of sales excluding impact of hedging transactions	3,296	3,401	(3.1)	869	887	(2.0)
Valuation of balance of commodity hedging transactions as at end of period	22	(12)		27	(20)	
Cost of sales	3,318	3,389	(2.1)	896	867	3.4
Gross profit	2,097	2,216	(5.4)	468	584	(20.0)
% of sales	38.7%	39.5%		34.3%	40.3%	
Selling and marketing expenses	1,318	1,341	(1.7)	327	355	(7.8)
General and administrative expenses	339	346	(2.2)	83	102	(18.8)
Total expenses	1,657	1,687		410	457	
Share of profit of equity-accounted investees	219	175		49	39	
Operating profit before other expenses	659	704	(6.5)	107	166	(36.3)
% of sales	12.2%	12.6%		7.8%	11.5%	
Other expenses, net	(114)	(94)	21.1	(55)	(77)	(28.5)
Operating profit after other expenses, net	545	610	(10.8)	52	89	(43.0)
Financing expenses, net	(67)	(114)	(41.3)	(8)	(27)	(72.9)
Income before taxes on income	478	496	(3.8)	44	62	(30.0)
Taxes on income	(144)	(165)	(13.0)	(11)	(16)	(33.2)
Effective tax rate	30.1%	33.4%		24.5%	25.7%	
Income for the period	334	331	0.9	33	46	(28.9)
Attributable to:						
The Company's shareholders	235	234	0.6	20	25	(15.2)
Non-controlling interests	99	97	1.5	13	21	(43.5)

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

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

- 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):

	2014			2013			Fourth Quarter 2014			Fourth Quarter 2013		
	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)
Sales	5,415	2,725	8,140	5,605	2,538	8,143	1,364	716	2,080	1,451	623	2,074
Cost of sales excluding impact of hedging transactions	3,296	1,725	5,021	3,401	1,628	5,029	869	461	1,330	887	389	1,276
Valuation of balance of commodity hedging transactions as at end of period	22	-	22	(12)	-	(12)	27	1	28	(20)	-	(20)
Cost of sales	3,318	1,725	5,043	3,389	1,628	5,017	896	462	1,358	867	389	1,256
Gross profit	2,097	1,000	3,097	2,216	910	3,126	468	254	722	584	234	818
% of sales	38.7%		38.0%	39.5%		38.4%	34.3%		34.7%	40.3%		39.5%
Selling and marketing expenses	1,318	621	1,939	1,341	555	1,896	327	176	503	355	158	513
General and administrative expenses	339	116	455	346	121	467	83	26	109	102	29	131
Share of profit of equity-accounted investees	219	(219)	-	175	(175)	-	49	(49)	-	39	(39)	-
Operating profit before other expenses	659	44	703	704	59	763	107	3	110	166	8	174
% of sales	12.2%		8.6%	12.6%		9.4%	7.8%		5.3%	11.5%		8.4%
Other expenses, net	(114)	(7)	(121)	(94)	(6)	(100)	(55)	(3)	(58)	(77)	(4)	(81)
Operating profit after other expenses	545	37	582	610	53	663	52	-	52	89	4	93
Financing expenses, net	(67)	(16)	(83)	(114)	(20)	(134)	(8)	(5)	(13)	(27)	(5)	(32)
Income before taxes on income	478	21	499	496	33	529	44	(5)	39	62	(1)	61
Taxes on income	(144)	(21)	(165)	(165)	(33)	(198)	(11)	5	(6)	(16)	1	(15)
Effective tax rate	30.1%		33.1%	33.4%		37.5%	24.5%		14.2%	25.7%		24.6%
Income for the period	334	-	334	331	-	331	33	-	33	46	-	46
Attributable to:												
The Company's shareholders	235	-	235	234	-	234	20	-	20	25	-	25
Non-controlling interests	99	-	99	97	-	97	13	-	13	21	-	21

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

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

	Year			Fourth Quarter		
	2014	2013	% Chg	2014	2013	% Chg
Operating profit – according to proportionate consolidation method – after other expenses (income)	582	663	(12.3)	52	93	(44.9)
Share-based payment	21	18		5	4	
Valuation of balance of commodity hedging transactions as at end of period	22	(12)		28	(20)	
Other expenses, net	121	100		58	81	
Operating profit – non-GAAP	746	769	(3.1)	143	158	(10.1)
Financing expenses, net	(83)	(134)		(13)	(32)	
Taxes on income	(165)	(198)		(6)	(15)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(9)	8		(14)	(11)	
Income for the period – non-GAAP	489	445	9.8	110	100	9.9
Attributable to:						
The Company's shareholders	371	329	12.6	84	70	18.4
Non-controlling interests	118	116	1.7	26	30	(10.8)

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

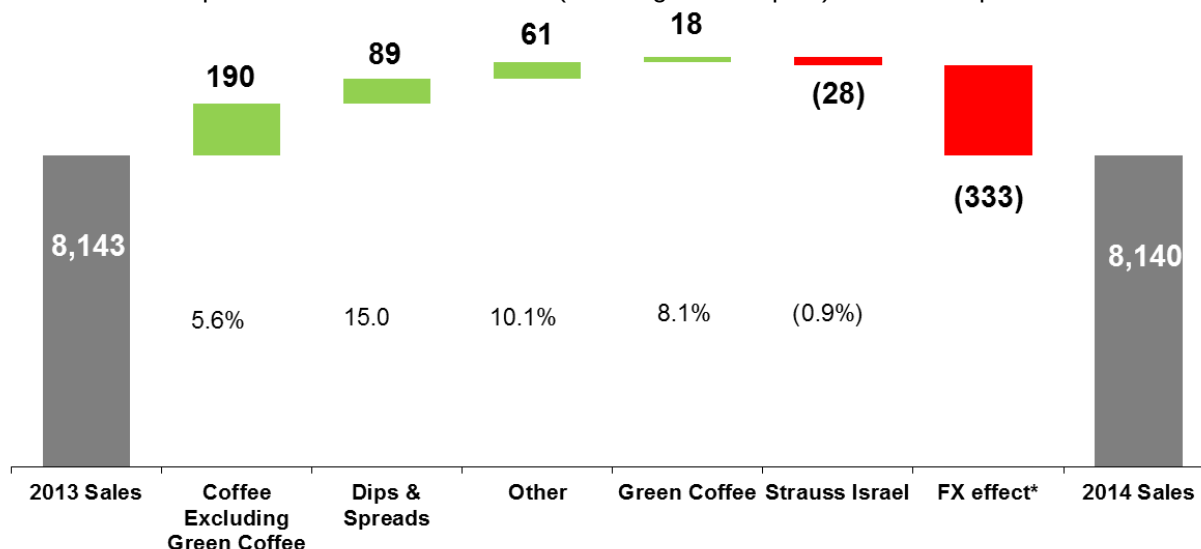
ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

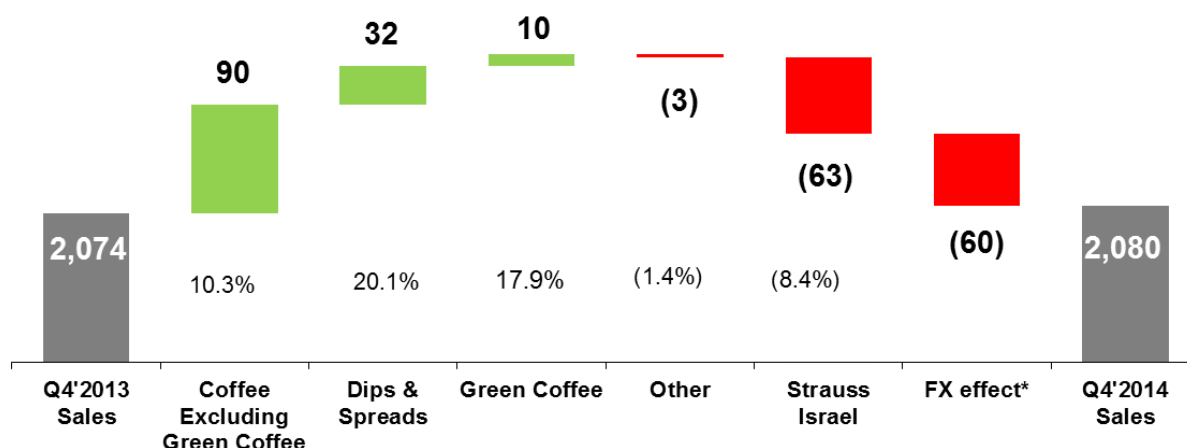
Sales – non-GAAP

	Year		Fourth Quarter	
	2014	2013	2014	2013
Sales	8,140	8,143	2,080	2,074
Growth	0.0%	(0.5%)	0.3%	(1.4%)
Organic growth excluding currency impact	4.2%	4.8%	2.8%	5.4%

Organic growth (excluding the currency impact) of the Group's sales in 2014 and in the fourth quarter of the year amounted to 4.2% and 2.8%, respectively.

In 2014 the Group's sales decreased by approximately NIS 3 million, and in the fourth quarter increased by approximately NIS 6 million. 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 (exchange rate impact) on the Group's sales:





(*) The exchange rate impact is calculated according to the average exchange rates in the relevant period.

Similar to prior periods, the Group's sales in 2014 and in the fourth quarter of the year, and particularly sales by Strauss Coffee, were impacted by differences arising from translation into Shekels, which amounted to approximately NIS 333 million and NIS 60 million, respectively. Translation differences in 2014 included approximately NIS 156 million as a result of the erosion of exchange rates in Russia and Ukraine versus the Shekel, and NIS 154 million due to the erosion of average rate of the Brazilian Real versus the Shekel. In the fourth quarter the Group's sales were impacted by approximately NIS 61 million due to the currency erosion in Russia and Ukraine, and NIS 12 million due to the currency erosion in Brazil, versus the Shekel; with the offset of the beneficial influence of the strengthening of the Dollar against the Shekel by approximately NIS 12 million.

Excluding the currency impact, in 2014 the Group's sales grew by approximately NIS 330 million compared to the corresponding period last year. In the fourth quarter the Group's sales increased by approximately NIS 66 million compared to the corresponding period. Sales growth in local currency was the result of the following factors:

- Growth in sales by the International Dips and Spreads operation (in 2014 and in the fourth quarter, an increase of approximately NIS 89 million and NIS 32 million, respectively), which is mainly the result of growth in sales by Sabra, reflecting continuing significant volume growth in hummus sales as well as growth in guacamole sales;
- Growth in sales by the "Other" segment (in 2014 an increase of approximately NIS 61 million, whereas in the fourth quarter sales decreased by NIS 3 million). The growth in sales in 2014 is mainly due to growth in Strauss Water as a result of growth in the domestic market and international sales growth, while expanding the customer base, mainly in the private sector; Strauss Water's sales in the fourth quarter remained virtually unchanged compared to the corresponding quarter last year, mainly as a result of rationalization of the product mix in the international operation;
- Growth in sales by the coffee business, not including green coffee and excluding the currency impact (in 2014 and in the fourth quarter an increase of approximately NIS 190 million and NIS 90 million, respectively), which is mainly due to the growth in sales by Três Corações Joint Venture and reflects Strauss Coffee's share (50%). In local currency, these sales grew by approximately 16.7% and 17.3% in 2014 and in the fourth quarter, respectively, compared to the corresponding periods last year (Três Corações Joint Venture's sales in local currency, including green coffee, grew by 15.4% and 17.4% in the year and in the quarter, respectively);
- Green coffee export sales by Três Corações Joint Venture increased by NIS 18 million in 2014 compared to the corresponding period last year, reflecting Strauss Coffee's share (50%). In the fourth quarter, sales increased by NIS 10 million compared to the corresponding quarter in 2013. Growth was mainly influenced by a rise in green coffee prices compared to the corresponding period last year;
- Conversely, sales by Strauss Israel decreased (by approximately NIS 28 million and NIS 63 million in the year and in the quarter, respectively) as a result of a significant weakening of the entire food and beverage market during the year and particularly in the second half, as well as of stronger competitive dynamics. Additionally, the fourth quarter was adversely affected by the timing of Rosh Hashanah and the High Holidays compared to the corresponding quarter last year (loss of 4 selling days in dry products (especially Fun & Indulgence) or 6% of the total selling days in the quarter; and of 2 selling days in refrigerated products or 2.5% of total selling days).
- 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		
	2014	2013	% Chg	2014	2013	% Chg
Gross profit	3,119	3,114	0.1	750	798	(6.0)
Gross profit margin	38.3%	38.2%		36.1%	38.5%	

The Group's non-GAAP gross profit in 2014 grew by approximately NIS 5 million compared to last year. The aggregate gross profit of the International Dips and Spreads business and the Other Operations segment increased by NIS 59 million, mainly due to Sabra. On the other hand, the gross profit of the coffee business decreased by NIS 39 million, mainly as a result of translation differences into Shekels following the weakening of the Real, Ruble and Hryvnia against the Shekel as described above. In the Israel operation the gross profit decreased by approximately NIS 15 million, mainly following the drop in sales and an increase in the prices of some raw materials, which were partly offset by various streamlining processes in production.

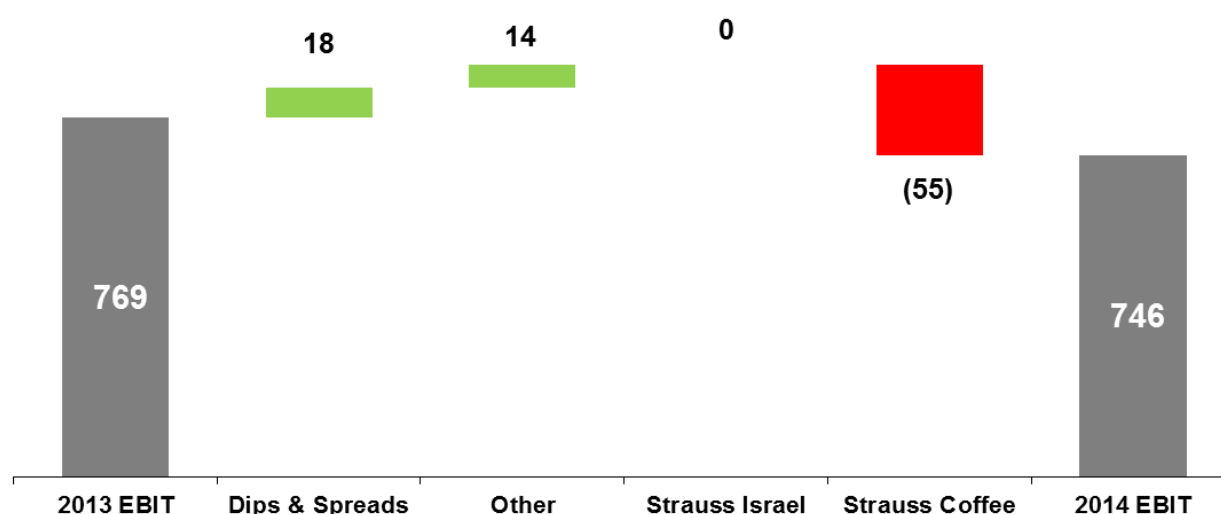
The Group's non-GAAP gross profit in the fourth quarter of 2014 decreased by approximately NIS 48 million compared to the corresponding quarter last year. In coffee, the gross profit decreased by NIS 37 million, mainly as a result of the sharp devaluation of the domestic currencies in Russia and Ukraine against the Dollar (the currency in which green coffee is bought in all countries where the Group is active except for Brazil), which led to an effective rise in the cost of sales in the former-USSR countries. The decrease is also explained by translation differences into Shekels, mainly as a result of the weakening of the Real, Ruble and Hryvnia against the Shekel, and also due to the increase in green coffee prices. In the Israel operation the gross profit decreased by approximately NIS 33 million, mainly following the drop in sales and an increase in the prices of some raw materials. Conversely, the aggregate gross profit of the International Dips and Spreads operation and the Other Operations segment increased by approximately NIS 22 million, mainly as a result of Sabra.

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		
	2014	2013	% Chg	2014	2013	% Chg
Operating profit (EBIT)	746	769	(3.1)	143	158	(10.1)
Operating profit margin	9.2%	9.4%		6.8%	7.6%	

The non-GAAP operating profit (EBIT) in 2014 decreased by approximately NIS 23 million. Following are the components of the change in the operating profit compared to the corresponding period last year, according to the Company's major activity sectors:

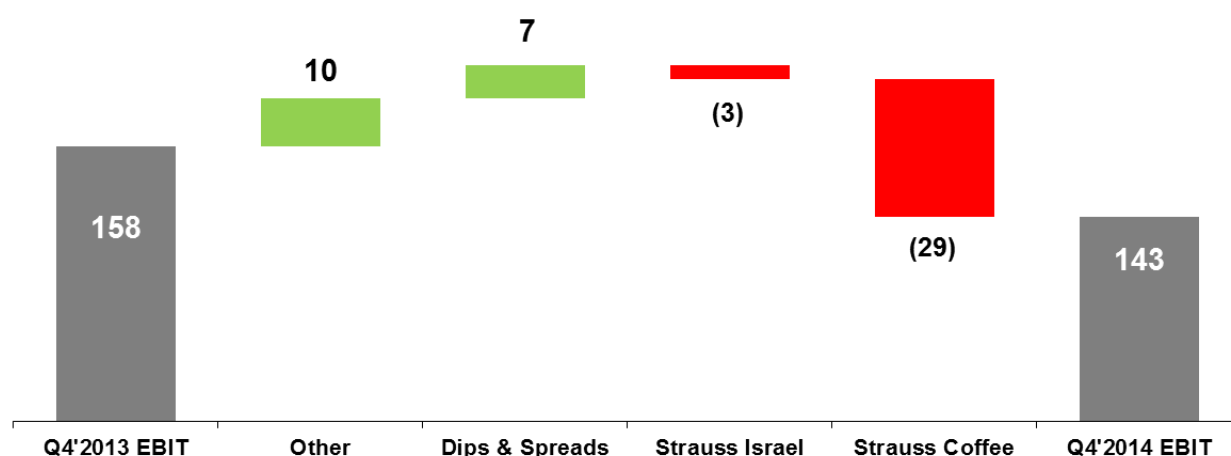


The decrease in the Group's EBIT in 2014 was the result of the drop in the operating profit of the coffee business. The decrease reflects the impact of translation differences as described above, as well as the erosion of the exchange rates of the Russian Ruble and the Ukrainian Hryvnia versus the Dollar, which grew more extreme in the fourth quarter of the year. The decrease in EBIT also reflects an overall impact of approximately

NIS 51 million on the operating profit of Três Corações Joint Venture in respect of the activity of the TRES solution, which is currently in the initial phases of penetrating the premium segment of the single portion multi-beverage solution (machines and capsules) in Brazil. This business had a marginal impact in the corresponding period last year (data reflect Strauss Coffee's share (50%)). In local currency, despite the investment in the TRES solution, Três Corações Joint Venture's EBIT grew from BRL 103 million to BRL 108 million, reflecting growth in sales volumes as well as price increases. By contrast, the operating profit of the International Dips and Spreads activity improved, mainly as a result of growth in sales volumes coupled with continued streamlining in production; the operating profit of the Other Operations segment improved as a result of various streamlining processes introduced in Strauss Water's corporate center as well as following sales growth; and Strauss Israel's operating profit remained unchanged despite the decrease in gross profit thanks to the streamlining of operating expenses.

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

The non-GAAP operating profit (EBIT) in the fourth quarter of 2014 decreased 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 sectors:



The decrease in the Group's EBIT in the fourth quarter of 2014 was mainly the result of the drop in the operating profit of the coffee business, which was primarily due to the erosion of the exchange rates of the Russian Ruble and the Ukrainian Hryvnia versus the Dollar that led to an effective increase in the cost of sales in the former-USSR countries. The decrease in EBIT also reflects an overall impact of approximately NIS 16 million on the operating profit of Três Corações Joint Venture in respect of the activity of the TRES solution, as mentioned above. The TRES business had a marginal impact in the corresponding period last year (data reflect Strauss Coffee's share (50%)). The drop in the operating profit of the coffee business was offset by an increase in the operating profit of the Other Operations segment, which grew mainly following various streamlining processes introduced in Strauss Water's corporate center, and by an increase in the EBIT of the International Dips and Spreads operation, which was the result of growth in sales volumes as well as of the continuation of various streamlining processes in production, and was partly offset by an increase in sesame prices and in marketing expenses.

Strauss Israel's EBIT decreased by NIS 3 million due to the drop in gross profit as described above; this was mostly offset by a decrease in operating expenses.

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

Financing Expenses, Net – Non-GAAP

Net financing expenses in 2014 amounted to NIS 83 million compared to expenses of NIS 134 last year. The decrease in financing expenses is the result of the revaluation of currency derivatives following the strengthening of the Dollar in relation to the Group's functional currencies (mainly in respect of hedges on the Dollar against the Ruble and on the Dollar against the Shekel), compared to a weakening or significantly lower increase in the corresponding period last year; as well as a decrease in the Consumer Price Index ("CPI") and

the revaluation of linked liabilities by 0.1% (on the basis of the known Index) as opposed to 1.9% in the corresponding period last year. The decrease in financing expenses was offset by the recording of expenses from the revaluation of Index derivatives, which reflected both the actual decrease in inflation and a sharp drop in inflation expectations.

Net financing expenses in the fourth quarter of 2014 totaled NIS 13 million compared to expenses of NIS 32 million in the corresponding quarter last year. Most of the decrease in financing expenses is due to the revaluation of currency derivatives following the strengthening of the Dollar in relation to the Group's functional currencies (mainly in respect of hedges on the Dollar against the Ruble and on the Dollar versus the Shekel) compared to a weakening or significantly lower increase in the corresponding period last year, as well as the scale of hedges, principally against the Shekel.

Net credit (according to the proportionate consolidation method) as at December 31, 2014 totaled NIS 1,688 million compared to NIS 1,475 million on December 31, 2013.

Net credit (according to the equity method) as at December 31, 2014 totaled NIS 1,506 million compared to NIS 1,364 million on December 31, 2013.

Taxes on Income – Non-GAAP

In 2014 taxes on income (non-GAAP) amounted to NIS 174 million, reflecting an effective tax rate of 26.2%, whereas last year taxes on income amounted to NIS 190 million and the effective tax rate was 29.8%.

In the fourth quarter taxes on income (non-GAAP) amounted to NIS 20 million, reflecting an effective tax rate of 15.1%, whereas in the corresponding period last year taxes on income amounted to NIS 26 million and the effective tax rate was 20.6%.

The decrease in the effective tax rate in 2014 and in the fourth quarter of the year compared to corresponding periods is the result of the profit mix for tax purposes between the companies in the different countries, and of income from deferred taxes in subsidiaries recorded for the first time.

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

	Year			Fourth Quarter		
	2014	2013	% Chg	2014	2013	% Chg
Income attributable to the Company's shareholders	371	329	12.6	84	70	18.4
% of sales	4.6%	4.0%		4.0%	3.4%	

Non-GAAP income attributable to the Company's shareholders in 2014 increased by approximately NIS 42 million compared to last year. In the fourth quarter of the year the income attributable to the shareholders of the Company increased by approximately NIS 14 million compared to the corresponding quarter in 2013. The increase in non-GAAP income attributable to the Company's shareholders was mainly due to a decrease in the Company's non-GAAP net financing expenses, which primarily reflected income from Ruble-Dollar hedges, thus offsetting the impact of the devaluation of the Ruble versus the Dollar on the cost of sales. Additionally, the growth in income reflects the decrease in tax expenses, as described above.

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

In 2014 the GAAP comprehensive income amounted to approximately NIS 85 million, compared to comprehensive income of NIS 73 million 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 233 million compared to losses of NIS 270 million arising from translation differences in the corresponding period last year. The translation differences are the result of the weakening of part of the Group's functional currencies abroad in relation to the Shekel, which was expressed in the movement in the foreign currency translation reserve.

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

Cash flows from operating activities in 2014 amounted to a positive cash flow of approximately NIS 374 million, compared to NIS 480 million last year. The decrease in cash flows from operating activities is due to the drop in operating profit before our share and to an increase in the profits of equity-accounted investees (which do not involve cash flows).

Cash flows used in investing activities in 2014 amounted to a negative cash flow of approximately NIS 210 million compared to a negative cash flow of NIS 315 million last year. Most of the change is due to the sale of securities and deposits in the period, compared to the purchase of securities and deposits in the corresponding period. By contrast, investment in intangibles increased in the current period compared to the corresponding period.

Cash flows used in financing activities in 2014 amounted to a negative cash flow of approximately NIS 164 million compared to a negative cash flow of NIS 120 million last year. The change is due to the receipt of long-term loans on a larger scale in the corresponding period, increased repayment of loans in the current period and conversely, to the distribution of a dividend last year.

The Company's cash and cash equivalents as at December 31, 2014 totaled approximately NIS 767 million compared to NIS 772 million on December 31, 2013. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Shekels and Dollars). Additionally, the Company has short-term investments in securities (financial funds, government bonds and highly rated corporate debentures).

The Company's liquidity ratio as at December 31, 2014 is 1.55, compared to 1.63 on December 31, 2013. On December 31, 2014 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,394 million compared to NIS 2,382 million on December 31, 2013. On December 31, 2014 short-term credit (excluding current maturities) totaled NIS 3 million; on December 31, 2013 the Company had no short-term credit (excluding current maturities). On December 31, 2014 supplier credit totaled NIS 846 million, compared to NIS 769 million on December 31, 2013.

Total assets in the Company's Consolidated Statement of Financial Position on December 31, 2014 amounted to NIS 6,742 million, compared to NIS 6,634 million on December 31, 2013.

On December 31, 2014 the balance of equity attributable to the shareholders of the Company in the Company's Consolidated Statement of Financial Position totaled approximately NIS 1,823 million, compared to NIS 1,745 million on December 31, 2014.

Sources of finance – the Group finances its operations through its own sources of funding, bank credit granted by financial institutions and non-bank financial credit.

Reportable credit – further to Note 22.3 to the Periodic Report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at December 31, 2014 is 27.0%, compared to 26.3% on December 31, 2013. The net financial debt-to-EBITDA ratio as at December 31, 2014 is 1.8, compared to 1.5 on December 31, 2013 (according to the GAAP report as mentioned above). The Company is in compliance with the required financial criteria.

On June 11, 2014 the Company expanded its Series D Debentures and listed them for trading on the Tel Aviv Stock Exchange. For further information, see Note 20.2.2 to the consolidated financial statements as at December 31, 2014.

Following IFRS 11 taking 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	
	2014	2013	2014	2013
Cash flow from operating activities (proportionate consolidation method)	561	716	287	266
Acquisition of fixed assets and investment in intangibles and deferred expenses (proportionate consolidation method) ⁽¹⁾	564	482	109	153
Net debt balance (proportionate consolidation method) as at the report date	1,688	1,475	1,688	1,475
Depreciation and amortization (excluding impairment):	218	223	56	56
Strauss Israel:				
Health & Wellness	49	50	12	13
Fun & Indulgence	27	28	7	7
Strauss Coffee:				
Israel Coffee	11	14	4	5
International Coffee	58	59	14	12
International Dips and Spreads	16	19	4	4
Other	57	53	15	15

(1) In 2014 a total amount of NIS 69 million was reclassified from the acquisition of an intangible asset to the acquisition of an operation (which is not included in this item).

The Group's EBITDA (non-GAAP) totaled approximately NIS 964 million in 2014 compared to NIS 993 million in the corresponding period last year, a decrease of 2.9%. EBITDA (non-GAAP) in the fourth quarter totaled approximately NIS 199 million compared to NIS 215 last year, a decrease of 7.3%.

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

Strauss Coffee

The Group and TPG Capital, the shareholders in Strauss Coffee, are examining an IPO and listing of Strauss Coffee shares on a US stock exchange, 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 at the IPO and the rights of the shareholders post IPO.

The Company notes that there is no certainty that the IPO will indeed be finalized, and if it is, on which date. It should also be noted that completion of the IPO is dependent on numerous factors which the Company and Strauss Coffee have no control over, including, among other things, receipt of regulatory approvals from the SEC and the stock exchange in the US in which the Strauss Coffee shares may be listed.

Following are the condensed results of business operations based on non-GAAP management reports of the Coffee Company by reported segments for the years and quarters ended December 31, 2014 and 2013 (in NIS millions):

	Year			Fourth Quarter		
	2014	2013*	% Chg	2014	2013*	% Chg
Israel Coffee						
Net sales	689	715	(3.6)	168	185	(8.7)
Operating profit	101	88	14.8	20	12	65.1
% operating profit	14.7%	12.3%		11.9%	6.6%	
International Coffee						
Net sales	3,136	3,229	(2.9)	864	824	4.8
Organic growth excluding exchange rate impact	7.5%	3.2%		13.8%	(1.3)%	
Operating profit	247	315	(21.8)	36	73	(51.3)
% operating profit	7.9%	9.8%		4.2%	8.9%	
Total Strauss Coffee						
Net sales	3,825	3,944	(3.0)	1,032	1,009	2.4
Organic growth excluding exchange rate impact	5.3%	2.7%		9.4%	0.3%	
Gross profit	1,302	1,341	(2.9)	308	345	(10.6)
% gross profit	34.0%	34.0%		29.9%	34.2%	
Operating profit	348	403	(13.8)	56	85	(34.9)
% operating profit	9.1%	10.2%		5.4%	8.5%	

* Reclassified to match presentation in current period

Sales

In 2014 and in the fourth quarter Strauss Coffee's sales in local currency grew by 5.7% and 10.7%, respectively, compared to the corresponding periods last year.

In 2014 Strauss Coffee's Shekel sales decreased by approximately NIS 119 million. Differences arising from translation into Shekels amounted to NIS 327 million in the period, of which approximately NIS 154 million were the result of the erosion of the average exchange rate of the Brazilian Real versus the Shekel, and NIS 156 million of the erosion of exchange rates in Russia and Ukraine versus the Shekel.

In the fourth quarter of 2014 Strauss Coffee's sales grew by approximately NIS 23 million. Differences arising from translation into Shekels in the reporting period amounted to NIS 76 million, of which NIS 61 million were due to the erosion of exchange rates in Russia and Ukraine.

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

Gross profit

In 2014 the gross profit of the coffee business decreased by NIS 39 million compared to last year. The gross profit margin remained unchanged and amounted to 34.0% in the period. The decrease in gross profit is mainly the result of translation differentials into Shekels due to the weakening of the Real, Ruble and Hryvnia against the Shekel, as described above.

In the fourth quarter of 2014 the gross profit decreased by approximately NIS 37 million compared to the corresponding quarter last year. The gross profit margin dropped by 4.3% and amounted to 29.9% in the quarter. The drop in the gross profit margin is mainly explained by the sharp devaluation in the local currencies in Russia and Ukraine versus the Dollar (the currency in which green coffee is purchased in all countries where the Company is active except for Brazil), which led to an effective rise in the cost of sales in the former-USSR countries. The decrease is also explained by translation differentials into Shekels mainly following the weakening of the Real, Ruble and Hryvnia against the Shekel, as well as the rise in green coffee prices.

Operating profit

In 2014 the operating profit of the coffee business decreased by NIS 55 million. The operating profit margin amounted to 9.1% (a decrease of 1.1%). The decrease in the Shekel operating profit is the result of translation differences as described above, of the impact of the devaluation of the Russian Ruble and the Ukrainian Hryvnia against the Dollar, and also of an overall impact of NIS 51 million on the operating profit of Três Corações Joint Venture in respect of the activity of the TRES solution, which is currently in the initial phases of penetrating the premium segment of the single portion multi-beverage solution (machines and capsules) in Brazil. The TRES business had a marginal impact in the corresponding period last year. In local currency, despite the investment in the TRES solution, Três Corações Joint Venture's operating profit grew from BRL 103 million to BRL 108 million, reflecting growth in sales volumes coupled with price increases (data reflect Strauss Coffee's share (50%)).

In the fourth quarter of 2014 the operating profit of the coffee operation decreased by approximately NIS 29 million. The operating profit margin amounted to 5.4% (a decrease of 3.1%) in the quarter. The drop in the gross profit margin is mainly explained by the sharp devaluation in the local currencies in Russia and Ukraine against the Dollar, as well as by the increase in green coffee prices as mentioned above. In addition, the overall impact of the TRES operation as described above on the operating profit in the quarter amounted to NIS 16 million, compared to a negligible impact in the corresponding period last year (data reflect Strauss Coffee's share (50%)). These factors were partly offset, mainly by an increase in Três Corações Joint Venture's EBIT excluding the TRES solution, as well as an increase of approximately NIS 8 million in the EBIT of the Israel Coffee segment (see further explanations on the Israel segment below).

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, 2014 and 2013 (in NIS millions):

Geographical region	Year				Fourth Quarter			
	2014	2013	% chg	% change in local currency*	2014	2013	% chg	% change in local currency*
Israel Coffee	689	715	(3.6)	(3.6)	168	185	(8.7)	(8.7)
International Coffee								
Três Corações Joint Venture (Brazil) ^{(1) (2) (3)} - 50%	1,781	1,697	4.9	15.4	464	407	14.0	17.4
Former USSR countries	635	733	(12.8)	11.0	188	221	(14.0)	19.1
Poland	297	368	(19.3)	(18.7)	84	88	(4.5)	(3.5)
Romania	244	226	8.1	9.8	76	56	35.9	36.0
Serbia	179	205	(12.5)	(8.0)	52	52	(0.6)	4.9
Total International Coffee	3,136	3,229	(2.9)	8.1	864	824	4.8	15.5
Total Coffee	3,825	3,944	(3.0)	5.7	1,032	1,009	2.4	10.7

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

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

(2) Sales by Três Corações Joint Venture (Brazil) include:

	Year		Fourth Quarter	
	2014	2013	2014	2013
Green coffee sales	244	249	66	58
Corn sales	64	68	16	15

(3) Três Corações Joint Venture (Brazil) – Excluding intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee.

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

Três Corações Joint Venture's average market share in roast and ground (R&G) coffee in 2014 reached 22.6% (value market share according to A.C. Nielsen), compared to 21.5% in 2013 (market share reflects 100% of Três Corações Joint Venture's sales).

In February 2013 Três Corações Joint Venture signed agreements with Caffitaly S.p.A, following which Três Corações Joint Venture became active in the single portion multi-beverage machines and capsules segment in Brazil. Sales of the machines and capsules began in November 2013 under the TRES solution.

In 2014 and in the fourth quarter Três Corações Joint Venture's sales in local currency grew by 15.4% and 17.4%, respectively. Most of the growth originates in R&G sales. The growth in Três Corações Joint Venture's local currency sales reflects volume growth as well as price increases introduced during the year in light of the increase in green coffee prices in Brazil, and also in July and October last year. The sales growth also reflects sales of machines and capsules under the TRES solution, which was launched in November 2013 as mentioned above.

Growth in Três Corações Joint Venture's Shekel sales in 2014 compared to the corresponding period last year was adversely affected by the erosion of the average exchange rate of the Brazilian Real against the Shekel, which amounted to NIS 154 million. The impact of the erosion of the Real versus the Shekel in the fourth quarter was far more moderate and amounted to NIS 12 million.

As a result of the sales growth, the gross profit in the company's domestic currency continued to improve in 2014 and in the fourth quarter compared to the corresponding periods last year, but in the fourth quarter of the year the gross profit margin was eroded as a result of the increase in green coffee prices in Brazil. The operating profit in domestic currency in the year grew compared with the same period last year by 5.1%,

whereas in the fourth quarter the operating profit dropped by 15% (see Três Corações Joint Venture's financial statements, which are attached to the financial statements of the Group). The drop in the operating profit in the fourth quarter was the result of the overall impact of the TRES solution on Três Corações Joint Venture's EBIT. In 2014 and in the fourth quarter, the investment in the TRES solution amounted to approximately NIS 51 million (BRL 33 million) and NIS 16 million (BRL 11 million), respectively, compared to a negligible influence in the corresponding periods last year. Despite the investment in the TRES solution, Três Corações Joint Venture's EBIT in 2014 was up from BRL 103 million to BRL 108 million (data reflect Strauss Coffee's share (50%)).

The former USSR countries

Following the political crisis in Russia and Ukraine and the complexity of Russia's relations with the West, the Ukrainian and Russian currencies devalued significantly against the major currencies, including the US Dollar (which adversely impacted the cost of sales in the region) and the Shekel (causing negative translation differences). These devaluations were particularly sharp in the fourth quarter of the year. Additionally, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew by approximately NIS 63 million (11.0%) and NIS 30 million (19.1%) in the year and in the fourth quarter of 2014, respectively, compared to the corresponding periods last year. Sales growth in local currency was mainly due to volume growth.

The Company's Shekel sales in the region decreased by approximately NIS 98 million in 2014 and by NIS 33 million in the fourth quarter, compared to the corresponding periods last year.

Poland

The Company's sales in Poland in local currency decreased by approximately NIS 18.7% and 3.5% in 2014 and in the fourth quarter, respectively, compared to the corresponding periods last year. Sales were mainly influenced by a drop in volumes in certain brands, which was partly offset by growth in volumes of the MK Café brand, by price erosion (as a result of the increased challenging dynamics of the competitive environment) and by an increase in parallel imports of a rival brand.

The Company's Shekel sales in Poland decreased by approximately NIS 71 million and NIS 4 million in 2014 and in the fourth quarter, respectively, compared to the corresponding periods in 2013.

Romania

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

The Company's sales in Romania in local currency increased by approximately 9.8% and 30.6% in 2014 and in the fourth quarter of the year, respectively, compared to the corresponding periods last year. The sales growth in the fourth quarter was the result of volume growth and price increases, and also partly reflected growth in respect of sales of the new brand, Amigo.

Shekel sales in Romania increased by approximately NIS 18 million in 2014 compared to last year, and in the fourth quarter sales grew by NIS 20 million compared to the corresponding quarter in 2013.

Serbia

The Company's sales in Serbia in local currency decreased by 8.0% in 2014 and grew by 4.9% in the fourth quarter compared to the corresponding periods last year. Annual sales were influenced by a drop in volumes, by a consumer trend of preferring cheaper coffee brands and by price erosion due to the harshening competitive environment. In the fourth quarter sales volumes increased following sales promotion and special editions launched for the holidays.

Shekel sales in Serbia decreased by approximately NIS 26 million in 2014 and remained unchanged in the fourth quarter compared to the corresponding periods last year. Sales were adversely affected by the erosion of the Serbian Dinar versus the Shekel.

Israel

The Company's sales in Israel decreased by approximately NIS 26 million and NIS 17 million in the year and in the fourth quarter, respectively, compared to the corresponding periods last year. The decrease is due to a drop in the coffee and cocoa market in Israel (approximately 5.5% in 2014 according to StoreNext). The decrease is also explained by the sales mix, a certain drop in sales volumes, primarily as a result of the discontinuation of instant coffee exports following the change in the instant coffee supply chain in Israel, and effective price decreases.

The operating profit of Israel Coffee increased by approximately NIS 13 million and NIS 8 million in 2014 and in the fourth quarter, respectively, compared to the corresponding periods last year. Growth was the result of an improvement in the supply chain, a drop in green coffee prices compared to last year, timing differences in marketing effort and a beneficial effect of the sales mix. In addition, the operating profit in the fourth quarter of 2013 reflected a loss in respect of the closing of futures transactions on green coffee in Israel Coffee.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in 2014 according to StoreNext figures held an 11.6% share of the total retail domestic food and beverage market in value terms (compared to 11.8% in 2013). The Israeli market is the Group's home market, where it is active in various categories. According to StoreNext, in 2014 the Israeli food and beverage market dropped by 1.6% in financial value. The decrease reflects consumer trends which led to a certain decrease in volumes, coupled with price decreases as a result of white cheese and sweet cream being subjected to price control, as well as stronger competitive dynamics between retailers and vendors.

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 2014 sales by Strauss Group's entire operation in Israel totaled approximately NIS 4,128 million compared to NIS 4,144 million last year, a decrease of 0.4%. In the fourth quarter of the year Israel sales totaled NIS 971 million versus NIS 1,042 million last year, a decrease of 6.8%.

As at the reporting date the new logistics center in Shoham is in the final stages of construction. The new center will serve all of the Group's business categories in Israel and includes warehouses for refrigerated products, warehouses for dry products and an office building. The estimated total cost of the center is approximately NIS 440 million, including the cost of purchasing the land; approximately NIS 400 million were spent on the project until the end of 2014. Construction is planned to be completed and operation of the center initiated in the second quarter of 2015, with relocation being executed in stages and expected to be completed by the end of 2015. The existing sites, including the logistics centers in Petach Tikva, Tzrifin and Bet Shemesh, are expected to be shut down by the end of 2015.

Strauss Israel

Following are the condensed results of business operations based on non-GAAP management reports of Strauss Israel by activity segments, for the years and quarters ended December 31, 2014 and 2013 (in NIS millions):

	Year			Fourth Quarter		
	2014	2013	% Chg	2014	2013	% Chg
Health & Wellness segment						
Net sales	1,974	1,987	(0.7)	465	499	(6.8)
Operating profit	203	200	1.6	44	51	(13.1)
% operating profit	10.3%	10.1%		9.5%	10.2%	
Fun & Indulgence segment						
Net sales	998	1,013	(1.5)	218	247	(11.7)
Operating profit	112	115	(2.8)	20	16	23.9
% operating profit	11.2%	11.4%		9.2%	6.6%	
Total Strauss Israel						
Net sales	2,972	3,000	(0.9)	683	746	(8.4)
Gross profit	1,196	1,211	(1.3)	274	307	(10.8)
% gross profit	40.2%	40.4%		40.1%	41.2%	
Operating profit	315	315	0.0	64	67	(4.1)
% operating profit	10.6%	10.5%		9.4%	9.0%	

Sales

In 2014 Strauss Israel's sales decreased by approximately 0.9% (NIS 28 million). The drop in sales was recorded in light of weakness in the Israeli food and beverage market, which, according to StoreNext, dropped by 1.6% in the period. Sales by the Fun & Indulgence segment decreased by approximately 1.5% (NIS 15 million) and in Health & Wellness the decrease amounted to 0.7% (NIS 13 million). Among other things, the drop occurred against the background of white cheese (5% fat, 250 g) and sweet cream (38% fat, 250 ml) being subjected to control commencing in January 2014, following which the Company lowered the retail price of these products by over 20%. The impact of subjecting these products to control on sales by the Health & Wellness division amounted to an annual drop of 1.5%.

In the fourth quarter of 2014 Strauss Israel's sales decreased by NIS 63 million. In the Health & Wellness segment the decrease amounted to approximately 6.8% (NIS 34 million), and in Fun & Indulgence, 11.7% (NIS 29 million). The decrease in Strauss Israel's sales in the quarter reflected a significant weakness of the entire food and beverage market in the period, in which an average decrease of 5.7% was recorded in the food categories in which the Company is active, as well as stronger competitive dynamics. The decrease was further adversely impacted by the timing of Rosh Hashanah and the High Holidays compared to the corresponding quarter last year (loss of 4 selling days in dry products (especially Fun & Indulgence) or 6% of the total selling days in the quarter; and of 2 selling days in refrigerated products or 2.5% of total selling days).

Gross profit

In 2014 Strauss Israel's gross profit decreased by approximately NIS 15 million, with a 0.2% erosion of the gross profit margin, compared to last year.

In the fourth quarter, Strauss Israel's gross profit decreased by approximately NIS 33 million, with a 1.1% erosion of the gross profit margin, compared to the corresponding quarter last year.

The decrease in the gross profit in the year and in the fourth quarter is mainly the result of the drop in sales as described above, as well as of the increase in the prices of some raw materials (notably cocoa and tahini).

Operating profit

In 2014 Strauss Israel's operating profit amounted to approximately NIS 315 million, similar to last year, a change of approximately 0.1% in the operating profit margin compared to the corresponding period. The decrease in the gross profit was fully offset by the streamlining of operating expenses.

In the fourth quarter Strauss Israel's operating profit decreased by approximately NIS 3 million compared to last year. The operating profit margin improved by 0.4% and amounted to 9.4% of sales. Most of the decrease in the gross profit was offset by the streamlining of operating expenses.

The International Dips and Spreads Activity

The Group develops, manufactures, sells, markets and distributes dips and spreads through Sabra in the US and Canada, and through Obela in Mexico and Australia. The activities of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). The Group's holdings in Sabra and Obela are treated in the equity method.

In 2014, the Group continued to lead the market in the hummus category and continues the transition from a hummus company to a company that specializes in dips. The launch of the Sabra Greek yogurt brand led to an increase in distribution and sales to key retailers. In 2014, the Group developed new products and expanded the refrigerated dips and spreads category, improved product packaging, including on-the-go packs, continued to expand geographically throughout the US and improved distribution to large marketing chains. Obela continued to invest in advertising, marketing and sales in order to reach as many consumers as possible and to raise consumer awareness of the company's products. Following the expansion of the Virginia plant as described below, Sabra continued to invest in building the brand in order to attract new consumers and increase purchases by existing consumers.

In October 2014 expansion of the Virginia plant, in which Sabra invested US\$68 million (for 100%) following the steady increase in demand, was completed. The expansion included, among other things, a transition to automatic production lines, and increased the company's production capacity and warehouse capacity in 2015 in order to meet future demand, if any. In addition, the expansion allows for the improvement of packaging lines and supports product innovation.

Sale volumes in Australia and Mexico are insignificant. Nevertheless, it is noted that the Company leads the hummus market in Australia (with a market share of 27.1% under the "Obela Hummus" brand) and in Mexico. In 2014, in both countries growth in the company's sales volumes was posted.

Sabra

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

	Year		Fourth Quarter	
	2014	2013	2014	2013
Sales	1,288	1,131	357	274
Growth	13.9%	12.3%	30.1%	7.2%
Organic growth excluding currency impact	14.6%	20.3%	19.5%	16.9%
Operating profit	181	147	36	28
% operating profit	14.0%	13.0%	10.1%	10.4%

According to IRI², Sabra's market share in the 52 weeks ended on December 29, 2014 was approximately 28.3% of the total refrigerated flavored spreads category (Number 1 in the market), compared to 27.5% in the corresponding period last year. Sabra's value market share of the hummus category in the same period was 63.6%, compared to 63.7% last year.

Sales

Sabra's sales grew by approximately NIS 157 million in 2014 compared to last year. Sales in Shekels were adversely impacted by the erosion of the average exchange rate of the US Dollar in 2014 versus the Shekel (1.0%). Excluding the exchange rate impact sales growth in 2014 amounted to 14.6% compared to 2013. In the fourth quarter sales grew by NIS 83 million compared to the corresponding quarter in 2013. Shekel sales were influenced by the strengthening of the average exchange rate of the Dollar versus the Shekel in the quarter (8.6%). Excluding the exchange rate impact sales growth in the fourth quarter of 2014 amounted to 19.5% compared to the corresponding quarter last year.

Operating profit

In 2014 EBIT increased by NIS 34 million, with a 1.0% improvement in the operating profit margin compared to last year.

In the fourth quarter the operating profit grew by NIS 8 million, reflecting a drop of 0.3% in the operating profit margin compared to the corresponding period last year. The increase in the operating profit is mainly the result of significant growth in sales volumes, with the offset of an increase in marketing expenses.

Obela

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

Sales

Obela's sales in 2014 amounted to approximately NIS 79 million compared to NIS 69 million last year. Excluding the exchange rate impact sales growth in the year amounted to 22.6% compared to last year.

In the fourth quarter of 2014 Obela's sales totaled approximately NIS 28 million, compared to NIS 22 million in the corresponding quarter last year. Excluding the exchange rate impact growth in the quarter amounted to 28.9% compared to the corresponding period in 2013.

The non-GAAP operating loss in 2014 totaled NIS 31 million, compared to NIS 33 million in 2013.

The non-GAAP operating loss in the fourth quarter totaled less than NIS 1 million compared to a loss of approximately NIS 7 million in the corresponding quarter last year.

Other Operations

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

² According to Symphony IRI Group data; IRI engages in the measurement of retail market for consumer packaged goods worldwide.

Strauss Water

Strauss Water China continues to implement its expansion strategy in the Chinese market. As at the date of publication of this report, the company sells a variety of Strauss Water products in over fifty cities in China. In addition, after the Statement of Financial Position date Strauss Water signed a non-binding memorandum of understanding with Haier Group ("Haier") for the restructuring and expansion of the joint venture's business in China (Haier Strauss Water), such that it will also include products based on reverse osmosis (RO) water purification technology.

In November 2013 Strauss Water launched another innovative appliance in the Israeli market, the Tami 4 Bubble Bar, which, besides hot and cold water, also dispenses carbonated water. The device is a technological breakthrough in the water bar category and is the only one of its kind which dispenses a single-press serving of carbonated water. In January 2014 the full launch of the appliance in the domestic market was initiated, in addition to the Tami 4 Primo and Tami 4 Family models, which complement the product line for the Israeli market.

In the second half of 2014 Strauss Water launched two new products in China, based on the Maze technology which is used to filter and purify water in appliances sold in the Chinese market. The products expand the existing product line and offer a solution in the category of under-sink water filtration systems and floor standing systems, as distinct from countertop appliances.

In 2014 Strauss Water's sales amounted to approximately NIS 548 million compared to NIS 483 million last year, an increase of 13.3%. Growth in 2014 originated in the domestic market and the international operation while expanding the customer base, particularly in the private sector.

In the fourth quarter Strauss Water's sales amounted to approximately NIS 140 million compared to NIS 139 million in the corresponding quarter in 2013, an increase of 0.1%. Strauss Water's sales in the quarter remained virtually unchanged compared to the corresponding quarter last year.

Further to the contents of the financial statements for the third quarter of 2014, in the fourth quarter the company changed its operating model in some of its product lines, leading to a reduction in reported sales turnovers compared to the corresponding quarter last year.

In January 2015 Strauss Water signed a non-binding memorandum of understanding with Haier Group for the restructuring and expansion of the joint venture's business in China (Haier Strauss Water), such that it will also include products based on reverse osmosis (RO) water purification technology, which until now were owned by Haier.

The joint venture, which is 50% owned by Strauss Water (through Strauss Water Hong Kong) and 50% by Haier, currently markets and sells Strauss Water purification devices based on the Maze technology developed by Strauss Water. The parties intend to merge and expand the joint venture's operations with those of Haier that deal in water purification devices based on the RO purification technology, as well as other products in the water industry.

The merged company's sales turnover (pro forma, 100%) in 2014 was approximately NIS 215 million, with an annual growth rate of approximately 67% compared to 2013.

According to the MOU, the merged company will be owned by companies controlled by Haier (66%), and by Strauss Water (34%). To complete Strauss Water's holding in the merged company to 34%, Strauss Water will pay Haier approximately NIS 32 million and will grant the merged company a license to use the Maze technology. The MOU grants Strauss Water an option to acquire an additional 15% of the merged company. The merged company will buy the Maze technology products from Strauss Water and will receive distribution and sales services, as well as servicing, from companies in the Haier Group.

The transaction is conditional on a due diligence process, receipt of approvals from the authorities in China, and the signing of a series of binding agreements between the parties; the foregoing is scheduled to take place within 3 months from the signing date, during which the parties have undertaken not to execute other transactions in the field of water purification in China. It is understood that the transaction has not yet been finally formulated and is subject to continued negotiation between the parties. As at the date of this report, the closing of the transaction, as described above, including the final structure of the deal, is forward-looking information as defined in the Securities Law, and as such may not materialize, in whole or in part, *inter alia* due to factors that are beyond the Company's control, such as market factors, findings of the due diligence process, receipt of all approvals required, etc.

Max Brenner

On the date of publication of the report, the Max Brenner chain comprises fifty-eight "Chocolate Bars" in Israel and around the world (fifty-three under franchise and five owned by the Company (in the US: New York, Philadelphia, New Jersey, Boston and Maryland). The Max Brenner branches are spread throughout Australia (40), Israel (6), the US (5), Japan (3), Singapore (2) and Russia (2).

In 2014 Max Brenner's sales totaled approximately NIS 111 million compared to NIS 116 million last year, a decrease of 3.7%. Shekel sales were adversely impacted by the erosion of the average exchange rate of the US Dollar against the Shekel in 2014 (1.0%). Excluding the exchange rate impact and the closing of the Las Vegas store in the reporting period, Max Brenner sales increased by approximately 7.6% compared to last year.

In the fourth quarter Max Brenner's sales totaled approximately NIS 32 million compared to NIS 30 million last year, an increase of 5.8%. Shekel sales were influenced by the strengthening of the average exchange rate of the US Dollar against the Shekel in the fourth quarter of 2014 compared to the corresponding period last year (8.6%). Excluding the exchange rate impact and the closing of the Las Vegas store, Max Brenner sales increased by approximately 11.8% compared to the corresponding quarter last year.

Reporting according to linkage bases

For information on reporting according to linkage bases, see Note 30 to the financial statements.

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Description of the market risks to which the Company is exposed

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

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

Commodities procurement

The Company's green coffee procurement center in Switzerland provides for all companies in the Group except for the 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 CFO of Strauss Coffee and convenes from time to time according to established procedures.

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

Identity of valuation subject	Timing of valuation	Value of valuation subject immediately preceding valuation	Value of valuation subject according to valuation	Identity of appraiser	Valuation model used by appraiser	Assumptions applied in performing the valuation				
						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 2014	373	344	External (1) (2)	DCF	18.4% - 27.6%	4.0%	76%	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, 13 years' experience in valuations. The Company undertook to indemnify the appraiser with respect to 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 the amount of the fees 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

On September 9, 2013 the Company adopted a remuneration policy for officers of the Company in accordance with Amendment 20 to the Companies Law (see the Company's Immediate Report of September 9, 2013 (reference no. 2013-01-140616)).

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, and the remuneration of Giora Bar Dea in his position as Deputy CEO of the Company commencing in August 2014), and found that the remuneration of the senior officers is compatible with the Company's remuneration policy.

The Board of Directors also reviewed the remuneration of Mr. Giora Bar Dea in his office as CEO of Obela (he did not serve in this position 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. Bar Dea's employment conditions as CEO of Obela, in good time. Discussions emphasized that the remuneration was derived from the position and from Mr. Bar Dea's personal contribution to the management of Obela, to its operations and its advancement. The yearly bonus was determined on the basis of a mechanism that ties the bonus to Obela's financial performance and its strategic objectives, as well as to functional objectives set for the manager in his specific area of occupation and in line with his responsibilities, all of which are based on Obela's work plans and strategic objectives. The long-term bonus was determined in accordance with Obela's long-term strategic objectives. The Board of Directors determined that considering the customary remuneration for executives in North America, the fact that the terms and conditions of the remuneration were determined in conjunction with PepsiCo and with its approval (PepsiCo holds half of the rights in Obela), and considering Mr. Bar Dea's contribution, the conditions of his remuneration are fair and reasonable and reflect his contribution.

Additionally, the Board of Directors reviewed the remuneration of Mr. Ronen Zohar as CEO of USA Dips and Spreads ("Sabra"), 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. Zohar's employment conditions as CEO of Sabra, in good time. Discussions emphasized that the remuneration was derived from the position and from Mr. Zohar's personal contribution to the management of Sabra, to its operations and its advancement. The yearly bonus was determined on the basis of a mechanism that ties the bonus to Sabra's financial performance and its strategic objectives, as well as to functional objectives set for the manager in his specific area of occupation and in line with his responsibilities, all of which are based on Sabra's work plans and strategic objectives. The long-term bonus was determined in accordance with Sabra's long-term strategic objectives. The Board of Directors determined that considering the customary remuneration for executives in North America, the fact that the terms and conditions of the remuneration were determined in conjunction with PepsiCo and with its approval (PepsiCo holds half of the rights in Sabra), and considering Mr. Zohar's contribution, the conditions of his remuneration are fair and reasonable and reflect his 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 Regulation 26A in this report. The Internal Auditor performs risk surveys relating to activities in the Group from time to time. Additionally, teams are in place in all relevant business units, which analyze and assess the risks and propose appropriate cautionary measures. These issues are handled by the

managements of the business units and controlled by Group Corporate Center, which also manages master risks on the Group level. Every three years the Company performs an internal risk survey and revises the risk maps of the Group's areas of activity. In 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 Corporation's Business" in this report.

Sustainability, Corporate Responsibility, Social Investment and Donations

In 2014 the Group's sustainability and corporate social responsibility (CSR) activities focused on the following spheres:

- A. **Strauss Group's sustainability strategy for 2020 – Improve people's lives by adopting sustainable business practices:** Assimilation of a group-wide sustainability strategy for 2020, including measurable targets while focusing on Strauss Group's substantive impacts in its business operations.
- B. **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.
- C. **Work environment and investment in employees:** Continued assimilation of a supportive organizational work environment that advances employees coupled with implementation of an extended supportive welfare policy, placing emphasis on partnerships with social organizations for the benefit of our employees.
- D. **Social investment and community relations:** Deepen Strauss's social investment, redefining the flagship issue – promotion of a healthy lifestyle, and continued activity focusing on the employment of diverse populations and women's empowerment in particular.
- E. **Stakeholder dialogue:** Expand and deepen the dialogue with Strauss Group's various stakeholders in the different markets where we operate.

Description

- A. Strauss Group's sustainability strategy for 2020 – Improve people's lives by adopting sustainable business practices

In 2014 we worked on assimilating 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. In practical terms, time and resources were invested in building detailed work plans vis-à-vis all companies in the Group, aligning the various goals with the business activity of each company, engaging the relevant responsible teams, and ensuring that work processes are budgeted and reported on the level of the boards of directors of the companies. We recall that the goal of formulating a global sustainability strategy was, among other things, to place ourselves on a par with the world's leading food and beverage companies, which address the subject of sustainability guided by an orderly and measurable vision and goals, as well as to bring about a significant improvement in Strauss Group's sustainability performance. 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. In total, 15 targets have been defined for realization by 2020, by all companies in the Group. These targets have been 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. The sustainability strategy objectives are divided among three performance levels: Meet, Exceed and Lead. "Meet" represents the basic performance level, which ensures that the Group complies with all standards and the regulation in the countries in which it operates. "Exceed" represents a level where we aspire to display CSR performance on a par with leading global practices in a number of substantive spheres in which Strauss is already active on a significant scale. "Lead" represents a level where Strauss aspires to assimilate leading corporate responsibility practices, above and beyond those which are currently in place in the industry, in new spheres in which Strauss has not been active to date.

B. Implementation of sustainability principles in various core areas in Strauss's value chain

In 2014 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 2015.

Additionally, a comprehensive process was executed in the supply chain 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 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.

C. Work environment and investment in employees

In 2014 assimilation of a supportive organizational work environment that advances employees continued, focusing on the employees of Strauss Israel and including continuous improvement of the work environment, introduction of mechanization processes, expansion of employee training options, an enlarged welfare basket adapted to the needs of our employees, award of academic scholarships to children of employees and the continued induction of employees of employment agencies. In addition, processes designed to identify and map needs among employees in need of greater assistance in realizing their rights were executed, and a response provided by linking up with social organizations that provide a dedicated response for Strauss employees.

D. Social investment and community relations

In 2014 Strauss Group focused on deepening its social investment, redefining the flagship issue – promotion of a healthy lifestyle, and continued to work on promoting the employment of diverse populations, particularly women's empowerment. 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.

As mentioned, throughout the year Strauss continued to deepen its investment in the flagship social issue on which we chose to focus: the promotion of a healthy lifestyle. This was accomplished by mapping and creating collaborations with third-sector organizations that specialize and engage in promoting this social cause as their core activity. Our diverse activities in this sphere included donations in cash and in kind (food products) and employee volunteering. In addition to the Company's community relations and volunteering activities, which are led by social leaders in all units in Israel and globally, we continued to deepen our activities that focus on the promotion of employment among diverse populations, especially women. This was done by deepening social partnerships with organizations and replicating successful social models between production sites. The Group continued to further the "Window to the Future" social investment model, in which at-risk youth are employed in Strauss's various production sites as regular employees, while completing their studies in dedicated educational frameworks and receiving professional training at Strauss, thus providing them with tools for their adult lives.

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 2014 Strauss Group invested approximately NIS 12.2 million in community investment, donations in cash and in kind and volunteer hours, of which approximately NIS 3.1 million were in the form of financial support, NIS 6.5 million were donated in the form of food products (at cost prices to the Group), NIS 0.4 million were spent on the development of CSR, NIS 0.8 million on community activities and NIS 1.3 million on employees' volunteer hours.

E. Stakeholder dialogue

In 2014 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 - 4,391 hours.
- In investee companies abroad - 2,521 hours.

Total: 6,912 hours (compared to 7,239 hours in 2013).

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 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 2014 thirty 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 2014 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 2014 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 the section pursuant to Regulation 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 outside 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 Regulation 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 eight business days before the date of approval of the financial statements, and the recommendations of the Financial Statements Review Committee were forwarded to the members of the Board some three business days before the date of approval of the Annual Financial Statements of the Company. The Periodic Report and the financial statements were revised, to the extent necessary, in accordance with the remarks of the members of the Committee and the Board of Directors.
- 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, 2014 were approved, a meeting was held with the Chairperson to discuss material issues that arose during the preparation of the Annual Financial Statements.
- On March 16, 2015 the Financial Statements Review Committee held a discussion on the financial statements of the Group, making reference to accounting issues that arose incidentally to the financial statements of the Company, and discussed the following matters: (a) the estimates and evaluations made in connection with the financial statements; (b) the internal controls relating to financial reporting; (c) the completeness and fairness of the disclosure in the financial statements; (d) the accounting policy adopted and accounting treatment applied in the Company's material affairs; (e) valuations, including their underlying assumptions and estimates, which support data in the financial statements; (f) the Group's tax status for the year 2014; (g) review of the audit processes applied by the auditors. At this meeting a discussion was also held on the effectiveness of internal control over financial reporting and disclosure in the Company. Discussions were attended by Prof. Dafna Schwartz (Committee Chairperson), CPA Dalya Lev, Meir Shanie, Dr. Michael Anghel, Prof. Arie Ovadia and Adi Strauss as observers, the Group CEO, the EVP Finance, the CLO & Company Secretary, the Group Controller, the Internal Auditor of the Company and the Company Auditor.
- The Committee's discussions were based on material presented to members by Company Management on subjects that were discussed by the Committee, and questions and answers that arose were discussed, including reference by the External Auditor to these issues. The Financial Statements Review Committee requested comprehensive reviews on matters of material influence as required.

- The Company Auditor also holds conversations with the Financial Statements Review Committee on subjects that arose during the audit of the financial statements. Before the financial statements were approved a conversation was held between the Company Auditor and the Financial Statements Review Committee to discuss material issues that arose during the audit of the financial statements as at December 31, 2014.
- After the discussion was concluded, the Committee forwarded its recommendation to the Board of Directors, to approve the financial statements for 2014.
- On March 22, 2015 the Board of Directors discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at December 31, 2014. In the opinion of the Board of Directors, in view of the scope and complexity of the company, the Committee's recommendations were forwarded to the members of the Board two business days before the abovementioned meeting, which is the reasonable time determined by the Board of Directors. The meeting of the Board of Directors was attended by all members of the Board. Also present were the CEO, the EVP Finance, the CLO & Company Secretary, the Company Controller and the Company Auditor.
- At the meeting the Board of Directors discussed the recommendations of the Financial Statements Review Committee and heard a detailed review and analysis of the financial statements by the CEO and EVP Finance, as well as of the Company's financial results and material financial reporting issues relating to the financial statements.
- 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 2014.

UPDATE ON ASSIMILATION OF AN INTERNAL ENFORCEMENT PROGRAM RELATING TO SECURITIES

Following the enactment of the new law for streamlining the Israeli Securities Authority enforcement procedures 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 company or an included company 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 Regulation 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.

AUDITOR'S FEES

Following is information on the fees paid to the auditors of the material companies in the Group:

Company	Auditor	For the year ended December 31, 2014					
		Audit services, audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies (1)	KPMG (Israel)	2,570	15,074	864	2,353	3,434	17,427
Max Brenner NY	Cohn Reznick 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	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	195	52	83	175	278
Strauss Café Poland Sp.z.o.o	KPMG Poland	358	1,208	-	-	358	1,208
Três Corações Alimentos S.A (100%)	KPMG Brazil	1,057	4,100	-	-	1,057	4,100
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

Company	Auditor	For the year ended December 31, 2013					
		Audit services, audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies (1)	KPMG (Israel)	3,369	14,625	-	-	3,369	14,625
Max Brenner NY	Eshel & Partners LLP	199	1,104	-	-	199	1,104
SE USA Inc.	Eshel & Partners LLP	131	473	-	-	131	473
Sabra Dipping Company LLC (100%)	KPMG & Cohn Reznick LLP	1,517	2,112	90	47	1,607	2,159
PepsiCo Strauss Fresh Dips & Spreads	KPMG Switzerland, Mexico, Australia	1,429	1,563	449	237	1,878	1,800
Virgin Strauss Water UK Ltd.	KPMG LLP (UK)	147	329	43	122	190	451
Strauss Water companies in China	KPMG China	344	970	-	-	344	970
Strauss Romania SRL	KPMG Romania	283	1,220	-	-	283	1,220
Strauss Adriatic Group Cluster	KPMG Serbia	158	600	29	100	187	700
Strauss Ukraine LLC	KPMG Ukraine	106	421	-	-	106	421
Strauss Café Poland Sp.z.o.o	KPMG Poland	268	968	-	-	268	968
Três Corações Alimentos S.A (100%)	KPMG Brazil	636	2,400	-	-	636	2,400
Strauss Coffee B.V.	Mazars & KPMG (Israel)	1,799	5,583	499	1,247	2,298	6,830
Strauss Commodities AG	KPMG Switzerland	234	260	-	-	234	260
Strauss Russia LLC	KPMG Russia	591	1,426	263	700	854	2,126

- (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., 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 40 to the consolidated financial statements as at December 31, 2014.

DEDICATED DISCLOSURE TO DEBENTURE HOLDERS

For information on the Company's debentures, see Notes 20.1 and 20.2 to the Annual Financial Statements.

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

Ofra Strauss
Chairperson of the Board

Gadi Lesin
Chief Executive Officer

March 22, 2015

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

Strauss Group Ltd.

**Financial Statements
As at December 31, 2014**

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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 at December 31, 2014 and 2013 and the consolidated statements of income, of comprehensive income, of changes in equity, and of cash flows, for each of the three years ended on December 31, 2014. 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 audits.

We did not audit the financial statements of certain consolidated subsidiaries whose assets constitute 2.2% and 8.2% of the total consolidated assets as of December 31, 2014 and 2013, respectively, and whose revenues constitute 1.5%, 2.4% and 2.6% of the total consolidated revenues for the years ended December 31, 2014, 2013 and 2012, respectively. The financial statements of those companies were audited by other auditors whose reports thereon were furnished to us, and our opinion, insofar as it relates to amounts emanating from the financial statements of such companies, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of December 31, 2014 and 2013 and their results of operations, changes in equity and cash flows, for each of the three years in the period ended December 31, 2014, 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, 2014, and our report dated March 22, 2015 expressed an unqualified opinion on the effectiveness of such components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2015

Consolidated Statements of Financial Position

		December 31	
		2014	2013
	Note		
Current assets			
Cash and cash equivalents	7	767	772
Securities and deposits	8	121	246
Trade receivables	9	907	893
Income tax receivables		53	44
Other receivables and debit balances	10	256	207
Inventory	11	681	661
Assets held for sale	16.3	36	-
Total current assets		2,821	2,823
Investments and non-current assets			
Investment in equity-accounted investees	12	1,030	887
Other investments and long-term debt balances	13	245	264
Fixed assets	14	1,596	1,490
Intangible assets	15	979	1,082
Deferred expenses	3.6	20	52
Investment property	16	29	25
Deferred tax assets	37	22	*11
Total investments and non-current assets		3,921	3,811
Total assets		6,742	6,634

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 22, 2015

* Reclassified, see Note 2.7.

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

Consolidated Statements of Financial Position (cont'd)

		December 31	
		2014	2013
	Note	NIS millions	
Current liabilities			
Current maturities of debentures	20	179	180
Short-term credit and current maturities of long-term credit and loans	20,21	150	111
Trade payables	17	846	769
Income tax payables		12	8
Other payables and credit balances	18	596	618
Provisions	19	37	48
Total current liabilities		1,820	1,734
Non-current liabilities			
Debentures	20	1,020	965
Long-term loans and credit	20,22	1,045	1,126
Long-term payables and credit balances	23	91	58
Employee benefits, net	24	61	55
Deferred tax liabilities	37	165	*145
Total non-current liabilities		2,382	2,349
Equity and reserves			
Share capital	28	244	243
Share premium		622	622
Reserves		(676)	(507)
Retained earnings		1,633	1,387
Total equity attributable to the Company's shareholders		1,823	1,745
Non-controlling interests		717	806
Total equity		2,540	2,551
Total liabilities and equity		6,742	6,643

* Reclassified, see Note 2.7.

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

Consolidated Statements of Income

		For the year ended December 31		
		2014	2013	2012
	Note	NIS millions		
Sales	31	5,415	5,605	5,699
Cost of sales	32	3,318	3,389	3,546
Gross profit		2,097	2,216	2,153
Selling and marketing expenses	33	1,318	1,341	1,320
General and administrative expenses	34	339	346	340
		1,657	1,687	1,660
Share of profit of equity-accounted investees		219	175	63
Operating profit before other income (expenses)		659	704	556
Other income		4	25	124
Other expenses		(118)	(119)	(79)
Other income (expenses), net	35	(114)	(94)	45
Operating profit		545	610	601
Financing income		40	22	26
Financing expenses		(107)	(136)	(140)
Financing expenses, net	36	(67)	(114)	(114)
Income before taxes on income		478	496	487
Taxes on income	37	(144)	(165)	(162)
Income for the year		334	331	325
Attributable to:				
The Company's shareholders		235	234	244
Non-controlling interests		99	97	81
Income for the year		334	331	325
Earnings per share	38			
Basic earnings per share (in NIS)		2.20	2.19	2.30
Diluted earnings per share (in NIS)		2.18	2.17	2.30

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

Consolidated Statements of Comprehensive Income

	Note	For the year ended December 31		
		2014	2013	2012
		NIS millions		
Income for the year		334	331	325
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:				
Foreign currency translation differences	28.5	(255)	(133)	15
Changes in fair value of available-for-sale financial assets, net of tax		(10)	13	5
Other comprehensive income (loss) from equity-accounted investees		22	(137)	(76)
Total other comprehensive loss items that will be transferred to profit or loss in subsequent periods, net of tax		(243)	(257)	(56)
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net of tax:				
Change in employee benefits, net of tax		(6)	(1)	(3)
Total other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net of tax		(6)	(1)	(3)
Comprehensive income for the year		85	73	266
Attributable to:				
The Company's shareholders		61	29	196
Non-controlling interests		24	44	70
Comprehensive income for the year		85	73	266

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, 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)
	-	-	(165)	-	(4)	(5)	(174)	(75)	(249)
Other comprehensive loss for the year, net of tax									
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

	Attributable to the Company's shareholders								Non-controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available-for-sale financial assets	Retained earnings	Total			
					NIS millions					
Balance as at January 1, 2013	243	622	(287)	(20)	4	1,325	1,887	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	1,387	1,745	806	2,551	

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								Non-controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available-for-sale financial assets	Retained earnings	Total			
					NIS millions					
Balance as at January 1, 2012	243	622	(240)	(20)	2	1,214	1,821	866	2,687	
Changes in 2012 :										
Total comprehensive income (loss) for the year										
Income for the year	-	-	-	-	-	244	244	81	325	
Components of other comprehensive income (loss):										
Foreign currency translation differences, net of tax	-	-	(47)	-	-	-	(47)	(14)	(61)	
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	2	-	2	3	5	
Change in employee benefits, net	-	-	-	-	-	(3)	(3)	-*	(3)	
Other comprehensive income (loss) for the year, net of tax	-	-	(47)	-	2	(3)	(48)	(11)	(59)	
Total comprehensive income (loss) for the year	-	-	(47)	-	2	241	196	70	266	
Share-based payment	-	-	-	-	-	10	10	-	10	
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	9	9	
Dividend paid	-	-	-	-	-	(140)	(140)	-	(140)	
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(95)	(95)	
Balance as at December 31, 2012	243	622	(287)	(20)	4	1,325	1,887	850	2,737	

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

Consolidated Statements of Cash Flows

	Note	For the year ended December 31		
		2014	2013	2012
		NIS millions		
Cash flows from operating activities				
Income for the year		334	331	325
Adjustments:				
Depreciation		129	137	137
Amortization of intangible assets and deferred expenses		53	48	53
Impairment loss of fixed assets, intangible assets and investment property, net	14.1, 15.1, 16.1	36	43	44
Other expenses (income), net		44	13	(114)
Expenses in respect of share-based payment and other liability plans		21	18	19
Financing expenses, net		67	114	114
Income tax expense		144	165	162
Share of profit of equity-accounted investees		(219)	(175)	(63)
Change in inventory		(82)	(86)	(25)
Change in trade and other receivables		(129)	(6)	(53)
Change in long-term receivables		(9)	(4)	7
Change in trade and other payables		183	54	56
Change in employee benefits		4	6	7
Interest paid		(88)	(84)	(76)
Interest received		17	26	15
Income tax paid, net		(131)	(120)	(127)
Net cash flows from operating activities		374	480	481
Cash flows from investing activities				
Sale (purchase) of marketable securities and deposits, net		132	(28)	(68)
Proceeds from sale of fixed assets, intangible assets and investment property		40	31	139
Investment in fixed assets, intangible assets and held-for-sale assets		(377)	(336)	(232)
Acquisition of subsidiary	6.4.2	(82)	-	-
Investment in intangible assets and deferred expenses		(35)	(40)	(99)
Investment in long-term deposits		-	(3)	-
Repayment of deposits and long-term loans granted		57	45	31
Long-term loans granted		(42)	(70)	(123)
Short-term loans granted, net		-	-	(4)
Taxes paid due to the sale of investment property		-	(2)	(27)
Dividends from investee companies	12.4	96	88	27
Investment in investee companies		-	-	(72)
Gain of control in an equity-accounted investee		1	-	-
Net cash flows used in investing activities		(210)	(315)	(428)

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		
		2014	2013	2012
		NIS millions		
Cash flows from financing activities				
Short-term bank credit, net		3	(4)	4
Proceeds from issuance of debentures, net		237	247	-
Receipt of long-term loans	22.2	58	203	435
Repayment of long-term loans and debentures		(295)	(235)	(214)
Acquisition of non-controlling interests in a subsidiary		-	(47)	-
Change in payables – equity-accounted investee		(64)	(48)	41
Dividends paid	28.3	-	(157)	(140)
Dividend paid to non-controlling interests in a subsidiary		(103)	(79)	(90)
Net cash flows from (used in) financing activities		(164)	(120)	36
Net increase in cash and cash equivalents		-	45	89
Cash and cash equivalents as at January 1		772	735	649
Effect of exchange rate fluctuations on cash balances		(5)	(8)	(3)
Cash and cash equivalents as at December 31		767	772	735

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

Notes to the 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, 2014 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 22, 2015.

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

For information on the manner of allocation and measurement of these items, see Note 3, Significant Accounting Policies.

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 management considers reasonable under the circumstances. Actual results may differ from the estimates made.

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation (cont'd)

2.4 Use of estimates and judgments (cont'd)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the period in which the estimate is revised and in any future period affected. The judgments made by management when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating cycle

The Group's operating cycle is one year. As a result, current assets and current liabilities include items designated and expected to be realized within one year.

2.6 Capital management – objectives, procedures and processes

Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating so that it may provide a return on capital to its shareholders, benefits to other interest holders in the Company such as credit providers and employees of the Company, and sustain future business development. Company management monitors return on capital, defined as the total equity attributable to the shareholders of the Company, and also the amounts of dividends distributed to ordinary shareholders.

2.7 Reclassification

An amount of approximately NIS 9 million was reclassified in the statement of financial position as at December 31, 2013 from deferred tax assets to deferred tax liabilities. The reclassification had no effect on income and equity.

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 implements the acquisition method to all business combinations.

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.

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.

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.

Notes to the Consolidated Financial Statements

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.

Measurement of non-controlling interests on the date of the business combination

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.

Allocation of other comprehensive income or loss among shareholders

Profit or loss and any components of other comprehensive income are attributed to the owners of the Company and the non-controlling interests. The total profit or loss and other comprehensive income are attributed as mentioned even when the result is a negative balance of the non-controlling interests.

Transactions with non-controlling interests while retaining control

Transactions with non-controlling interests while retaining control are accounted for as capital transactions. **Any variance between the consideration paid or received and the change in non-controlling interests is classified 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.

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.**

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.5 Investment in joint ventures

Equity-accounted investees are joint arrangements in which the Company has rights to the net assets of the joint arrangement. Investments in equity-accounted investees are initially recognized at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of income and expenses in profit or loss and of other comprehensive income of equity-accounted investees.

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.

The accounting policies of equity-accounted investees have been adjusted to align them with the policies adopted by the Group.

In the event of a decrease in the holding rate of an equity-accounted investee, while retaining joint control, the Group detracts a relative portion from its investment, and **recognizes a profit or loss from the sale, under the other income or expenses item in the statement of income.**

3.1.6 Transactions eliminated on consolidation

Intra-group balances and any unrealized income and expenses arising from intra-group transactions were eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees were eliminated against the investment according to the Group's interest in these investments. Unrealized losses were eliminated in the same way as unrealized gains, provided, however, that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currency of the Group companies according to the exchange rate in effect on the transaction date. **Exchange differences arising on the settlement of monetary items or on reporting monetary items at exchange rates different from those at which they were initially recorded during the period or reported in previous financial statements are charged to specific income or expense items according to the nature of the monetary item (exchange differences in respect of trade receivables are recognized in income, exchange differences in respect of trade payables are recognized in the cost of sales, exchange differences in respect of foreign currency loans are recognized in financing costs, etc.).**

Monetary assets and liabilities are translated according to the exchange rate on the date of the statement of financial position.

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 according to the exchange rates in effect on 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, 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.

Notes to the Consolidated Financial Statements

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

Cash or cash equivalents include cash balances or deposits available for immediate withdrawal. Cash equivalents also include highly liquid deposits, the term of which at the time of deposit is up to three months.

Available-for-sale financial assets

The Group's investments in available-for-sale financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3.10.3), are recognized directly in other comprehensive income and presented in equity. When an investment is sold, the cumulative gains or losses accrued in equity are recognized in the statement of income as other income or expenses.

Financial assets at fair value through profit or loss

Financial assets are classified as held for trading and measured at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Attributable transaction costs are recognized in the statement of income when incurred. Financial assets classified as held for trading include securities held to support the Group's short-term liquidity needs.

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-derivative financial instruments (cont'd)

Offset of financial instruments

Financial assets and liabilities are offset and the net amounts presented in the statement of financial position when the Group currently has an enforceable legal right to offset the amounts recognized and intends either to settle the asset and liability 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 when incurred. Any derivative costs that can be specifically allocated to a transaction are recorded when incurred. **Gains and losses on commodity forwards are presented under cost of sales whereas other gains and losses are presented under financing costs.**

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if: (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the combined instrument is not measured at fair value through profit or loss.

Embedded derivatives that have been separated are initially recognized at fair value. Changes in the fair value of these derivatives are recognized in the statement of income.

3.3.3 CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured in each period in accordance with the actual increase or decrease in the CPI.

3.3.4 Share capital

Ordinary shares

Incremental costs directly attributed to the issuance of ordinary shares and share options net of tax effect are recognized as a deduction from equity.

Treasury shares

When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, plus directly attributable costs, is recognized as a deduction from equity. **Repurchased shares are classified as treasury shares.**

3.3.5 Redeemable preferred shares held by non-controlling interest holders

Preferred shares which are redeemable at the holders' option are classified as liabilities. Dividends on such shares are presented as a reduction of liabilities, while the interest in their respect is recorded as financing expenses when the dividends are declared.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

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.

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, including the construction costs of the Group's central distribution warehouse on leased property, which will be returned to the lessor's ownership at the end of the rental period, are presented as fixed assets and amortized over the rental period 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 2012-2014 are as follows:

	%	
Buildings and leased lands	2-5	
Machinery, equipment	5-30	
Motor vehicles	15-20	
Furniture and other equipment	3-33	
Leasehold improvements	2-33	(Over the shorter of the lease period or the estimated useful life of the asset)

Depreciation methods, useful lives and residual values are reviewed on every reporting date.

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.2 Development of software for self-use

The development costs of software for self-use are capitalized only if the development costs can be reliably measured, the product is technically feasible, future economic benefits from the product are probable and the Group intends to and has sufficient resources to complete development and to use the asset.

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. For details on the measurement of these assets at the acquisition date in a business combination, see Note 5.3.

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.

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. A capitalized development asset is amortized over the period of expected future sales from the asset developed.

The annual rates of amortization for the years 2012-2014 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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.6 Amortization (cont'd)

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 26.4.7.

3.7 Investment property

Investment property is property (land or buildings – or part of a building – or both) held (by the owner or by the lessee under a finance lease) either to earn rental income or for capital appreciation or for both, but not for:

1. Use in the production or supply of goods or services or for administrative purposes; or
2. 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. 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.

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	
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 measured 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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

3.8 Leased assets (cont'd)

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.

Operating lease payments

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).

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	–	At calculated cost.
Finished goods	–	At calculated cost.
Merchandise	–	By the "first-in first-out" method.

3.10 Impairment

3.10.1 Non-financial assets

The carrying amounts of the Group's non-financial assets (other than inventory, deferred tax assets and employee benefits assets – see accounting policy 3.9, 3.17 and 3.12, respectively) are examined on the date of the statement of financial position to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. At least once a year the Group estimates the recoverable amount of each cash-generating unit that contains goodwill or intangible assets that have indefinite useful lives. An impairment loss is recognized when the carrying amount of an asset or of the cash-generating unit to which the asset belongs exceeds the recoverable amount.

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.

(1) 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 fair value less costs of disposal. In assessing value-in-use, the estimated future cash flows are discounted at a discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Notes to the Consolidated Financial Statements

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.

(2) Reversal of impairment

An impairment loss in respect of goodwill in subsidiaries is not reversed. In regard to other assets, 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, only if the asset's 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.

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, a decrease of over 20% below the original cost of the asset, or a decrease to below the original cost for 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).

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**3.10 Impairment (cont'd)****3.10.4 Investments in equity-accounted investees (cont'd)**

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.

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).

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

3.12 Employee benefits (cont'd)

3.12.2 Defined benefit plans (cont'd)

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 each year 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.

Interest costs that were recognized in the statement of income are 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.

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, and the amount of the adjustment is recognized as a financing expense.

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

3.13 Provisions (cont'd)

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.

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.

3.14.1.2 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.

3.14.1.3 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 for a period of over one year is deferred and recognized over the term of the contract.

3.14.3 Revenue from services

Revenue from services rendered is recognized in the statement of income pro rata to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on the percentage of the service already rendered.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**3.14 Revenue (cont'd)****3.14.4 Customer discounts**

Customer discounts are deducted from revenue on a cumulative basis when the terms and conditions entitling the customer to a discount are created, on the basis of the total annual volume of orders or sales campaigns held by the Group.

3.14.5 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.

3.15 Government grants

Unconditional government grants are initially recognized at fair value when there is reasonable assurance that they will be received and the Group will meet the conditions associated with the grant.

Government grants that compensate the Group for expenses incurred are presented as a deduction from the corresponding expenses and recognized in the statement of income on a systematic basis, in the same periods in which the expenses are recognized in the statement of income. Government grants received for the acquisition of assets are presented as a deduction from the relevant assets and are recognized in the statement of income on a systematic basis over the useful life of the asset, as mentioned in Note 3.4.1 above.

Grants from the Chief Scientist in respect of research and development projects are accounted for as Forgivable Loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The difference between the amount received and the fair value on the date of receipt of the grant is recognized as a reduction of research and development expenses. The amount of the liability is reviewed each period, and any changes are recognized in the statement of income.

3.16 Financing income and expenses

Financing income and expenses mainly comprise interest income on funds invested, interest expenses on loans received, net gains (including dividends) on changes in the fair value of financial assets presented at fair value through the statement of income, net foreign exchanges gains, and gains/losses on derivative instruments recognized in the statement of income, excluding commodity derivatives. Interest income and expenses are recognized as they accrue, using the effective interest method, except for borrowing costs that were capitalized to fixed assets (see also Note 3.4.1). Interest income in respect of sales on long-term credit, which is measured at the present value of the relative consideration, is recorded as financing income.

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**3.17 Income Tax Expense (cont'd)**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.

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.

Offset of deferred tax assets and liabilities

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.

Additional tax in respect of the distribution of dividends

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.

Notes to the Consolidated Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**3.20 New standards not yet adopted****3.20.1 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 for annual periods beginning on January 1, 2018 with early adoption being permitted. The standard will be applied retrospectively, with some relief granted.

The Group is reviewing the implications of IFRS 9 (2014) on its financial statements.

3.20.2 IFRS 15, Revenue from Contracts with Customers

The standard replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. The standard provides two approaches for recognizing revenue: at a single point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. The standard also defines new and more extensive disclosure requirements than those that exist at present.

The standard will be applied for annual periods beginning on January 1, 2017 with early adoption being permitted. The standard includes various alternative transitional provisions.

The Group is reviewing the implications of IFRS 15 on its financial statements.

Notes to the Consolidated Financial Statements

Note 4 - Critical Accounting Policies and Management's Judgments

The judgments of management and its estimates are reviewed on an ongoing basis and are based on past experience and various factors, including expectations regarding future events.

The Group makes estimates and assumptions regarding the future. The accounting estimates deriving from these assumptions may, by nature, differ from actual results. The estimates and assumptions that in the next fiscal year may result in significant adjustment to the carrying amount of assets and liabilities are discussed below.

Impairment of assets

In accordance with IAS 36, on every reporting date the Group examines the existence of any events or circumstances that may indicate impairment in the value of non-financial assets included in its scope, including investments in joint ventures, accounted for using the equity method. When there are signs indicating impairment, the Group examines whether the carrying amount of the asset exceeds its recoverable amount.

Once a year on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash-generating unit that contains goodwill or intangible assets that have indefinite useful lives or are unavailable for use. If necessary, the Group writes down the asset to its recoverable amount and recognizes an impairment loss. The assumptions regarding future cash flows are based on past experience with the specific asset or similar assets, and on the expectations of the Group regarding the economic conditions that will exist over the remaining useful life of the asset. The Group uses estimates of appraisers when determining the net sales price of assets. With respect to real estate, the estimates take into account market conditions for real estate in a similar location. See also Note 15.3 regarding assumptions and risk factors relating to goodwill impairment.

Valuation of intangible assets and goodwill

The Group is required to allocate the acquisition cost of investee companies to assets acquired and to liabilities assumed on the basis of their estimated fair value. In major acquisitions, the Group engages independent appraisers who assist it in determining the fair value of these assets and liabilities. These valuations require management to apply significant estimates and assumptions. The principal intangible assets recognized in recent years include customer relationships, trademarks and brands. Critical estimates used in estimating the useful life of these intangible assets include, *inter alia*, an estimate of the period of customer relationships, the period of use of a brand and anticipated market developments. Critical estimates used to estimate certain intangible assets include, *inter alia*, anticipated cash flows from customer contracts and replacement costs of brands. The estimates of management regarding fair value and useful life are based on assumptions considered reasonable by management but are uncertain, and consequently, actual results may differ.

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 26 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.

Notes to the Consolidated Financial Statements

Note 4 - Critical Accounting Policies and Management's Judgments (cont'd)

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 30.1 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 37 regarding taxes on income.

Note 5 - Determination of Fair Value

The Group's recognition and measurement accounting policies, as well as disclosure requirements, necessitate determination of fair value for both financial and non-financial assets and liabilities. Fair values were determined for measurement and/or disclosure purposes based on the methods described below.

Further information on the assumptions made in determining fair value is disclosed in the notes specific to those assets or liabilities.

5.1 Fixed assets

The fair value of fixed assets acquired as part of a business combination is based on their market value. The market value of fixed assets is the estimated amount for which an asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items, if available and on replacement costs when such quotes are not available. Depreciated replacement cost estimates reflect adjustments for physical deterioration as well as functional and economic obsolescence of the fixed asset.

5.2 Investment property

The fair value of investment property, which is determined for disclosure purposes, is based on market value. The market value of investment property is based on the discounted rent payments that could be received on the valuation date in consideration for the rental of the asset, or the estimated sales price of the asset in its present condition in an arm's length transaction. The fair value of investment property under construction is estimated based on the fair value after completion of construction, less the present value of the costs of materials and direct labor, and any other costs directly attributable to bringing the investment property to completion of construction, taking into account a discount rate adjusted for the relevant risks and the features of the investment property.

5.3 Intangible assets

The fair value of intangible assets acquired in a business combination is based on the following estimation methods:

- Brands and trademarks – based on the discounted estimated royalty payments that have been avoided as a result of ownership of the patent or trademark.
- Customer relationships – according to the present value of excess profits (the multi-period excess earning method), which reflects the outstanding flow expected to be derived from the asset after tax and after deduction of charges in respect of other assets that are part of creating the related cash flows.
- Other intangible assets – the fair value of other intangible assets is based on the discounted cash flows which are expected to be derived from the use and eventual sale of the assets.

Notes to the Consolidated Financial Statements

Note 5 - Determination of Fair Value (cont'd)**5.4 Inventories**

The fair value of inventories acquired in a business combination is determined according to the estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell the inventories.

5.5 Investments in shares and debentures

The fair value of financial assets measured at fair value through profit or loss and the fair value of financial assets classified as available-for-sale is determined in reference to their quoted closing price as at the reporting date. For further details regarding fair value hierarchy, see Note 30, financial instruments.

5.6 Trade and other receivables

The fair value of trade and other receivables is determined on the basis of the present value of future cash flows discounted at the market interest rate for the date of the transaction, when the effect of the discount is material. In subsequent periods after initial recognition, the fair value of trade and other receivables is calculated for disclosure purposes only, as well as for measurement in a business combination.

5.7 Derivatives

The fair value of forward exchange contracts and index futures is based on their quoted price.

The fair value of commodity futures is the market contract price quoted on the statement of financial position date, which is the present value of the quoted price of the future transaction. If a quoted price is not available, fair value is estimated based on capitalization as the difference between the contractual forward price and the current forward price for the residual maturity of the contract using interest curves appropriate for measuring derivatives that are based on short-term LIBOR interest rates and long-term interest rate swaps, whereas the fair value of options is estimated according to the Black & Scholes formula. For further information regarding fair value hierarchy, see Note 30.7.2 regarding financial instruments.

5.8 Non-derivative financial liabilities

For exchange-traded debentures, fair value for disclosure purposes is determined on the basis of their quoted closing price as at the reporting date.

5.9 Share-based payment transactions

The fair value of employee share options is measured using the Black & Scholes model. The assumptions of the model include the share price on the date of measurement, the exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends and the risk-free interest rate (based on government debentures). Service and non-market performance conditions are not taken into account in determining fair value.

Notes to the Consolidated Financial Statements

Note 6 - Subsidiaries

6.1 Information on principal subsidiaries

	Percentage of equity and control (%)			Country of incorporation and main location of company operations
	December 31			
	2014	2013	2012	
Strauss Health Ltd.	80	80	80	Israel
Strauss Fresh Foods Ltd.	100	100	100	Israel
Yad Mordechai Strauss Apiary Ltd.	51	51	51	Israel
Strauss Health Fresh Vegetables Ltd. (1)	100	100	100	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	51	Russia
Virgin Strauss water UK Ltd. (4)	72	72	72	England
Strauss Water (Shanghai) Co. Ltd. (5)	100	100	100	China

(1) Held by Strauss Salads Trade Ltd.

(2) Held by Strauss Health Ltd.

(3) Held by Strauss Coffee B.V.

(4) Held by Strauss Water Ltd. See Note 6.4.1

(5) Held by Strauss Water HK Trading Co. Ltd.

Notes to the Consolidated Financial Statements

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, in the Group's estimate Strauss Health is controlled by Strauss Group, and as such is consolidated in the Group's financial statements.

6.2.2 Investment in Yotvata

Strauss Health holds 50% of Yotvata's share capital and a casting share on the board of directors. Kibbutz Yotvata holds the remaining 50% of the share capital. Strauss Health acquired the following via a share allotment:

- (a) 50% of Yotvata's issued and paid-up ordinary shares, conferring the rights generally conferred on shareholders in a limited company, except for the right to appoint or dismiss executives. The remaining ordinary shares continue to be held by the Kibbutz;
- (b) Two management shares, each conferring the right to appoint or dismiss a director of Yotvata. Three additional management shares are held by the Kibbutz;
- (c) One casting share, conferring the right to appoint or dismiss one director of Yotvata, who is also the chairman of the board and chairman of the general meeting and has a casting vote on the board of directors and the meeting of shareholders in the event of a tie.

In general, the agreement with Yotvata defines the agreements regarding the management of Yotvata, which include the stipulation that Yotvata's chief executive officer is appointed by 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, in the Group's estimate Yotvata is controlled by Strauss Group (through Strauss Health), and as such is consolidated in the Group's financial statements.

Notes to the Consolidated Financial Statements

Note 6 – Subsidiaries (cont'd)

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, in the Group's estimate Strauss Coffee B.V. is controlled by Strauss Group, and as such is consolidated in the Group's financial statements.

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	
	2014	2013
	NIS millions	
Current assets	1,260	1,322
Non-current assets	1,427	1,520
Total assets	2,687	2,842
Current liabilities	473	373
Non-current liabilities	62	69
Total liabilities	535	442
Total net assets 100%	2,152	2,400
Non-controlling interests	540	602

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Income	2,047	2,250	2,438
Profit	259	272	177
Other comprehensive loss	(273)	(240)	(1)
Total comprehensive income (loss)	(14)	32	176
Comprehensive income (loss) attributable to non-controlling interests	(3)	8	45
Cash flow from operating activities	218	181	166
Cash flow from investing activities	(48)	(5)	(174)
Cash flow from financing activities excluding dividends to non-controlling interests	(173)	(49)	(130)
Dividends paid to non-controlling interests	(59)	-	(43)
Effect of exchange rate fluctuations on cash balance	(7)	(9)	(3)
Total increase (decrease) in cash and cash equivalents	(69)	118	(184)

Notes to the Consolidated Financial Statements

Note 6 – Subsidiaries (cont'd)

6.4 Business combinations

6.4.1 In November 2011 Strauss Water signed a series of agreements with Virgin Group through the private equity investment firm, Virgin Green Fund, for the establishment of a joint venture which would engage in the marketing, sale and servicing of Strauss Water products in England and Ireland, with an option to expand the joint operation into additional countries. The products would be sold under joint Virgin and Strauss Water branding. Following the move Strauss Water UK became a joint venture and its name was changed to Virgin Strauss Water UK (hereinafter: "VSW UK").

In 2012 the partners invested \$10 million in the venture - \$5 million each – based on a pre-money valuation of \$8 million. Following the investment Strauss Water held 72% of the venture, and VGF 28%. From the investment date through to December 31, 2013 VSW UK was managed under the joint control of Strauss Water and VGF.

Commencing on January 1, 2014 one of the three directors appointed by Virgin Group tendered his resignation, such that VSW UK's board of directors comprises five members, three appointed by the Group and two appointed by Virgin. Since that date, Strauss Group has assumed control of VSW UK. Accordingly, commencing on the reporting date the Group has consolidated VSW UK's financial statements in lieu of using the equity method.

Strauss Water attributed fair value to the identified assets and liabilities of VSW UK as required in IFRS 3, Business Combinations. Following are the major amounts recognized as at January 1, 2014 (additionally, immaterial amounts were attributed to a number of current assets and liabilities):

	Fair value	Amortization period
	NIS millions	Years
Customer relationships	20	11
Liabilities in respect of royalties	(20)	5
Total	-	

6.4.2 In the reported period the subsidiary Strauss Coffee acquired the Amigo coffee brand, sold mainly in Romania, from Cia Iguaçu de Café Solúvel, in consideration for approximately \$20 million. As at the date of approval of the report the sum of approximately \$19.6 million has been paid, and the balance of the consideration is held in a trust account and will be transferred to the seller in accordance with the terms and conditions of the agreement.

Strauss Coffee is taking action for the attribution of fair value to Amigo's identified assets and liabilities, as required in IFRS 3, Business Combinations. Following are the amounts recognized to date:

	Assets acquired (according to temporary amounts)* NIS millions
Inventory	9
Brand**	19
Total identified assets	28
Goodwill	55
Total consideration	83
Short-term payables in respect of consideration owing	(1)
Consideration paid in cash	82

* As at the date of approval of the report, the subsidiary has not yet completed the attribution of the consideration for the acquisition to the acquired assets and liabilities, and consequently all surplus costs were temporarily attributed to intangible assets – brand and goodwill in the financial statements.

** The brand was estimated as having an indefinite useful life.

Notes to the Consolidated Financial Statements

Note 7 - Cash and Cash Equivalents

	December 31	
	2014	2013
	NIS millions	
Cash and balances in banks	150	96
Deposits	617	676
	<u>767</u>	<u>772</u>

Note 8 - Securities and Deposits

	December 31 2014		December 31 2013	
	NIS millions	Interest rate	NIS millions	Interest rate
Deposits and non-traded securities				
Deposit in USD	2		-	
Deposit in NIS (1)	<u>21</u>	0.51%-1.49%	<u>4</u>	1.24%-1.50%
	<u>23</u>		<u>4</u>	
Marketable securities	50		85	
Government debentures	<u>48</u>		<u>157</u>	
Corporate debentures	<u>98</u>		<u>242</u>	
	<u>121</u>		<u>246</u>	

(1) Including the amount of NIS 1 million deposited with purchasing organizations of Negev farms (2013: NIS 4 million).

Note 9 - Trade Receivables

9.1 Composition

	December 31	
	2014	2013
	NIS millions	
Open debts	952	943
Less provision for doubtful debts	<u>(45)</u>	<u>(50)</u>
	<u>907</u>	<u>893</u>

9.2 Analysis of customer aging:

	December 31, 2014		December 31, 2013	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	855	(1)	852	(2)
Past due 1-30 days	30	-	29	-
Past due 31-60 days	5	-	4	-
Past due 61-90 days	2	(1)	1	-
Past due 91-120 days	1	-	1	-
Past due more than 120 days	<u>59</u>	<u>(43)</u>	<u>56</u>	<u>(48)</u>
	<u>952</u>	<u>(45)</u>	<u>943</u>	<u>(50)</u>

Notes to the Consolidated Financial Statements**Note 9 - Trade Receivables (cont'd)****9.3 Changes in the provision for doubtful debts during the period:**

	2014	2013
	NIS millions	NIS millions
Balance as at January 1	50	46
Impairment loss recognized during the period	5	8
Doubtful debts becoming bad debts	(7)	(3)
Foreign exchange effect	(3)	(1)
Balance as at December 31	45	50

9.4 Maximum credit exposure in respect of trade receivables as at the reporting date by customer type:

	December 31	December 31
	2014	2013
	NIS millions	NIS millions
Large customers market	546	532
Private market	94	121
Away-from-home	184	181
Other	83	59
Total	907	893

The Group has two principal types of customers: retail market customers and "away-from-home" (AFH) customers. Retail market customers (e.g. retail chains, private stores, minimarkets, kiosks) sell food and beverages mainly for at-home consumption. AFH customers (such as workplaces, hospitals, coffee shops, hotels, kibbutzim, coffee machines and automatic vending machines) provide the consumer with opportunities for food and beverage consumption while away from home. The retail market is divided between the "large customers market", which comprises the major retail chains, and the "private market", which comprises all other customers in the retail segment. In addition, Strauss Water's customers are divided between customers of direct marketing sales and customers of sales to the business sector, which are generally made by customer portfolio managers.

Note 10 - Receivables and Debit Balances

	December 31	December 31
	2014	2013
	NIS millions	NIS millions
Advances to trade payables	14	14
Government institutions	11	20
Loans granted, including current maturities of long-term liabilities	12	26
Accrued income	36	29
Derivatives (1)	72	30
Joint ventures	27	30
Prepaid expenses	54	35
Other receivables	30	23
	256	207

- (1) Includes deposits encumbered to secure derivatives in at the amount of NIS 47 and 20 million as at December 31, 2014 and 2013, respectively.

Notes to the Consolidated Financial Statements**Note 11 - Inventory**

	December 31	
	2014	2013
	NIS millions	
Raw materials	342	306
Packaging materials	52	54
Unfinished goods	23	24
Finished goods (including purchased products)	255	266
Spare parts and auxiliary equipment	9	11
	<u>681</u>	<u>661</u>

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
	2014	2013	2012	
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	
	2014	2013	2014	2013*
	NIS millions			
Current assets	277	305	967	838
Of which:				
Cash and cash equivalents	64	157	129	54
Non-current assets	672	431	644	530
Total assets	949	736	1,611	1,368
Current liabilities	266	183	651	474
Of which:				
Trade and other payables	173	141	237	199
Non-current liabilities	92	136	174	255
Total liabilities	358	319	825	729
Total net assets 100%	591	417	786	639
Company share of net assets	296	208	393	320
Other adjustments	109	98	156	155
Book value of investment	405	306	549	475

* Reclassified to match current period

Notes to the Consolidated Financial Statements**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.		
	December 31			December 31		
	2014	2013	2012	2014	2013*	2012*
	NIS millions					
Income	1,288	1,131	1,007	3,593	3,426	3,581
Expenses	644	568	520	2,503	2,410	2,823
Gross profit	644	563	487	1,090	1,016	758
Operating profit	181	147	129	329	347	169
Profit for the year	92	76	65	278	267	113
Other comprehensive income (loss)	58	(28)	(10)	(33)	(151)	(85)
Total comprehensive income (100%)	150	48	55	245	116	28
Of which:						
Depreciation and amortization	28	36	39	33	28	25
Interest income	-	-	-	11	9	5
Interest expenses	10	12	15	23	30	33
Income tax expense	(69)**	(57)**	(49)**	(27)	(50)	(26)
Other adjustments	12	(7)*	(2)*	2	(36)	(26)
Company's share of comprehensive income (loss) presented in the books	87	17	25	124	22	(12)

* Re-presented to match current period

**Tax expenses in respect of an equity-accounted investee assessed in the holding company, S.E. USA, Inc.

12.3 Concise aggregate information on equity-accounted investees that are not inherently material

	2014	2013*	2012*
	NIS millions		
Carrying amount of investments	76	106	180
Group's share of profit	(1)	(23)	(46)
Group's share of other comprehensive income	(4)	(6)	(5)
Group's share of total comprehensive income	(5)	(29)	(51)

* Reclassified to match current period

Notes to the Consolidated Financial Statements**Note 12 - Equity-Accounted Investees (cont'd)**

12.4 Information on dividends distributed by equity-accounted investees	For the year ended December 31	For the year ended December 31	For the year ended December 31
	2014	2013	2012
	NIS millions		
Três Corações Alimentos S.A. (1)	55	32	27
Sabra Dipping Company	21	23	-
Strauss Frito-Lay Ltd.	20	33	-
	96	88	27

- (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, 2014 and December 31, 2013 is approximately NIS 192 million and NIS 110 million, respectively, of which NIS 18 million and NIS 11 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 85 million and NIS 55 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 added to the taxable income under a weighted tax rate of approximately 34% of the taxable income for the year of the distribution; additionally, the amount distributed will be subject to an additional tax of 9.25%. The remaining reserves are held as a reserve.

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, 2014 was 1.47.

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, 2014	1.53	(0.1)
December 31, 2013	1.69	(19.3)

12.6 Additional information on the Group's equity-accounted investees

12.6.1 In December 2014 an equity-accounted investee in Brazil acquired the shares of Polo Participações Ltda, a privately-held company active in south and southeast Brazil in the manufacture and distribution of coffee products under various brands, in consideration for approximately NIS 45 million (the Group's share – approximately NIS 23 million).

12.6.2 After the statement of financial position date the subsidiary Strauss Water signed a non-binding MOU with Haier Group (hereinafter: "Haier") for the restructuring and expansion of the business of an equity-accounted investee in China, such that it will also include products based on reverse osmosis (RO) water purification technology, which until now were owned by Haier.

Notes to the Consolidated Financial Statements

Note 12 - Equity-Accounted Investees (cont'd)

12.6 Additional information on the Group's equity-accounted investees (cont'd)

12.6.2 (cont'd)

According to the MOU, the merged company will be owned by companies controlled by Haier (66%), and by Strauss Water (34%). To complete Strauss Water's holding in the merged company to 34%, Strauss Water will pay Haier approximately NIS 30 million and will grant the merged company a license to use the Maze technology. The MOU grants Strauss Water an option to acquire an additional 15% of the merged company. The merged company will buy the Maze technology products from Strauss Water and will receive distribution and sales services, as well as servicing, from companies in the Haier Group.

The transaction is conditional on a due diligence process, receipt of approvals from the authorities in China, and the signing of a series of binding agreements between the parties; the foregoing is scheduled to take place within three months, during which the parties have undertaken not to execute other transactions in the field of water purification in China. As at the reporting date the transaction has not yet been finally formulated and is subject to continued negotiation between the parties.

Note 13 - Other Investments and Long-Term Debit Balances

13.1 Classification according to classification of investment

	December 31	
	2014	2013
	NIS millions	
Non-current receivables	1	2
Long term deposit	6	6
Investment in shares of another company (1)	23	33
Derivatives	2	-
Non-current trade receivables (see 13.4 hereunder)	22	23
Less current maturities	(6)	(8)
Less provision for doubtful debts	(3)	(4)
	<u>13</u>	<u>11</u>
Non-current loans to others (see 13.2 and 13.3 below)	242	247
Less current maturities	(42)	(35)
	<u>200</u>	<u>212</u>
	<u>245</u>	<u>264</u>

(1) This investment is accounted for as an available-for-sale financial asset.

13.2 Information on long-term loans and their terms:

	December 31	Loan Terms
	2014	
	NIS millions	
Loans to employees	9	Linked to CPI and bearing 4.3% interest
Loans to dairy farmers	15	Unlinked to CPI and bearing 2.3%- 7 % interest
Loans to dairy farmers	1	Linked to CPI and bearing 3.9% interest
Loans to suppliers	4	Unlinked and bearing 0%-6% interest
Loan to non-controlling interest holders in a subsidiary	1	Linked to CPI and bearing 7.4% interest
Loan to an equity-accounted investee	124	Linked to Dollar and bearing 0% -6.5% interest
Loan under an operating lease	88	Denominated in Euro; see Note 26.4.8
	<u>242</u>	

Notes to the Consolidated Financial Statements

Note 13 - Other Investments and Long-Term Debit Balances (Cont'd)

13.2 Information on long-term loans and their terms (Cont'd):

	December 31 2013	
	NIS millions	Loan Terms
Capital note issued to Kibbutz Yotvata	12	Unlinked and non-interest bearing
Loans to employees	7	Linked to CPI and bearing 5.5% interest
Loans to dairy farmers	12	Unlinked and bearing 2.5%-7% interest
Loans to dairy farmers	1	Linked to CPI and bearing 3.9%- 5. 5% interest
Loans to suppliers	7	Unlinked and bearing 5%-7.2% interest
Loans to suppliers	2	Linked to Dollar and non-interest bearing
Loan to non-controlling interest holders in a subsidiary	1	Linked to Dollar and bearing 7.4% interest
Loan to an equity-accounted investee	117	Linked to Dollar and bearing 0% -6.5% interest
Loan under an operating lease	88	Denominated in Euro; see Note 26.4.8
	<u>247</u>	

13.3 Repayment schedule of long-term loans:

	December 31	
	2014	2013
	NIS millions	
First year	42	35
Second year	38	34
Third year	107	31
Forth year	3	115
Fifth year and thereafter	52	32
	<u>242</u>	<u>247</u>

13.4 Long-term trade receivables balance

The long-term trade receivables balance reflects the long-term balance of customers in respect of the leasing of coffee machines in installments and in respect of cheques receivable in Strauss Water. The balance is discounted according to an interest rate of 3.0%-8.0% (similar to 2013).

The repayment schedule of long-term receivables is as follows:

	December 31					
	2014			2013		
	Long-term trade receivables (1)	Interest component	Principal component	Long-term trade receivables (1)	Interest component	Principal component
	NIS millions					
First year (current maturity)	6	-	6	8	-	8
One to five years	17	1	16	16	1	15
	<u>23</u>	<u>1</u>	<u>22</u>	<u>24</u>	<u>1</u>	<u>23</u>

(1) Net of long-term prepaid expenses for services not yet provided.

Notes to the Consolidated Financial Statements

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, 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

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
NIS millions						
Cost						
Balance as at January 1, 2013	894	1,923	46	268	203	3,334
Additions	162	148	4	13	11	338
Disposals	(11)	(32)	(4)	(2)	(4)	(53)
Classification from inventory	-	7	-	-	-	7
Exchange rate effect	(13)	(17)	(2)	-	(3)	(35)
Balance as at December 31, 2013	1,032	2,029	44	279	207	3,591
Accumulated depreciation and impairment losses						
Balance as at January 1, 2013	315	1,311	31	217	137	2,011
Impairment	8	23	-	1	2	34
Depreciation for the year	23	79	4	15	16	137
Disposals	(1)	(17)	(3)	(1)	(4)	(26)
Exchange rate effect	(1)	(11)	(1)	(1)	(1)	(15)
Balance as at December 31, 2013	344	1,385	31	231	150	2,141
Spare parts						40
Balance as at December 31, 2013	688	644	13	48	57	1,490

Notes to the Consolidated Financial Statements**Note 14 - Fixed Assets (cont'd)****14.2 Capitalized borrowing costs**

In August 2010 the Company began construction of a new logistics center in Israel, which was completed, in principle, in the fourth quarter of 2014. In the financial statements for 2014 credit costs of approximately NIS 15.1 million were discounted until the date of completion of construction, according to a discount rate of 4.1% (in 2013: Approximately NIS 12.4 million at a discount rate of 5.9%).

14.3 Fixed assets purchased on credit

Fixed assets in the amount of NIS 61 million were purchased on credit as at December 31, 2014 (2013: NIS 87 million).

14.4 For details regarding liens – see Note 26.2.**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, 2014	414	276	720	65	92	1,567
Acquisition in a business combination	19	2	55	-	19	95
Acquisitions	-	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	<u>366</u>	<u>294</u>	<u>679</u>	<u>70</u>	<u>113</u>	<u>1,522</u>
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 (1)	-	-	29	-	-	29
Disposals	-	(3)	(1)	(4)	-	(8)
Exchange rate effect	(5)	(1)	(2)	-	-	(8)
Balance as at December 31, 2014	<u>49</u>	<u>221</u>	<u>182</u>	<u>24</u>	<u>67</u>	<u>543</u>
Balance as at December 31, 2014	<u>317</u>	<u>73</u>	<u>497</u>	<u>46</u>	<u>46</u>	<u>979</u>
Cost						
Balance as at January 1, 2013	448*	259	764	50	90*	1,611
Additions	-	11	-	-	3	14
Additions – self-development	-	9	-	15	-	24
Disposals	-	(1)	-	-	-	(1)
Exchange rate effect	(34)	(2)	(44)	-	(1)	(81)
Balance as a December 31, 2013	<u>414</u>	<u>276</u>	<u>720</u>	<u>65</u>	<u>92</u>	<u>1,567</u>
Accumulated amortization						
Balance as at January 1, 2013	49*	180	159	11	52*	451
Amortization for the year	4	22	-	6	7	39
Impairment	-	-	-	3	-	3
Disposals	-	(1)	-	-	-	(1)
Exchange rate effect	(2)	(1)	(3)	-	(1)	(7)
Balance as at December 31, 2013	<u>51</u>	<u>200</u>	<u>156</u>	<u>20</u>	<u>58</u>	<u>485</u>
Balance as at December 31, 2013	<u>363</u>	<u>76</u>	<u>564</u>	<u>45</u>	<u>34</u>	<u>1,082</u>

* Reclassified to match current presentation.

Notes to the Consolidated Financial Statements

Note 15 - Intangible Assets (cont'd)

15.2 Intangible assets with indefinite useful lives

As at December 31, 2014 intangible assets include an amount of NIS 310 million attributable to brands and trademarks having an indefinite useful life (2013: NIS 351 million). These assets were assessed as having indefinite useful lives since according to an analysis of the relevant factors, there is no foreseeable limit on the period they are predicted to generate positive cash flows for the Group.

The relevant factors that were analyzed included, *inter alia*, management's forecasts regarding the duration of expected use of the brand or trademark; the existence of legal or contractual limitations on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in lifestyle, competitive environment, market demand and industry trends; the sales history of products under the brand name, the time the brand has been on the market, and market awareness of the brand name or trademark. Also taken into consideration is the length of time similar brands are used in the industry in which the Company operates.

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives

The following units have significant carrying amounts of goodwill and intangible assets having an indefinite useful life:

	Goodwill		Intangible assets having an indefinite useful life	
	December 31		December 31	
	2014	2013	2014	2013
	NIS millions		NIS millions	
Israel	77	77	-	-
Water	154	154	102	102
Serbia	-	-	30	32
Poland	70	73	68	71
Russia	115	234	91	146
Romania	81	26	19	-
	<u>497</u>	<u>564</u>	<u>310</u>	<u>351</u>

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.

Notes to the Consolidated Financial Statements

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, 2014		December 31, 2013	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
<u>Israel</u>				
Fun & Indulgence	2.5%*	7.5%*	2.5%*	7.5%*
Health & Wellness	2.5%*	8.5% - 11.9%*	2.5%*	8.5% - 11.9%*
International Coffee (1)	(0.15%) – 4.0%	10.3% - 27.6%	(0.15%) - 0.1%	8.5% - 13.0%
Other	2.0%	12.0%	2.0%	12.0%

* 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.

(1) In the framework of testing goodwill and intangible assets with indefinite useful lives, attributed to the Strauss Coffee subsidiary in Russia, which is a cash-generating unit, for impairment as at December 31, 2014, the Group recognized a goodwill impairment loss of NIS 29 million. The recoverable amount of the unit was estimated at Level 3 by discounting the unit's projected future cash flows at a nominal pre-tax discount rate ranging between 27.6% in 2015 and 18.4% in 2019. The long-term nominal growth rate applied in this estimate is 4%. For the other cash-generating units in Strauss Coffee, use was made of real discount and growth rates.

Additionally, in the framework of testing goodwill and intangible assets with indefinite useful lives, attributed to the Strauss Coffee subsidiary in Serbia, which is a cash-generating unit, for impairment as at September 30, 2014, it was found that the recoverable amount on the date of the estimate exceeds the carrying amount by approximately NIS 1 million. Management has identified one key assumption under which it is reasonably possible that a change may occur, which will cause the carrying amount to exceed the recoverable amount. An increase of 0.2% in the pre-tax discount rate will render the carrying amount equal to the recoverable amount.

Note 16 - Investment Property

16.1 Changes in investment property

	December 31	
	2014	2013
	NIS millions	
Balance as at January 1	25	21
Additions	49	7
Impairment loss	-	(4)
Classification of investment property as assets held for sale	(45)	1
Balance as at December 31	29	25

Notes to the Consolidated Financial Statements**Note 16 - Investment Property (cont'd)****16.2 Real estate rights**

As at December 31, 2014 the balance of investment property includes four real estate assets owned by the Group.

The investment properties mainly include land owned by the Company in Park Yanai, Petach Tikva in the amount of approximately NIS 22 million as at December 31, 2014 (December 31, 2013: NIS 19 million), land owned by subsidiaries in Givatayim in the amount of NIS 5 million as at December 31, 2014 (December 31, 2013: NIS 4 million NIS) and land owned by an overseas subsidiary in the amount of NIS 2 million as of December 31, 2014 (December 31, 2013: NIS 2 million).

In the 2014 financial statements, borrowing costs for the property in Petach Tikva were discounted by NIS 1 million, according to a discount rate of 3.4% (in 2013: NIS 2 million at a discount rate of 5.9%).

For details regarding liens see Note 26.2.

16.3 Real estate sales transactions

In the reporting period parts of the investment property in Park Yanai, Petach Tikva were sold for approximately NIS 38 million, with no material consequential impact. In regard to an additional part of the abovementioned property, advanced negotiations are underway with potential buyers. On the reporting date, these portions are presented as assets held for sale.

16.4 Fair value

As at the reporting date, the fair value of the investment properties and assets held for sale does not differ substantively from their carrying value. Fair value is estimated at Level 3, using the comparison technique, with the valuation model primarily based on the price per square meter as reflected in the sales transactions described in Note 16.3 and in other, similar transactions.

Note 17 - Trade Payables

	December 31	
	2014	2013
	NIS millions	
Open debts	831	755
Interested and related parties	5	12
Notes payable	10	2
	846	769

Note 18 - Other Payables and Credit Balances

	December 31	
	2014	2013
	NIS millions	
Employees and other payroll related liabilities	151	169
Institutions	19	17
Joint ventures	33	64
Derivatives	37	11
Accrued expenses	190	217
Deposits and guarantees from customers and distributors	76	73
Redeemable preferred shares	13	13
Deferred income	65	45
Advances from customers	3	2
Other payables	9	7
	596	618

Notes to the Consolidated Financial Statements**Note 19 - Provisions****19.1 Changes during the period**

	Restructuring	Legal claims	Warranty	Total
	NIS millions			
Balance as at January 1, 2014	16	18	14	48
Provisions created during the period	2	3	3	8
Provisions used during the period	(6)	(11)	-	(17)
Provisions reversed during the period	(2)	-	-	(2)
Balance as at December 31, 2014	<u>10</u>	<u>10</u>	<u>17</u>	<u>37</u>

19.2 Provisions in respect of legal claims- See Notes 3.13 and 26.1.**Note 20 - Loans and Credit****20.1** The terms of the loans, debentures and their repayment dates are as follows:

	Currency	Nominal interest	Repayment	December 31, 2014	
				Face value	Carrying amount
				NIS millions	
Debtentures Series B (see 20.2)	NIS	4.1	2015-2018	595	719
Debtentures Series D (see 20.2)	NIS	4.5	2017-2023	465	480
Bank loans	USD	LIBOR+2	2015-2016	38	38
Bank loans	NIS	3.95	2019-2022	100	103
Bank loans	NIS	6.3	2019-2022	100	100
Bank loans (see 22.2)	NIS	2.9	2015-2017	139	139
Loans from others	NIS	5.82	2015-2022	261	261
Loans from others (see 22.2)	NIS	3.55	2015-2022	364	375
Bank loans	USD	Libor+1.7	2015-2017	60	60
Loans from others	USD	5.25	2015-2017	3	3
Bank loans	NIS	3.25-5.85	2015 -2017	18	18
Bank loans	NIS	Prime+0.2-2.5	2015-2019	95	95
Bank loans	RUB	31.36	2015	3	3
					<u>2,394</u>

	Currency	Nominal interest	Repayment	December 31, 2013	
				Face value	Carrying amount
				NIS millions	
Debtentures Series B (see 20.2)	NIS	4.1	2014-2018	744	900
Debtentures Series D (see 20.2)	NIS	4.5	2017-2023	249	245
Bank loans	USD	Libor+2	2014-2016	43	43
Bank loans	NIS	3.95	2019-2022	100	103
Bank loans	NIS	6.3	2019-2022	100	100
Bank loans (see 22.2)	NIS	2.9	2014-2017	185	185
Loans from others	NIS	5.82	2014-2022	272	272
Loans from others (see 22.2)	NIS	3.55	2014-2022	368	380
Bank loans	USD	Libor+1.7	2014-2017	66	66
Bank loans	NIS	3.3	2015	20	21
Bank loans	NIS	4.32-5.85	2014-2017	45	45
Bank loans	NIS	Prime+0.2-1.55	2014-2017	18	18
Loans from others	NIS	Prime+1.9	2014-2016	4	4
					<u>2,382</u>

Notes to the Consolidated Financial Statements

Note 20 - Loans and Credit (cont'd)

20.2 Information on the debentures issued by the Company

20.2.1 On June 11, 2014 the Company expanded its Series D Debentures and listed them for trading on the Tel Aviv Stock Exchange. For further information, see Note 20.2.2 below.

20.2.2 Information on the debentures series in circulation:

	<u>Series B</u>	<u>Series D</u>	<u>Expanded Series D</u>
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, 2014	NIS 595 million	NIS 249 million	NIS 216 million
Index-linked face value as at December 31, 2014	NIS 720 million	N/A	N/A
Carrying value of debentures as at December 31, 2014	NIS 719 million	NIS 245 million	NIS 235 million
Carrying value of interest payable as at December 31, 2014	NIS 12 million	NIS 3 million	NIS 2 million
Market value as at December 31, 2014	NIS 771 million	NIS 286 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 and reporting date	Aa1; AA+	Aa1; AA+	Aa1; AA+

For information on financial criteria relating to Debentures Series D, see Note 22.3.

20.3 For information on liens and guarantees, see Notes 26.2 and 26.3.

Notes to the Consolidated Financial Statements**Note 21 - Short-Term Credit and Current Maturities of Long-Term Loans**

	December 31	
	2014	2013
	NIS millions	
Short-term bank loans	3	-
Current maturities of long-term loans	147	111
	<u>150</u>	<u>111</u>

Note 22 - Long-Term Loans and Credit**22.1 Composition of non-current liabilities**

	December 31	
	2014	2013
	NIS millions	
Loans from others	642	656
Bank loans	550	581
	<u>1,192</u>	<u>1,237</u>
Less current maturities	(147)	(111)
	<u>1,045</u>	<u>1,126</u>

Notes to the Consolidated Financial Statements

Note 22 - Long-Term Loans and Credit (cont'd)

22.2 Particulars of major loans received by the Company

	April 1, 2012	April 2, 2012	December 23, 2013
Loan amount (NIS millions)	222	150	185
Lender	A group of non-banking institutional corporations		Bank Leumi
Linkage	The loan bears CPI linkage differentials		None
Interest	3.55% linked annual interest. An interest rate adjustment mechanism is in place in the event of changes in the Company's rating or the rating of its debentures, with the incremental interest being up to 0.25%.		2.90% fixed annual interest
Effective interest	3.6827%	3.6815%	2.90%
Average life	7.5 years	7.5 years	2.4 years
Repayment of principal	Seven consecutive annual payments of NIS 1 million each, beginning August 2012, and four consecutive annual payments of NIS 53.75 million each, beginning August 2019 and ending August 2022.	Six consecutive annual payments of NIS 2.5 million each, beginning November 2013, and four consecutive annual payments of NIS 33.75 million each, beginning November 2019 and ending November 2022.	4 consecutive annual payments beginning December 23, 2014.
Early repayment	The Company shall be entitled to make early payment commencing 5 years from the date the loan was taken, subject to certain terms, including advance notice and payment of an early repayment fee that shall be calculated according to the formula prescribed in the agreement.		
Interest repayment	Semiannual payments commencing on August 1, 2012.	Semiannual payments commencing on May 30, 2013.	Together with repayment of the principal
Stipulations	The Company undertook, subject to the exceptions set forth in the agreement, not to create any charges on its assets in favor of any third party to guarantee any debt or liability, other than in accordance with the provisions of the agreement. Cause for immediate repayment is in the event of a change of control of the Company (as defined in the agreement) and in the event of a demand for immediate repayment of any of the Company's debts to financial institutions (in the amount set forth in the agreement and in accordance with its terms), on condition that such demand has a material adverse impact on its ability to repay. In addition, financial criteria were set as described in Note 22.3. Furthermore, in the event of modifications to IFRS following which the Company fails to meet the financial ratios defined in the agreement, the ratios will be adjusted with the parties' consent. In the event that no such agreement is reached, the Company shall be entitled to prepare a pro forma report on the basis of the existing accounting standards on the date of signing of the agreement, for the purpose of calculating its compliance with the ratios.		Grounds for immediate repayment are in the event of a change of control of the Company, as well as in the event of failure to make payments to other financial institutions (in the amount set forth in the agreement and in accordance with its terms), in such a manner that may have a material impact on the Company's ability to repay the loan. In addition, financial criteria were set as described in Note 22.3.

Notes to the Consolidated Financial Statements

Note 22 - Long-Term Loans and Credit (cont'd)

22.3 Covenants

The Company has an undertaking to banks in Israel, several companies of Harel Insurance Company Ltd. 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 loan agreement with companies of the Harel Insurance Group has defined a progressive incremental interest mechanism should the 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 23 - Long-Term Payables and Credit Balances

	December 31	
	2014	2013
	NIS millions	
Accrued expenses	7	9
Deferred income	39	38
Derivatives	23	7
Liability in respect of contracts with inferior terms	20	-
Other payables	2	4
	<u>91</u>	<u>58</u>

Notes to the Consolidated Financial Statements

Note 24 - Employee Benefits

- 24.1** 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.

- 24.2** 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.

24.3 Composition

	December 31	
	2014	2013
	NIS millions	
Defined benefit plan		
Present value of funded obligation	132	127
Fair value of the plan assets	(71)	(72)
Total employee benefits, net	<u>61</u>	<u>55</u>

24.4 Defined benefit plans

24.4.1 Changes in the liability for defined benefit plans

	2014	2013
	NIS millions	
Liability in respect of defined benefit plans as at January 1	127	116
Benefits paid by the plans	(10)	(5)
Current service costs and interest	15	15
Actuarial losses (1)	3	1
Other adjustments	(3)	-
Liability in respect of defined benefit plans as at December 31	<u>132</u>	<u>127</u>

(1) As at December 31, 2014 and 2013 an amount of less than NIS 1 million resulted from changes in demographic assumptions and an amount of NIS 5 million and NIS 1 million, respectively, resulted from changes in financial assumptions.

Notes to the Consolidated Financial Statements

Note 24 - Employee Benefits (cont'd)

24.4 Defined benefit plans (cont'd)

24.4.2 Composition of defined benefit plan assets

	December 31	
	2014	2013
	NIS millions	
Cash and cash equivalents	8	8
Government debentures	19	19
Corporate debentures	11	11
Equity instruments and real estate properties	33	34
Total plan assets	71	72

24.4.3 Changes in defined benefit plan assets

	2014	2013
	NIS millions	
Fair value of plan assets as at January 1	72	66
Contributions paid into the plan	6	6
Benefits paid by the plan	(6)	(4)
Interest income	2	4
Actuarial losses	(3)	-
Fair value of plan assets as at December 31	71	72

24.4.4 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions as at the reporting date (weighted average) in nominal terms:

	2014	2013
Discount rate as at December 31 (1)	2.18%-3.07%	3.07%-3.21%
Future salary increases	3.0%-6.0%	3.0%-6.0%
Demographic assumptions (2)		

- (1) In 2014 the discount rate is based on high yield corporate debentures; in 2013 the discount rate is based on Israel government debentures bearing a fixed rate of interest according to the Israel Securities Authority's Staff Accounting Bulletin no. 21-1 regarding the existence of a deep market in high yield corporate bonds in Israel.
- (2) Calculations are based on demographic assumptions, as follows:
 - a) Mortality and loss of work capacity rates are based on mortality tables commonly used by pension funds.
 - b) Employee turnover rates are based on an analysis of historical data. According to this analysis, the main employee turnover rate is 10.31% for each year of seniority. For senior employees, the turnover rate is 16.6% 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, 2014		
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

Notes to the Consolidated Financial Statements

Note 24 - Employee Benefits (cont'd)

24.4 Defined benefit plans (cont'd)

24.4.5 Influence of plan on the Group's future cash flows

The Group's estimate of contributions expected in 2015 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 5.3-6.6 years (for 2013: 5.7-6.2 years).

24.5 Defined contribution plans

In the year ended December 31, 2014 the Group recorded an expense of NIS 36 million (2013: NIS 35 million, 2012: NIS 34 million) in respect of defined contribution plans.

Note 25 - Share-Based Payments

25.1 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.

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.

Notes to the Consolidated Financial Statements**Note 25 - Share-Based Payments (cont'd)****25.1 (cont'd)**

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.

25.2 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 %
January 20, 2014	180,000 to 3 managers	3.1	66.5	69.82	4.2-6.2	23.3%-26.0%	2.2%-3.0%
March 23, 2014	580,000 to 10 managers	9.4	64.5	67.22	4.2-6.2	23.6%-25.9%	1.8%-2.7%
March 25, 2014	500,000 to 3 officers	8.6	65.9	67.14	4.2-6.2	23.6%-25.9%	1.8%-2.7%
August 19, 2014	240,000 to officer	3.4	64.3	70.13	4.2-6.2	23.0%-25.6%	1.4%-2.1%
September 2, 2014	40,000 to manager	0.6	65.2	69.56	4.2-6.2	22.9%-25.7%	1.2%-1.9%
November 25, 2014	40,000 to manager	0.5	62.3	65.86	4.2-6.2	22.5%-25.3%	0.9%-1.7%

Entitlement to exercise the option warrants will vest in three equal tranches, on the grant date in each of the years 2016-2018.

The benefit arising from the grants will be recorded as an expense on the financial statements over the above vesting periods.

25.3 Changes in the number of share options:

	Number of share options (thousands)		
	2014	2013	2012
Balance as at January 1	2,965	4,725	3,247
Additional allotment	1,580	-	2,308
Exercise of options (1)	(1,075)	(1,715)	(465)
Forfeiture of options	(17)	(45)	(365)
Balance as at December 31 (2)	3,453	2,965	4,725

(1) The weighted average share price on the exercise date of the options exercised in 2014 is NIS 66.17 (2013: NIS 56.33, 2012: 47.76).

(2) On December 31, 2014, 724 thousand (2013: 277 thousand) of the outstanding option warrants had vested.

Notes to the Consolidated Financial Statements

Note 25 - Share-Based Payments (cont'd)

25.4 Share-based payments in a subsidiary

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, reflecting (in full dilution) the allotment of 3.5% of Strauss Coffee's share capital (including 1% to the previous CEO). In the event of the sale of 65% or more of the holdings of the private equity investment fund, TPG Capital (which holds 25.1% of Strauss Coffee's shares) to the Company, the plan enables the offeree to receive, in respect of options that have not yet vested, options of the Company of equal value. Entitlement to exercise the options is contingent on the occurrence of exit events as defined in the plan, including a change of ownership of the subsidiary.

The managers' entitlement to exercise the options warrants vests in five equal tranches. As at the grant date approximately 20% of the options had vested, and the remaining options will vest in four equal tranches. For part of the offerees, the immediate vesting of 40% of the options granted to them has been approved.

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.

25.5 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Total expense included in salary expenses	18	18	19

Note 26 - Contingent Liabilities, Liens, Guarantees and Engagements

26.1 Contingent liabilities

26.1.1 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)
December 2007	Haifa District Court	The Company and the subsidiary Strauss Health Ltd. (80%)	Alleged violation of the Consumer Protection Law relating to the labeling of Danone yoghurt products of various kinds in units of weight and not volume*	34
October 2011	Tel Aviv – Jaffa District Court	The Company	Misleading consumers in the labeling of the list of ingredients of chocolate bars	200
November 2013	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in a product recall process	11
March 2014	Haifa District Court	Uri Horazo Yotvata Dairies Ltd. (50%)	Alleged misleading in the labeling of a product	115
October 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the labeling of a product	20
November 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the labeling of a product	11
November 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the sale of a product	38

* In accordance with the merger agreement between the Company and Strauss Holdings of January 2003 the Company has a right to indemnification from Strauss Holdings, subject to the terms determined in the merger agreement, in respect of part of the claim amount, to the extent that the cause of action preceded the closing of the merger transaction (March 22, 2004).

Notes to the Consolidated Financial Statements

Note 26 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.1 (cont'd)

Following is information on a monetary claim and a motion for its certification as a class action, filed against a subsidiary after the statement of financial position date. Based on the opinion of legal counsel, Company management estimates, at this stage, that the **claim is not expected to be accepted**.

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim	Claim amount (NIS millions)
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

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)
September 2011	Central District Court	The Company and Tnuva Central Cooperative for the Marketing of Agricultural Produce In Israel Ltd.	Alleged existence of a restrictive trade practice. In March 2012 the court ruled that the motion to certify the action as a class action be dismissed. In May 2012 an appeal was filed with the Supreme Court. On September 10, 2014 the appellant decided to concede the appeal.	1,429, of which the Company's share is NIS 571 million
August 2012	Central District Court	The Company	Labeling on the packaging of the yogurt with granola and nuts product. On May 12, 2014 the court approved the plaintiff's notice of withdrawal.	72
October 2012	Tel Aviv – Jaffa District Court	The Company	Recall of the "Rich Chocolate Brownies" product due to mold found in some of the products. In April 2014 the court ruled to approve the plaintiff's notice of withdrawal without ruling costs.	11
December 2012	Central District Court	The Company	Alleged misleading in the labeling of yogurt with chocolate-coated Chinese pecan nuts. On May 12, 2014 the court ruled to approve the plaintiff's notice of withdrawal.	85
January 2013	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the labeling of pasta products. In February 2014 the court approved a settlement between the parties, pursuant to which the Company would pay the plaintiff and his attorney a total sum of NIS 45 thousand.	7
January 2013	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the labeling of a product as a kosher dairy product. On June 19, 2014 the court ruled to approve the plaintiff's notice of withdrawal without ruling costs.	270

Notes to the Consolidated Financial Statements

Note 26 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)
26.1 Contingent liabilities (cont'd)
26.1.1 (cont'd)

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim	Claim amount (NIS millions)
February 2013	Tel Aviv – Jaffa District Court	The Company	Alleged misleading labeling of a dairy dessert. In April 2014 the court approved a settlement between the parties pursuant to which the company would pay the plaintiff a total sum of NIS 21 thousand. In the settlement arrangement it was agreed that the Company would donate products amounting to NIS 90 thousand to a nonprofit association.	24
April 2013	Tel Aviv – Jaffa District Court	Uri Horazo Yotvata Dairies Ltd. (50%)	Alleged misleading labeling of a product. In February 2014 the court approved the plaintiff's notice of withdrawal without ruling costs.	50
May 2013	Central District – Lod District Court	The Company	Alleged misleading labeling of a product. On June 19, 2014 the court ruled to approve the plaintiff's notice of withdrawal and charged the Company to pay to the plaintiff compensation and attorney's fees in the amount of NIS 15 thousand.	11
September 2013	Haifa District Court	The Company	Alleged misleading labeling of a product. On July 14, 2014 the court ruled to approve the plaintiff's notice of withdrawal without ruling costs.	691
November 2013	Tel Aviv – Jaffa District Court	Uri Horazo Yotvata Dairies Ltd. (50%)	Alleged misleading in a product recall process. On June 24, 2014 the court ruled to approve the plaintiff's notice of withdrawal without ruling costs.	52
December 2013	Haifa District Court	The Company	Alleged misleading labeling of a product. On June 29, 2014 the court ruled to approve the plaintiff's notice of withdrawal without ruling costs.	10
January 2014	Haifa District Court	The Company	Alleged misleading labeling of a product. On September 11, 2014 the court ruled to dismiss the monetary claim and the motion for class certification.	30
September – October 2013	Haifa District Court	The Company	Alleged misleading labeling of a product – two claims in the amount of NIS 274 million and NIS 248 million, in which respect combined force of judgment was awarded to a settlement arrangement between the parties on February 4, 2014. The judgment determined, <i>inter alia</i> , that the Company would pay the plaintiffs compensation and attorney's fees in a total amount of approximately NIS 63 thousand and would donate products amounting to a total of NIS 300 thousand.	522

Notes to the Consolidated Financial Statements

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.2 Claims and other contingent liabilities

26.1.2.1 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. See also Note 26.4.2.

26.1.2.2 On January 31, 2010 Carmit Candy Industries Ltd. (hereinafter: "Carmit") filed an action in the Central District Court against the Company and three of its executives in the amount of NIS 22 million, which was raised and set at NIS 36 million in 2013. The plaintiff claims that it was appointed in the early 2000s to serve as the exclusive representative-distributor of the international company Cadbury, and that the Company allegedly prevented the entry of products competing with its products to the Israeli market. As a result, Cadbury products failed to penetrate the domestic market and in 2005 Cadbury terminated its relationship with the plaintiff.

In the reporting period the Company reached agreements with Carmit, which were anchored in a mediation agreement that led to the conclusion of all proceedings in the abovementioned claim. According to the mediation agreement the Company paid Carmit the sum of NIS 9 million in the reporting period, and the agreement further determines, *inter alia*, that the Company undertakes to purchase from Carmit products manufactured by it on a scale of NIS 50 million during a period of four to ten years commencing on October 1, 2014. To the extent that the Company shall seek to discontinue the above undertaking, it is entitled to give Carmit notice of discontinuation and to redeem the undertaking according to the formula set forth in the agreement.

26.1.2.3 Legal and monetary claims that were not mentioned in the preceding notes have been filed against Group companies. As at December 31, 2014 claims in the civil courts and other claims) total NIS 106 million. 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.

26.1.2.4 There are lawsuits in the civil courts and other claims underway against an equity-accounted investee in Brazil. As at December 31, 2014, these claims (the Group's share) totaled approximately NIS 174 million (of which approximately NIS 90 million are in respect of claims by the tax authorities, NIS 74 million are in respect of labor claims and NIS 10 million are in respect of civil suits). Based on the information received from the Company's legal counsel, an analysis of the pending proceedings and previous experience as far as the amounts claimed are concerned, the equity-accounted investee estimates that the chances of approximately NIS 129 million of the claims are slight and has made provisions totaling approximately NIS 13 million (the Group's share), which is considered sufficient to cover the expected losses from the above claims.

Notes to the Consolidated Financial Statements

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.1 Contingent liabilities (cont'd)

26.1.2 Claims and other contingent liabilities (cont'd)

26.1.2.4 (cont'd)

Additionally, on December 24, 2014 a monetary claim and a motion for class certification were filed with the Tel Aviv – Jaffa District Court against an equity-accounted investee in Israel, relating to alleged misleading in sales of products in large packaging. The total claim amount is approximately NIS 12 million. The Company rejects the arguments in the claim and will take action for their withdrawal. In the opinion of the Company's legal counsel the claim is not expected to be accepted.

26.1.2.5 See Note 37.1.2 for information on benefits received by Group companies by virtue of the laws for the encouragement of capital investments.

26.2 Liens

26.2.1 The following encumbrances have been created to secure the liabilities of the Group companies:

	December 31	
	2014	2013
	NIS millions	
On current assets abroad in favor of foreign banks	3	3
On the assets of investees	57	55

26.2.2 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.

26.2.3 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.

26.2.4 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. See also Note 22.2.

26.2.5 The subsidiary Strauss Coffee and Sao Miguel have mutually encumbered their shares in the joint venture in Brazil to secure the compliance of each with representations arising from the joint venture agreement and the shareholders' agreement. If either party breaches the representations in the said joint venture agreement or the shareholders' agreement, the party in breach shall transfer its encumbered shares to the counterparty that is not in breach, in the amounts required to cure the breach, together with all rights attaching to the shares (such as distribution of profits). During the breach period until the transfer of the shares, the party in breach is entitled to voting rights in respect of its shares, subject to the instructions of the counterparty that is not in breach.

Notes to the Consolidated Financial Statements

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.3 Guarantees

- 26.3.1** Guarantees and comfort letters were given to banks and others with respect to the business operations of the Group, as follows:

	December 31	
	2014	2013
	NIS millions	
In favor of subsidiaries in Israel and abroad	384	354
In favor of others in Israel and abroad	23	71

- 26.3.2** There are mutual guarantees between the Company and subsidiaries, limited (see above) and unlimited in amount, to secure all liabilities to banks and others.

26.4 Material commitments

- 26.4.1** 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.

- 26.4.2** 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.

- 26.4.3** 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.

- 26.4.4** 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.

- 26.4.5** 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.

Notes to the Consolidated Financial Statements

Note 26 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

26.4 Material commitments (cont'd)

26.4.5 (cont'd)

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.

26.4.6 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.

26.4.7 On January 21, 2012 the subsidiary Strauss Coffee signed an agreement with the owners of Norddeutsche Kaffeewerke GmbH (hereinafter: "NDKW"), for the leasing of its freeze-dried coffee plant for a five-year period, for a yearly consideration of €2.5 million (of which €10 million were paid in advance).

On March 27, 2012 the subsidiary Strauss Coffee granted 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.

26.4.8 For information on engagements in operating leases, see Note 27.

26.4.9 For information on commitments relating to derivatives, see Note 30.

26.4.10 For information on transactions with interested and related parties, see Note 39.

Notes to the Consolidated Financial Statements

Note 27 - Operating Leases

27.1 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	
	2014	2013
	NIS millions	
In the first year	75	75
Between one and five years	144	162
In the fifth year and thereafter	83	110
	<u>302</u>	<u>347</u>

27.1.1 Information on material lease contracts

Lessee	Lessor	The leased property	Remaining lease period
The Company	Third party	Tzrifin distribution and logistics center	Until November 2021
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
The Company	Related company (1)	Petach Tikva distribution and logistics center	Until December 2015
Subsidiary	Third party	Stores in New York, Philadelphia, Boston, New Jersey and Maryland for the operation of "Chocolate Bars"	Until 2024
Subsidiary	Third party	Offices in New York	Until 2017
Subsidiary	Third party	Two production sites including storage, distribution center and offices in Romania	Until 2026
Subsidiary	Third party	Factory adjacent to Kibbutz Netiv Halamed Heh, offices for plant management and other services	Until January 2018
Subsidiary	Third party	Management offices and incoming call center in Or Yehuda	Until December 2016 with an option for a further three years
Subsidiary	Third party	Spaces in Or Yehuda	Until December 2016
Subsidiary	Third party	Building in Petach Tikva serving for R&D labs	Until May 31, 2016
Subsidiary	Third party	Offices in Shanghai and Shenzhen, China	Until August 2015
Subsidiary	Third party	Freeze-dried coffee production plant in Germany	Until January 2017, with an option for a further three years
Subsidiary	Third party	Coffee points of sale throughout the country	Until 2019
(1)	See Note 39.5.		

Notes to the Consolidated Financial Statements

Note 27 - Operating Leases (cont'd)

27.1 Leases in which the Group is the lessee (cont'd)

27.1.2 In the year ended December 31, 2014 an amount of NIS 86 million was recorded as an expense in the statement of income in respect of operating leases (2013 and 2012: NIS 85 million and NIS 94 million, respectively).

Note 28 - Capital and Reserves

28.1 Share capital

28.1.1 Composition

	December 31	
	2014	2013
	Number of shares (in thousands) of NIS 1 par value	
Authorized	150,000	150,000
Issued and paid-up	107,949	107,499
Treasury (dormant) shares (See Note 28.2)	(868)	(868)
Capital listed for trading	107,081	106,631

28.1.2 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.

28.2 Treasury shares

The reserve for treasury shares includes the cost of shares of the Company held by the Company. On December 31, 2014 and 2013 the Company held 868 thousand Company shares, constituting approximately 0.8% of the shares of the Company. These shares are suspended until reissued.

28.3 Dividend distribution

Declaration date	Payment date	Total dividend paid	Dividend per share
		NIS millions	NIS
October 30, 2013 (ex-date: November 15, 2013)	November 28, 2013	157	1.473
October 3, 2012 (ex-date: November 15, 2012)	November 28, 2012	140	1.318

As a result of the dividend distribution, the exercise price of option warrants granted to employees was adjusted. See Note 25.1.

28.4 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. See also Note 3.3.1.

Notes to the Consolidated Financial Statements

Note 28 - Capital and Reserves (cont'd)

28.5 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:

	December 31		
	2014	2013	2012
	NIS millions		
International Coffee	(271)	(239)	(53)
International Dips and Spreads	37	(15)	(6)
Other	1	(16)	(2)
Total	(233)	(270)	(61)

Note 29 - Segment Reporting

29.1 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.
- 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.

Notes to the Consolidated Financial Statements

Note 29 - Segment Reporting (cont'd)**29.1 General (cont'd)**

- 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.

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:

- One-time impairment of assets
- 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 and non-recurring grants

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.

Notes to the Consolidated Financial Statements

Note 29 - Segment Reporting (cont'd)

29.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements

	Year ended December 31		
	2014	2013	2012
	NIS millions		
Income			
Sales to external customers:			
Health & Wellness	1,974	1,987	1,920
Fun & Indulgence	998	1,013	981
Total Israel	2,972	3,000	2,901
Israel Coffee	689	715	708
International Coffee	3,136	3,229	3,498
Total Coffee	3,825	3,944	4,206
International Dips and Spreads	683	600	522
Other	660	599	553
Sales to other segments:			
Health & Wellness	7	6	9
Fun & Indulgence	16	25	28
Total Israel	23	31	37
Israel Coffee	2	6	22
International Coffee	-	-	-
Total Coffee	2	6	22
International Dips and Spreads	-	-	-
Other	1	-	1
Total income of the segments	8,166	8,180	8,242
Elimination of inter-segment sales	(26)	(37)	(60)
Total income of segments excluding inter-segment sales	8,140	8,143	8,182
Adjustments to the equity method	(2,725)	(2,538)	(2,483)
Total consolidated income	5,415	5,605	5,699

Notes to the Consolidated Financial Statements

Note 29 - Segment Reporting (cont'd)

29.2 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		
	2014	2013	2012
	NIS millions		
Profit			
Health & Wellness	203	200	187
Fun & Indulgence	112	115	110
Total Israel	<u>315</u>	<u>315</u>	<u>297</u>
Israel Coffee	101	88*	77
International Coffee	247	315*	235
Total Coffee	<u>348</u>	<u>403</u>	<u>312</u>
International Dips and Spreads	75	57	44
Other	8	(6)	(28)
Total profit of the segments	<u>746</u>	<u>769</u>	<u>625</u>
Unallocated income (expenses):			
Valuation of commodity hedging transactions as at the end of the year	(22)	12	(5)
Other income (expenses), net	(121)	(100)	44
Share based payment and non-recurring grant	<u>(21)</u>	<u>(18)</u>	<u>(19)</u>
Total operating profit	582	663	645
Adjustments to the equity method	<u>(37)</u>	<u>(53)</u>	<u>(44)</u>
Total operating profit in the consolidated financial statements	545	610	601
Financing expenses, net	<u>(67)</u>	<u>(114)</u>	<u>(114)</u>
Income before taxes on income	<u>478</u>	<u>496</u>	<u>487</u>

* Reclassified to match current period

Notes to the Consolidated Financial Statements

Note 29 - Segment Reporting (cont'd)

29.3 Additional information on operating segments and reconciliation with the consolidated financial statements

	Year ended December 31		
	2014	2013	2012
	NIS millions		
Depreciation and amortization			
Health & Wellness	49	50	54
Fun & Indulgence	29	28	27
Total Israel	78	78	81
Israel Coffee (1)	17	44	17
International Coffee (2)	87	59	76
Total Coffee	104	103	93
International Dips and Spreads	16	19	20
Other	35	36	30
Total depreciation and amortization attributed to segments	233	236	224
Adjustments:			
Depreciation of unallocated non-financial assets	22	23	48
Adjustments to the equity method	(37)	(31)	(38)
Total depreciation and amortization in consolidated statements	218	228	234

(1) In 2013, including expenses in respect of restructuring in the Israel Coffee segment.

(2) In 2014, including a goodwill impairment loss attributed to the operation of the subsidiary in Russia. See Note 15.3.

29.4 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:

	Year ended December 31		
	2014	2013	2012
	NIS millions		
Israel	3,932	3,970	3,884
North America	83	88	90
Europe and rest-of-world	1,400	1,547	1,725
Total consolidated income	5,415	5,605	5,699
Adjustments to income of operating segments	2,725	2,538	2,483
Total income of operating segments	8,140	8,143	8,182

Notes to the Consolidated Financial Statements

Note 29 - Segment Reporting (cont'd)

29.4 Information on geographical segments (cont'd)

The non-current assets of the Group, as reported in the statement of financial position, on the basis of their geographical location, are as follows:

	As at December 31	
	2014	2013
	NIS millions	
Israel	1,902	1,758
North America	39	38
Europe and rest-of-world	683	853
Total consolidated assets	2,624	2,649
Adjustment to assets of operating segments	1,011	825
Total assets of operating segments	3,635	3,474

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.

29.5 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		
	2014	2013	2012
	NIS millions		
Income			
Dairy products	1,402	1,448	1,412
Salads	289	278	262
Other Health & Wellness products	249	261	247
Confectionery and bakery products	827	828	811
Coffee	2,045	2,247	2,429
Water purification devices and related services	491	427	403
Other	112	116	135
Total consolidated income in statement of income	5,415	5,605	5,699
Adjustments to income of operating segments	2,725	2,538	2,483
Total income of operating segments	8,140	8,143	8,182

Notes to the Consolidated Financial Statements

Note 30 - 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.

30.1 Credit risk

In 2014 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, and where the loss of one of the customers mentioned below would have a material impact on the results of the Group's business operations in the medium and long term.

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.

30.1.1 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.

30.1.2 Sureties and other credit enhancements

As at December 31, 2014 credit to retail customers in the amount of NIS 608 million (2013: NIS 427 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 76 million as at 31 December 2014 (2013: NIS 73 million).

In the Group's opinion, if it did not have the credit insurance, deposits and guarantees as mentioned above, the Group would have not recognized a significant additional impairment above the amount presented in Note 9.

30.2 Interest rate risk

The Company has floating interest loans in an immaterial amount, and consequently exposure of its financial results (financing expenses) to interest rate risk is immaterial.

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)

30.2 Interest rate risk (cont'd)

30.2.1 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:

	As at December 31	
	2014	2013
	NIS millions	
Fixed interest financial instruments		
Financial assets	278	285
Financial liabilities	(2,201)	(2,250)
	<u>(1,923)</u>	<u>(1,965)</u>
Floating interest financial instruments		
Financial assets	664	674
Financial liabilities (1)	(269)	(204)
	<u>395</u>	<u>470</u>

- (1) Loans at floating interest rates denominated in US Dollars (hereinafter: "Dollar") and Shekel loans bearing interest at the prime rate. See Note 20.

30.2.2 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.

30.2.3 Fair value sensitivity analysis regarding floating interest instruments

The Company uses IRS transactions to hedge the variable Dollar interest risk. As a 31st December 2014 and 2013, the carrying value and fair value of the transactions were immaterial.

30.2.4 Cash flow 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, 2014				
	2% increase	1% increase	Income (expense) relating to floating interest	1% decrease	2% decrease
	NIS millions				
Total income (expense)	<u>10</u>	<u>5</u>	<u>(1)</u>	<u>(5)</u>	<u>(10)</u>
	December 31, 2013				
	2% increase	1% increase	Income (expense) relating to floating interest	1% decrease	2% decrease
	NIS millions				
Total income (expense)	<u>13</u>	<u>6</u>	<u>9</u>	<u>(6)</u>	<u>(13)</u>

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)

30.2 Interest rate risk (cont'd)

30.2.4 Cash flow sensitivity analysis regarding floating interest instruments (cont'd)

Additional information:

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.

30.3 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).

30.3.1 Following is an itemization of the Group's material derivative financial instruments (stock exchange derivatives) as at December 31, 2014:

			Face value*	Carrying amount and fair value
			NIS millions	
		Exercise/expiry date		
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)
				<u>(19)</u>

As at December 31, 2013 the carrying value of these derivative instruments is immaterial.

30.3.2 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, 2014					
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
			NIS millions		
Arabica	9	5		(5)	(10)
Robusta	12	6		(6)	(13)
Total	<u>21</u>	<u>11</u>	<u>(19)</u>	<u>(11)</u>	<u>(23)</u>
December 31, 2013					
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
			NIS millions		
Arabica	2	1		(1)	(2)
Robusta	12	6		(5)	(10)
Total	<u>14</u>	<u>7</u>	<u>(2)</u>	<u>(6)</u>	<u>(12)</u>

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risk

30.4.1 The Group uses derivatives (OTC) in order to hedge part of its foreign currency risk. As at December 31, 2014 the carrying value and fair value of derivative financial instruments of the Group (foreign currency) amounted to approximately NIS 18 million (net assets), and as at December 31, 2013 – a net liability of approximately NIS 1 million.

30.4.2 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, 2014 and December 31, 2013. 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, 2014				
				Carrying amount and fair value		
		10% increase	5% increase		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)

		December 31, 2013				
				Carrying amount and fair value		
		10% increase	5% increase		5% decrease	10% decrease
NIS/USD exchange rate		3.8181	3.6446	3.4710	3.2975	3.1239
Total NIS/USD derivatives		10	5	(1)	(4)	(10)

Notes to the Consolidated Financial Statements**Note 30 - Financial Instruments (cont'd)****30.4 Foreign currency risk (cont'd)****30.4.3 Statement of financial position according to linkage bases**

The Group's currency risk, based on carrying amounts, is as follows:

	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
Income tax receivables	-	1	-	-	-	2	50	53
Other receivables and debit balances	-	5	127	36	-	9	79	256
Inventory	-	-	-	-	-	-	681	681
Assets held for sale	-	-	-	-	-	-	36	36
Investment in equity-accounted investees	-	-	-	-	-	-	1,030	1,030
Other investments and long-term debit balances	-	48	97	90	-	6	4	245
Fixed assets	-	-	-	-	-	-	1,596	1,596
Intangible assets	-	-	-	-	-	-	979	979
Deferred expenses	-	-	-	-	-	-	20	20
Investment property	-	-	-	-	-	-	29	29
Deferred tax assets	-	-	-	-	-	-	22	22
Current maturities of debentures	(179)	-	-	-	-	-	-	(179)
Short-term loans and credit	(4)	(94)	(50)	-	(2)	-	-	(150)
Trade payables	-	(539)	(215)	(26)	(6)	(60)	-	(846)
Income tax payables	-	-	-	-	-	-	(12)	(12)
Other payables and credit balances	(18)	(369)	(43)	(8)	(37)	(33)	(88)	(596)
Provisions	-	(20)	-	-	-	-	(17)	(37)
Debentures	(540)	(480)	-	-	-	-	-	(1,020)
Long-term loans and credit	(475)	(519)	(51)	-	-	-	-	(1,045)
Long-term payables and credit balances	-	(23)	(4)	-	-	(18)	(46)	(91)
Employee benefits, net	-	-	-	-	-	-	(61)	(61)
Deferred tax liabilities	-	-	-	-	-	-	(165)	(165)
Total	(1,153)	(862)	(14)	203	66	160	4,140	2,540

Notes to the Consolidated Financial Statements**Note 30 - Financial Instruments (cont'd)****30.4 Foreign currency risk (cont'd)****30.4.3 Statement of financial position according to linkage bases (cont'd)**

	December 31, 2013							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-financial	Total
	NIS millions							
Cash and cash equivalents	-	527	110	77	9	49	-	772
Securities and deposits	73	173	-	-	-	-	-	246
Trade receivables	-	553	31	6	141	162	-	893
Income tax receivables	-	-	-	-	-	-	44	44
Other receivables and debit balances	4	14	79	32	2	7	69	207
Inventory	-	-	-	-	-	-	661	661
Investment in equity-accounted investees	-	-	-	-	-	-	887	887
Other investments and long-term debit balances	3	52	99	94	-	16	-	264
Fixed assets	-	-	-	-	-	-	1,490	1,490
Intangible assets	-	-	-	-	-	-	1,082	1,082
Deferred expenses	-	-	-	-	-	-	52	52
Investment property	-	-	-	-	-	-	25	25
Deferred tax assets	-	-	-	-	-	-	20	20
Current maturities of debentures	(180)	-	-	-	-	-	-	(180)
Short-term loans and credit	(4)	(86)	(21)	-	-	-	-	(111)
Trade payables	-	(566)	(115)	(31)	(8)	(49)	-	(769)
Income tax payables	-	-	-	-	-	-	(8)	(8)
Other payables and credit balances	(21)	(416)	(22)	(10)	(49)	(36)	(64)	(618)
Provisions	-	-	-	-	-	-	(48)	(48)
Debentures	(720)	(245)	-	-	-	-	-	(965)
Long-term loans and credit	(498)	(541)	(87)	-	-	-	-	(1,126)
Long-term payables and credit balances	-	(7)	(11)	-	-	(1)	(39)	(58)
Employee benefits, net	-	-	-	-	-	-	(55)	(55)
Deferred tax liabilities	-	-	-	-	-	-	(145)	(154)
Total	(1,343)	(542)	63	168	95	148	3,962	2,551

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)

30.4 Foreign currency risk (cont'd)

30.4.4 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the major currencies as at December 31, 2014 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).

	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

Any change in the exchange rates of the major currencies as at December 31, 2013 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) and income for the period by immaterial amounts.

30.5 CPI risk

30.5.1 The Company uses CPI futures for varying periods to partly hedge the index risk arising from the excess of liabilities. See Note 30.5.2 below.

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)

30.5 CPI risk (cont'd)

30.5.2 Sensitivity analysis – CPI-linked liabilities

Any increase (decrease) in the CPI in relation to the known index inherent in the liability value of the debentures and linked loans will increase (decrease) shareholders' 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, 2014					
	5% increase	2.5% increase	Carrying amount (1)	2.5% decrease	5% decrease
	NIS millions				
Debentures					
Series B	(36)	(18)	731	18	36
Linked loans	(24)	(12)	485	12	24
Total	(60)	(30)	1,216	30	60
December 31, 2013					
	5% increase	2.5% increase	Carrying amount (1)	2.5% decrease	5% decrease
	NIS millions				
Debentures					
Series B	(46)	(23)	915	23	46
Linked loan	(25)	(13)	509	13	25
Total	(71)	(36)	1,424	36	71

(1) Including interest payable

30.5.3 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, 2014					
	1% increase	0.5% increase	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS millions				
CPI futures	10	5	(27)	(5)	(10)
December 31, 2013					
	1% increase	0.5% increase	Fair value and carrying amount	0.5% decrease	1% decrease
	NIS millions				
CPI futures	13	6	(7)	(6)	(13)

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)**30.6 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.

Notes to the Consolidated Financial Statements**Note 30 - Financial Instruments (cont'd)****30.6 Liquidity risk (cont'd)**

			December 31, 2014						
Note	Carrying amount	Contractual cash flow	2015	2016	2017	2018	2018	2020 and thereafter	
NIS millions									
Trade payables	17	846	846	846	-	-	-	-	
Derivatives	18	37	37	37	-	-	-	-	
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	435	
Dollar loan from banks	20.1	38	38	16	22	-	-	-	
Shekel loan from banks	20.1	100	135	6	6	6	6	55	
Shekel loan from banks	20.1	103	127	4	4	4	4	55	
Shekel loan from banks	20.1	139	147	50	49	48	-	-	
Shekel loans from others	20.1	375	461	17	17	17	17	103	
Shekel loan from others	20.1	261	350	26	26	25	24	24	
Dollar loans from others	20.1	60	60	34	13	13	-	-	
Dollar loan from others	20.1	3	3	2	1	-	-	-	
Ruble loans from banks	20.1	3	3	3	-	-	-	-	
Loans from banks and others	20.1	113	121	40	35	26	17	3	
		3,836	4,241	1,833	392	369	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.

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)

30.6 Liquidity risk (cont'd)

			December 31, 2013						
Note	Carrying amount	Contractual cash flow	2014	2015	2016	2017	2018	2019 and thereafter	
NIS millions									
Trade payables	17	769	769	769	-	-	-	-	
Derivatives	18	11	11	11	-	-	-	-	
Redeemable preferred shares (1)	18	13	13	13	-	-	-	-	
Other payables (2)	18	594	557	557	-	-	-	-	
Debentures Series B	20.1	900	994	214	206	199	191	184	
Debentures Series D	20.1	245	337	11	11	11	21	25	
Dollar loan from banks	20.1	43	45	10	15	20	-	-	
Shekel loan from banks	20.1	100	140	6	6	6	6	6	
Shekel loan from banks	20.1	103	130	4	4	4	4	4	
Shekel loan from banks	20.1	185	200	53	50	49	48	-	
Shekel loan from others	20.1	152	192	8	8	8	8	8	
Shekel loan from others	20.1	228	287	9	9	9	9	8	
Shekel loan from others	20.1	272	378	27	26	26	25	24	
Bank loans	20.1	48	48	12	12	12	12	-	
Bank loans	20.1	18	18	-	18	-	-	-	
Loans from others	20.1	0	0	0	-	-	-	-	
Banks and other loans	20.1	88	91	31	49	10	1	-	
		3,769	4,210	1,735	414	354	325	259	
								1,123	

(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.

Notes to the Consolidated Financial Statements

Note 30 - Financial Instruments (cont'd)

30.7 Fair value of financial instruments

30.7.1 Fair value

The carrying amount of cash and cash equivalents, short and long-term investments, trade receivables, other receivables and debit balances, credit from banks and others, trade payables and other payables and credit balances is the same as or proximate to their fair value, other than as presented below.

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, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS millions			
Debentures Series B (1)	731	771	915	991
Debentures Series D (1)	485	535	248	266

- (1) The fair value is based on the prices of the Tel Aviv Stock Exchange, i.e. Level 1 in the fair value hierarchy. The carrying amount includes interest accrued on Series B debentures as at December 31, 2014 and December 31, 2013 in the amount of NIS 12 million and NIS 15 million, respectively, and on Series D debentures as at December 31, 2014 and December 31, 2013 in the amount of NIS 5 million and NIS 3 million, respectively.

See Note 5 regarding determination of the fair value of financial instruments.

30.7.2 Fair value hierarchy

The table below illustrates an analysis of financial instruments measured at fair value, by valuation method. The different levels were defined as follows:

- Level 1: quoted prices (unadjusted) in an active market for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, directly or indirectly.
- Level 3: inputs that are not based on observable market data.

	Note	December 31, 2014		December 31, 2013	
		Level 1	Level 2	Level 1	Level 2
		NIS millions			
Financial assets (liabilities)					
Marketable securities	8	98	-	242	-
Trade receivables- derivatives	10, 13	10	17	10	1
Trade payables- derivatives	18, 23	(33)	(27)	(11)	(8)
Available-for-sale financial asset	13	23	-	33	-
		98	(10)	274	(7)

As at December 31, 2014 and 2013, the Company does not have financial instruments classified as Level 3.

Notes to the Consolidated Financial Statements**Note 31 - Sales**

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Sales of manufactured products	4,470	4,656	4,746
Sales of other products	635	678	711
Other income (1)	310	271	242
	<u>5,415</u>	<u>5,605</u>	<u>5,699</u>

(1) Other income includes mainly income from providing services for water purification devices and royalty income.

Note 32 - Cost of Sales**32.1 By components**

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Materials consumed (1)	2,587	2,670	2,813
Wages, salaries and related expenses	396	401	400
Depreciation and amortization	107	116	116
Other manufacturing expenses	202	211	210
Change in provision for warranty	4	3	2
Increase in inventories of	<u>3,296</u>	<u>3,401</u>	<u>3,541</u>
Valuation of balance of commodity hedging transactions as at the end of the year	<u>22</u>	<u>(12)</u>	<u>5</u>
	<u>3,318</u>	<u>3,389</u>	<u>3,546</u>

(1) In 2014, including a net loss of NIS 35 million (2013 and 2012: NIS 23 million and NIS 28 million, respectively) in respect of inventory impairment.

32.2 By source of income

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Manufactured products	2,904	2,958	3,122
Other products	270	334	333
Other income (1)	122	109	86
	<u>3,296</u>	<u>3,401</u>	<u>3,541</u>
Valuation of balance of commodity hedging transactions as at the end of the year	<u>22</u>	<u>(12)</u>	<u>5</u>
	<u>3,318</u>	<u>3,389</u>	<u>3,546</u>

(1) Costs in respect of other income include costs of services for water purification devices.

Notes to the Consolidated Financial Statements**Note 33 - Selling and Marketing Expenses**

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Salaries and related expenses	544	544	547
Advertising	312	331	301
Doubtful and bad debts	4	8	2
Transport expenses	212	219	211
Maintenance expenses	154	143	153
Depreciation and amortization	52	51	55
Reimbursement of expenses by equity-accounted investees	(33)	(32)	(34)
Other	73	77	85
	<u>1,318</u>	<u>1,341</u>	<u>1,320</u>

Note 34 - General and Administrative Expenses

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Salaries and related expenses (1)	212	227	226
Depreciation and amortization	23	18	16
Contributions	8	8	8
Consulting and professional fees	59	67	58
Maintenance expenses	23	24	26
Other	16	6	7
Reimbursement of expenses by joint ventures	(2)	(4)	(1)
	<u>339</u>	<u>346</u>	<u>340</u>
(1) Less:			
Salaries and related expenses capitalized to software for self-use	<u>6</u>	<u>5</u>	<u>5</u>

Notes to the Consolidated Financial Statements**Note 35 - Other Income (Expenses), Net**

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Other income			
Gain on sale of fixed assets and investment property, net	-	22	115
Gain on decrease in holding rate of equity-accounted investee	-	-	7
Dividend income on available-for-sale financial assets	2	2	1
Other income	2	1	1
Total other income	<u>4</u>	<u>25</u>	<u>124</u>
Other expenses			
Loss on sale of subsidiary	-	-	(14)
Impairment loss on investment property	-	(4)	(23)
Restructuring expenses	(17)	(66)	(14)
Expenses of establishment and purchase of operations	(17)	(3)	(4)
Loss on fixed assets, deferred expenses and assets held for sale, net (1)	(41)	-	-
Impairment loss on intangible assets(2)	(32)	-	(22)
Impairment of investments in investees	(1)	(36)	-
Other expenses	(10)	(10)	(2)
Total other expenses	<u>(118)</u>	<u>(119)</u>	<u>(79)</u>
Other income (expenses), net	<u>(114)</u>	<u>(94)</u>	<u>45</u>

(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 the reporting period, 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 goodwill impairment in a subsidiary.

Notes to the Consolidated Financial Statements

Note 36 - Financing Expenses, Net

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Financing income:			
Interest income	14	22	26
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	1	-	-
Total financing income	40	22	26
Financing expenses:			
Net loss on derivative financial instruments measured at fair value through profit or loss	-	-	(12)
Interest expenses	(107)	(103)	(106)
Net loss deriving from changes in exchange rates	-	(6)	(3)
Linkage differences to the CPI in Israel, net	-	(27)	(19)
Total financing expenses	(107)	(136)	(140)
Financing expenses, net	(67)	(114)	(114)

Note 37 - Taxes on Income

37.1 Information on the tax environment in which the Group companies in Israel operate

37.1.1 Corporate tax

- The following tax rates are relevant to the Company in 2012-2014:

25% - 2012

25% - 2013

26.5%-2014

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 determined, *inter alia*, that the corporate tax rate would be raised by 1.5% from 2014 onwards, to 26.5%.

Current taxes for the reporting periods were calculated according to the tax rates presented above.

- 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.

Notes to the Consolidated Financial Statements

Note 37 - Taxes on Income (cont'd)

37.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

37.1.2 Benefits under laws for the encouragement of capital investments

In accordance with the Law for the Encouragement of Capital Investments, 1959 and the Law for the Encouragement of Capital Investments in Agriculture, 1980 (hereinafter: the "Capital Investment Encouragement Laws") some of the Group's production facilities were granted the status of an "approved enterprise", which entitles them to investment grants or tax benefits ("alternative benefits track"). The benefits are contingent upon fulfillment of the terms prescribed in the Capital Investment Encouragement Laws and their related regulations, and in the deeds of approval under which the investments in the approved enterprises were made. The main customary conditions in the deeds of approval are: the minimal percentage of the investments in fixed assets by paid-up share capital; keeping of proper books of account in the double entry system; execution of the plan in a timely manner, as stipulated in the deed of approval; operation of the assets of the approved enterprise for a period of no less than 7 years from the date they were purchased by the Company; increase of the employee headcount or of exports. Failure to comply with these terms is liable to lead to the benefits being revoked and refunded plus the higher of arrears interest or linkage differentials. To date, the relevant companies have complied with the conditions.

A. Grants track

In accordance with the Law for the Encouragement of Capital Investments, income from an "approved enterprise" in the grants track is entitled to tax benefits for a period of 7 years from the beginning of benefits period. The benefits are a tax exemption for two years commencing in the year in which the Company first had taxable income from any plan. A dividend, if distributed from such tax exempt income, will, according to the Encouragement Law, lead to a corporate tax liability in respect of the dividend paid. To guarantee its obligations in respect of receipt of the grants, each of the companies has registered a floating charge in favor of the State of Israel on all its assets and insurance rights.

Following is information on plans in the Group as at the reporting date –

<u>Company</u>	<u>Benefit period</u>
Strauss Group Ltd. (the confectionery plant)	Has not yet commenced since the Company has not yet fully met the conditions of the approval (1)
Strauss Frito-Lay Ltd.	Until the end of 2017 (2)
Uri Horazo Yotvata Dairies Ltd.	Has not yet commenced (3)

- (1) The expansion plan in the grants track was approved at the beginning of 2004.
- (2) In 2003 a new expansion plan in the grants track was approved for the company, in which the company undertook to meet various conditions and targets. The company has not yet sought to utilize the tax benefits to which it is entitled according to the plan. The company has received final approval for execution.
- (3) The company has completed the entire investment plan and received a final approval for execution.

As at the reporting date the companies that benefited from the grants as aforementioned have complied with all terms and conditions of the approval with respect to the grants.

B. 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 for 2011 according to a rate of 24%; for 2012 – 25%; and for 2013 – 25%, and paid the advance payments arising from this calculation. Income tax returns for 2011, 2012 and 2013 were filed according to the tax rates defined in the Encouragement Laws.

Notes to the Consolidated Financial Statements

Note 37 - Taxes on Income (cont'd)

37.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

37.1.2 Benefits under laws for the encouragement of capital investments (cont'd)

C. 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.

37.1.3 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:

- Higher rates of depreciation.
- 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.
- Amortization of patents and knowhow used for the plant's development over an 8-year period.
- 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.

37.1.4 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.

37.2 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

Notes to the Consolidated Financial Statements**Note 37 - Taxes on Income (cont'd)****37.2 Information on the tax environment in which the Group companies outside of Israel operate (cont'd)**

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.

37.2.1 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.

37.3 Final tax assessments

In June 2014 the company and a number of subsidiaries in Israel were issued with final tax assessments for the years 2008-2010, with no impact on the tax expense in the reporting period. The rest of the major subsidiaries operating 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 and including the 2009 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 and for Max Brenner USA, Inc. final tax assessments have not yet been issued.

37.4 Carryforward tax losses

The Group has carryforward tax losses transferred to the subsequent year in the amount of NIS 467 million (2013: NIS 393 million). Deferred taxes were not recorded in respect of losses in the amount of NIS 351 million (2013: NIS 334 million).

37.5 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.

37.6 Composition of income tax expense

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Current taxes	134	152	136
Deferred taxes	13	13	27
Taxes in respect of prior years	(3)	(4)	(1)
Effect of changes in tax rates	-	4	-
	<u>144</u>	<u>165</u>	<u>162</u>

Notes to the Consolidated Financial Statements**Note 37 - Taxes on Income (cont'd)****37.7 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		
	2014	2013	2012
	NIS millions		
Income before taxes on income	478	496	487
Principal tax rate	26.5%	25%	25%
Taxes on income at the principal tax rate	127	124	122
Effect of change in tax rates	-	4	-
Tax in respect of rapped profits	-	20	-
Tax expenses on foreign dividend	20	5	5
Permanent differences, net	17	28	14
Temporary differences (losses utilized) in which respect deferred taxes were not recorded	(3)	3	15
Share of profits of equity-accounted investees, in which respect deferred taxes were not recorded	(29)	(27)	(2)
Impairment losses in which respect deferred taxes were not recorded	6	9	12
Net differences resulting from differences in tax rates abroad	10	3	2
Taxes in respect of prior years	(3)	(4)	(1)
Differences resulting from benefits and reduced tax rates	(1)	-	(3)
Loss deriving from loss of control of a subsidiary	-	-	(2)
Taxes on income in the statement of income	144	165	162
Effective tax rate	30.1%	33.3%	33.3%

Notes to the Consolidated Financial Statements**Note 37 - Taxes on Income (cont'd)****37.8 Composition of deferred taxes included in assets (liabilities)**

	Balance as at January 1, 2013	Decrease (increase) in deferred tax expense in statement of income	Effect of change in tax rates recognized in profit and loss	Changes in deferred taxes recognized directly in equity	Balance as at December 31, 2013	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized directly in equity	Balance as at December 31, 2014
Deferred taxes in respect of:								
Provision for doubtful debts	7	1	-	-	8	(3)	-	5
Provision for vacation and convalescence	9	-	1	-	10	2	-	12
Inventory adjustments	2	(1)	-	-	1	1	(1)	1
Tax losses and deductions	17	(2)	1	-	16	-	11	27
Other temporary differences*	19	1	(1)	-	19	(3)	(1)	15
Fixed assets, other assets and deferred expenses*	(184)	(4)	(5)	2	(191)	(5)	(3)	(199)
Differences arising from investment in subsidiaries and in equity-accounted investees	(3)	(4)	-	-	(7)	(9)	-	(16)
Hedging transactions	5	(2)	-	-	3	6	(2)	7
Employee severance benefits*	9	(2)	-	-	7	(2)	-	5
	(119)	(13)	(4)	2	(134)	(13)	4	(143)
	<u>9%-43%</u>				<u>9%-43%</u>			<u>9%-43%</u>

* Reclassified to match current period

Notes to the Consolidated Financial Statements**Note 38 - Basic and Diluted Earnings per Share**

The basic earnings per share as at December 31, 2014 were calculated by dividing the income attributable to the ordinary shareholders in the amount of NIS 235 million (2013 and 2012: NIS 234 million and NIS 244 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average number of ordinary shares:

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Balance as at January 1	107.5	107.2	107.1
With the addition of options exercised into weighted shares during the period	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	<u>106.7</u>	<u>106.5</u>	<u>106.2</u>

The diluted earnings per share as at December 31, 2014, 2013 and 2012 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		
	2014	2013	2012
	NIS millions		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	106.7	106.5	106.2
Effect of share options	0.8	0.8	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	<u>107.5</u>	<u>107.3</u>	<u>106.2</u>

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, 2014, 1,580 thousand option warrants (2013 and 2012: 275 thousand and 4,068 thousand, respectively) were excluded from the calculation of the diluted weighted average number of ordinary shares as their effect would have been anti-dilutive.

Notes to the Consolidated Financial Statements

Note 39 - Balances and Transactions with Interested and Related Parties

39.1 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.

39.2 Transactions with members of senior management

39.2.1 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 2014, see Note 25 and 40.

The benefits awarded to members of senior management are as follows:

	For the year ended December 31					
	2014		2013		2012	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Short-term benefits	9	21	9	28	9	25
Post-employment benefits	8	1	9	2	9	1
Share-based payment	8	10	9	11	9	10
		<u>32</u>		<u>41</u>		<u>36</u>

39.2.2 The benefits awarded to members of the board of directors are as follows:

	For the year ended December 31					
	2014		2013		2012	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Directors not employed	11	3	11	3	10	3
Employed directors	1	4	1	4	1	4
	<u>12</u>	<u>7</u>	<u>12</u>	<u>7</u>	<u>11</u>	<u>7</u>

39.2.3 See Notes 26.1.2.1 and 26.4.2 for information on a deed of undertaking to indemnify officers and a directors and officers liability policy.

39.3 Transactions with the parent company and its investees

39.3.1 On November 23, 2009, an agreement was signed for the sale of the shares of Ramat Hagolan Dairies Ltd., which were held by a subsidiary of the parent company, to a group of kibbutzim. In light of the existence of a multiyear agreement that was signed before the share sale agreement for the purchase of the Dairies' products, the balances in respect of Ramat HaGolan Dairies are classified as a related party.

39.3.2 For particulars on the Company's right to indemnification from Strauss Holdings, subject to the conditions set forth in the merger agreement, see Note 26.1.1.

39.4 The prices and credit terms of transactions with related parties are determined under standard commercial terms and conditions.

Notes to the Consolidated Financial Statements**Note 39 - Balances and Transactions with Interested and Related Parties (cont'd)****39.5 Balances and transactions with interested and related parties**

	The parent company and its related parties	Equity- accounted investees	Directors and members of senior management	Total
	NIS millions			
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)	(1)	(40)
The highest balance of loans and debts of interested parties during the year	-	131	-	131
As at December 31, 2013:				
Current assets from interested parties presented under trade and other receivables	5	26	-	31
Long-term assets from interested parties presented under investments and long- term debit balances	-	94	-	94
Current liabilities to interested parties presented under trade and other payables	(10)	(65)	(1)	(76)
The highest balance of loans and debts of interested parties during the year	11	120	-	131

Notes to the Consolidated Financial Statements**Note 39 - Balances and Transactions with Interested and Related Parties (cont'd)****39.5 Balances and transactions with interested and related parties (cont'd)**

	The parent company and its related parties (1)	Equity-accounted investees	Directors (2)	Total
	NIS millions			
For the year ended December 31, 2014:				
Sales	2	35	-	37
Purchases	(16)	(34)	-	(50)
Selling, general and administrative income (expenses)	(21)	38	(3)	14
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	(3)	8
Financing income, net	-	6	-	6
For the year ended December 31, 2012:				
Sales	33	16	-	49
Purchases	(20)	(30)	-	(50)
Selling, general and administrative income (expenses)	(14)	38	(3)	21
Financing income, net	-	7	-	7

(1) Mainly includes purchases from Ramat Hagolan Dairies in the amount of NIS 16 million (2013: NIS 18 million, 2012: NIS 18 million), payment of rent to Rav Etgar Ltd. in the amount of NIS 5 million (2013: NIS 5 million, 2012: NIS 5 million), purchase of advertising services from Reshet Noga Ltd. in the amount of NIS 16 million (2013: NIS 22 million, 2012: NIS 14 million) and sales of raw materials to Strauss Ice Cream Ltd. (2013: NIS 29 million, 2012: NIS 28 million). On January 2, 2014 Strauss Holdings sold its entire holding in Strauss Ice Cream.

(2) In regard to salaries and remuneration to senior management – see Note 39.2.

Note 40 - Events after the Statement of Financial Position Date

40.1 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 26.1.1.

40.2 For information on a memorandum of understanding with respect to an equity-accounted investee in China signed by Strauss Water after the statement of financial position date, see Note 12.6.2.

Notes to the Consolidated Financial Statements

Note 40 - Events after the Statement of Financial Position Date (cont'd)

40.3 On March 19, 2015 the remuneration and human resources committee of the board of directors of the Company approved the allotment of 500,000 option warrants to eight senior executives in the Group, and on March 22, 2015 the board of directors approved the allotment of 700,000 option warrants to four senior officers in the Group, in accordance with the terms and conditions of the remuneration plan for employees. According to an initial estimate, the value of these grants amounts to approximately NIS 16 million.

40.4 The Company and TPG, the Shareholders of Strauss Coffee are examining an IPO and listing of Strauss Coffee shares on a US stock exchange, 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 at the IPO and the rights of the shareholders post IPO.

The Company notes that there is no certainty that the IPO will indeed be finalized, and if it is, on which date. It should also be noted that completion of the IPO is dependent on numerous factors which the Company and Strauss Coffee have no control over, including, among other things, receipt of regulatory approvals from the SEC and the stock exchange in the US in which the Strauss Coffee shares will be listed.

Annex "B"
Strauss Group Ltd.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2014

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STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

To the Shareholders of Strauss Group Ltd.
49 Hasivim Street
Kiryat Matalon, Petach Tikva

Re: Special Auditors' Report on Separate Financial Information According to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial information presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Strauss Group Ltd. (hereinafter – the "Company") as at December 31, 2014 and 2013 and for each of the three years, the last of which ended on December 31, 2014. The separate financial information is the responsibility of the Company's Board of Directors and its Management. Our responsibility is to express an opinion on the separate financial information based on our audit.

The data contained in the separate financial information which refer to equity accounted investments and to the Company's share of the profits (losses) of equity accounted investees are based on financial statements, some of which were audited by other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes a review of the accounting principles applied in the preparation of the separate financial information, as well as of the significant estimates made by the Board of Directors and Management of the Company, and an evaluation of the fairness of the overall presentation of the separate financial information. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the separate financial information has been prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2015

STRAUSS GROUP LTD.

INFORMATION PERTAINING TO FINANCIAL POSITION

	Additional information	As at December 31	
		2014	2013
		NIS millions	
Current assets			
Cash and cash equivalents	2	374	325
Securities and deposits	3	79	204
Trade receivables		149	155*
Income tax receivables		18	10
Other receivables and debit balances		39	42
Investee receivables		119	73*
Inventory		142	146
Assets held for sale		36	-
Total current assets		956	955
Investments and non-current assets			
Investments in investees		2,012	2,230
Other investments and long-term debit balances	4	632	587
Fixed assets		851	737
Intangible assets		60	63
Deferred expenses		1	23
Investment property		23	19
Total investments and non-current assets		3,579	3,659
Total assets		4,535	4,614

Ofra Strauss
Chairperson of the Board of Directors

Gadi Lesin
Chief Executive Officer

Shahar Florence
Chief Financial Officer

Date of approval of the separate financial information: March 22, 2015

* Reclassified, see Note 1.3.

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

STRAUSS GROUP LTD.

INFORMATION PERTAINING TO FINANCIAL POSITION

	Additional information	As at December 31	
		2014	2013
		NIS millions	
Current liabilities			
Current maturities of debentures	5	179	223
Short-term loans and credit and current maturities of long-term loans	5	30	24
Trade payables		203	213
Other payables and credit balances		205	217*
Investee payables		145	289*
Provisions		5	12
Total current liabilities		767	978
Non-current liabilities			
Debentures	5	1,020	965
Long-term loans and credit	5	847	874
Long-term payables and credit balances		22	7
Employee benefits, net		21	17
Deferred tax liabilities	7	35	28
Total non-current liabilities		1,945	1,891
Total equity attributable to the Company's shareholders		1,823	1,745
Total liabilities and equity		4,535	4,614

* Reclassified, see Note 1.3.

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

STRAUSS GROUP LTD.

INFORMATION PERTAINING TO STATEMENTS OF INCOME

Additional information	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Sales	828	831	833
Cost of sales	484	461	482
Gross profit	344	370	351
Selling and marketing expenses	207	219	204
General and administrative expenses	34	44	34
	241	263	238
Operating profit before other expenses	103	107	113
Other income	2	-	-
Other expenses	(40)	(23)	(47)
Other expenses, net	(38)	(23)	(47)
Operating profit	65	84	66
Financing income	45	39	31
Financing expenses	(92)	(141)	(114)
Financing expenses, net	(47)	(102)	(83)
profit (loss) before taxes on income	18	(18)	(17)
Taxes on income	7	(37)	(27)
Loss after taxes on income	(19)	(45)	(34)
Income from investees	254	279	278
Income for the year attributable to the shareholders of the Company	235	234	244

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

STRAUSS GROUP LTD.

INFORMATION PERTAINING TO COMPREHENSIVE INCOME

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Income for the period attributable to the shareholders of the Company	235	234	244
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:			
Foreign currency translation differences	(184)	(80)	(12)
Other comprehensive income (loss) from investees	15	(124)	(33)
Total other comprehensive loss items that will be transferred to profit or loss, net of tax	(169)	(204)	(45)
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:			
Changes in employee benefits, net	(5)	(1)	-*
Other comprehensive loss from investees	- *	-*	(3)
Total other comprehensive loss items that will not be transferred to profit or loss, net of tax	(5)	(1)	(3)
Comprehensive income for the period attributable to the shareholders of the Company	61	29	196

*Less than NIS 1 million.

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

STRAUSS GROUP LTD.

INFORMATION PERTAINING TO CASH FLOWS

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Cash flows from operating activities			
Income for the year attributable to the shareholders of the Company	235	234	244
Adjustments:			
Depreciation	37	37	37
Amortization of intangible assets and deferred expenses	16	15	17
Impairment loss from investment property	-	4	23
Other expenses, net	14	-	11
Expenses in respect of share-based payment	16	13	10
Income from investees	(254)	(279)	(278)
Financing expenses, net	47	102	83
Income tax expense	37	27	17
Change in inventory	4	(24)	(6)
Change in trade and other receivables	20	(4)	(13)
Change in investee receivables	(38)	(4)*	48
Change in long-term receivables	(37)	18	4
Change in trade and other payables	9	33	25
Change in investee payables	(80)	(81)*	(13)
Change in employee benefits	(1)	-	1
Interest paid	(81)	(77)	(71)
Interest received	20	10	9
Income tax received (paid), net	(41)	(13)	10
Net cash flows from (used in) operating activities	(77)	11	158
Cash flows from investing activities			
Sale (purchase) of marketable securities and deposits, net	125	(33)	(61)
Proceeds from sale of fixed and other assets	38	-	-
Acquisition of fixed assets	(249)	(221)	(107)
Investment in intangible assets and deferred expenses	(13)	(11)	(16)
Repayment of deposits and long-term loans	4	7	8
Long-term loans granted	(3)	(5)	(3)
Dividends from investees	303	362	235
Cash received in respect of investing activities with investees	55	54	11
Cash paid in respect of investing activities with investees	(63)	(81)	(92)
Net cash flows from (used in) investing activities	197	72	(25)
Cash flows from financing activities			
Repayment of debentures and long-term loans	(245)	(191)	(187)
Receipt of long-term loans	-	-	413
תמורה ממימוש אופציות למניות	1	-	-
Proceeds from the issue of debentures	237	247	-
Dividends paid	-	(157)	(140)
Change in jointly controlled entity payables	(64)	(48)	41
Net cash flows from (used in) financing activities	(71)	(149)	127
Net increase (decrease) in cash and cash equivalents	49	(66)	260
Cash and cash equivalents as at January 1	325	391	131
Cash and cash equivalents as at December 31	374	325	391

* Reclassified, see Note 1.3.

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

STRAUSS GROUP LTD.

ADDITIONAL 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, 2014 (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.

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.

ADDITIONAL INFORMATION

Note 1 – Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

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.

1.3 Reclassification

Reclassified as at December 31, 2013 an amount of NIS 18 million in respect of guarantees and deposits from Trade receivables to Other payables and credit balances, An amount of NIS 12 million between Trade receivables and "Investee payables" and amount of NIS 21 million between the "investee receivables" and "Investee payables".

Additionally, In the Company's separate information pertaining to cash flows as at December 31, 2013 reclassified amounts in operating activities between the "investee receivables" and "Investee payables".

These reclassifications had no impact on the Company's equity and on profit or loss.

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 2 – Cash and Cash Equivalents

	As at December 31	
	2014	2013
	NIS millions	
Cash and bank balances	9	12
Deposits	365	313
Cash and cash equivalents	374	325

Note 3 – Securities and Deposits

	As at December 31	
	2014	2013
	NIS millions	
Deposits and non-marketable securities - Shekel deposit (Interest rate of 1.49%)	20	-
Marketable securities - Government debentures	28	65
Corporate debentures	31	139
	59	204
	79	204

Note 4 – 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		
	2014	2013	
	NIS millions		
Loans to investees	219	188	Dollar-denominated and bearing 6.5%-9.2% interest
Capital notes to investees	3	31	Unlinked and interest-free
Capital notes to investees	89	65	Dollar-denominated and interest-free
Capital notes to investees	54	31	Unlinked and bearing 6% interest
Loans to employees	3	4	Index-linked and bearing 4.31% interest (2013: 5.47%)
Other	2	2	Unlinked and bearing 4.0%-6.0% interest
	370	321	
Less current maturities	18	12	
	352	309	

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 5 – Loans and Credit

The terms of the loans and their repayment dates are as follows:

	Currency	Nominal interest (%)	Redemption year	December 31, 2014	
				Face value	Book value
				NIS millions	
Debentures Series B	NIS	4.1	2015-2018	595	719
Debentures Series D	NIS	4.5	2017-2023	465	480
Loans from banks	USD	LIBOR + 2.0	2015-2016	38	38
Loans from banks	NIS	6.3	2019-2022	100	100
Loans from banks	NIS	3.95	2019-2022	100	103
Loans from others	NIS	3.55	2015-2022	364	375
Loans from others	NIS	5.82	2015-2022	261	261
Total					2,076

	Currency	Nominal interest (%)	Redemption year	December 31, 2013	
				Face value	Book value
				NIS millions	
Debentures Series B	NIS	4.1	2014-2018	744	900
Debentures Series D	NIS	4.5	2017-2023	249	245
Loans from banks	USD	LIBOR + 2.0	2014-2016	43	43
Loans from banks	NIS	6.3	2019-2022	100	100
Loans from banks	NIS	3.95	2019-2022	100	103
Debenture issued to a subsidiary (1)	NIS	4.1	2014	40	43
Loans from others	NIS	3.55	2014-2022	368	380
Loans from others	NIS	5.82	2014-2022	272	272
Total					2,086

(1) Repaid on 31/12/2014

Note 6 – 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 30 to the Consolidated Financial Statements.

6.1 Commodity price risk

For information on exposure to risks related to the price of commodities – cocoa and sugar, see Note 30.3 to the Consolidated Financial Statements.

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 6 – Additional Information on Financial Assets and Liabilities (cont'd)

6.2 Foreign exchange risk

6.2.1 Statement of financial position according to linkage basis

The Company's foreign exchange risk, based on carrying amounts, is as follows:

December 31, 2014					
	NIS millions				
	NIS linked	NIS unlinked	Dollar	Other	Non-financial
Inventory	-	-	-	-	142
Assets held for sale	-	-	-	-	36
Fixed assets	-	-	-	-	851
Intangible assets	-	-	-	-	60
Deferred expenses	-	-	-	-	1
Investment property	-	-	-	-	23
Current maturities of debentures	(179)	-	-	-	-
Short-term loans and credit	(4)	(11)	(15)	-	-
Trade payables	-	(185)	(17)	(1)	-
Other payables and credit balances	(18)	(179)	(6)	-	(2)
Provisions	-	-	-	-	(5)
Investee payables	-	(145)	-	-	-
Debentures	(540)	(480)	-	-	-
Long-term loans	(479)	(346)	(22)	-	-
Long-term payables	-	(22)	-	-	-
Employee benefits, net	-	-	-	-	(21)
Deferred tax liabilities	-	-	-	-	(35)
Total	(1,220)	(1,368)	(60)	(1)	1,050

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 6 – Additional Information on Financial Assets and Liabilities (cont'd)

6.2 Foreign exchange risk (cont'd)

6.2.1 Statement of financial position according to linkage basis (cont'd)

The Company's foreign exchange risk, based on carrying amounts, is as follows:

December 31, 2013					
	NIS millions				
	NIS linked	NIS unlinked	Dollar	Other	Non-financial
Inventory	-	-	-	-	146
Fixed assets	-	-	-	-	737
Intangible assets	-	-	-	-	63
Deferred expenses	-	-	-	-	23
Investment property	-	-	-	-	19
Current maturities of debentures	(223)	-	-	-	-
Short-term loans and credit	(4)	(11)	(9)	-	-
Trade payables	-	(209)	(2)	(2)	-
Other payables and credit balances	(21)	(165)	(3)	(7)	(3)
Investee payables	-	(256)	-	-	-
Provisions	-	-	-	-	(12)
Debentures	(720)	(245)	-	-	-
Long-term loans	(481)	(359)	(34)	-	-
Long-term payables	-	(7)	-	-	-
Employee benefits, net	-	-	-	-	(17)
Deferred tax liabilities	-	-	-	-	(28)
Total	(1,449)	(1,252)	(48)	(9)	928

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 6 – Additional Information on Financial Assets and Liabilities (cont'd)

6.2 Foreign exchange risk (cont'd)

6.2.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis of the derivatives (Foreign exchange -OTC) of the Group as of December 31, 2014 and of December 31, 2013. 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, 2014					
	10% increase	5% increase	Exchange rate / carrying amount NIS millions	5% decrease	10% decrease
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)

December 31, 2013					
	10% increase	5% increase	Exchange rate / carrying amount NIS millions	5% decrease	10% decrease
NIS/USD exchange rate	3.818	3.645	3.471	3.297	3.124
Effect (in NIS millions)	4	2	(0.4)	(2)	(3)

6.3 CPI risk

For information on the CPI risk, see Note 30.5 to the Consolidated Financial Statements.

6.4 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.

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 6 – Additional Information on Financial Assets and Liabilities (cont'd)

6.4 Floating interest rate risk and cash flow sensitivity analysis regarding floating interest instruments (cont'd)

	December 31, 2014				
			Income (expense)		
	2% increase	1% increase	relating to floating	1% decrease	2% decrease
			interest		
			NIS millions		
Total income (expense)	7	4	0.1	(4)	(7)

	December 31, 2013				
			Income (expense)		
	2% increase	1% increase	relating to floating	1% decrease	2% decrease
			interest		
			NIS millions		
Total income (expense)	6	3	2	(3)	(6)

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 6 – Additional Information on Financial Assets and Liabilities (cont'd)

6.5 Liquidity analysis

Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

	December 31, 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

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 6 – Additional Information on Financial Assets and Liabilities (cont'd)

6.5 Liquidity analysis (cont'd)

	December 31, 2013							
	Carrying amount	Contractual cash flow	2014	2015	2016	2017	2018	2019 and thereafter
	NIS millions							
Trade payables	213	213	213	-	-	-	-	-
Derivatives	7	7	7	-	-	-	-	-
Other payables	165	165	165	-	-	-	-	-
Investee payables	256	256	256	-	-	-	-	-
Debentures Series B	900	994	214	206	199	191	184	-
Debentures Series D	245	337	11	11	11	21	25	258
Investee debentures	43	44	44	-	-	-	-	-
Dollar loan from banks	43	45	10	15	20	-	-	-
Shekel loans from banks	203	270	10	10	10	10	10	220
Shekel loan from others	652	857	44	43	43	42	40	645
	2,727	3,188	974	285	283	264	259	1,123

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 6 – Additional Information on Financial Assets and Liabilities (cont'd)

6.6 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 30.7.1 to the Consolidated Financial Statements.

Note 7 – Information on Taxes on Income

7.1 General

The Company's income is taxed at the ordinary rate. For information on the tax rates applying to the Company and on various benefits and laws for encouragement, see Note 37.1 to the Consolidated Financial Statements.

7.2 Final tax assessments

The Company has been issued with final tax assessment up to and including the year 2010. During the report period, final tax assessments were issued for the company for the years 2008-2010, with no influence on the tax expenses during the reporting period.

7.3 Dividend income from subsidiaries

In the reporting year a dividend was received from overseas subsidiaries. The Company recorded tax expenses of approximately NIS 6 million in respect of this income. The Company also recorded tax expenses against deferred taxes in the reporting year in respect of dividends not yet paid in an amount of NIS 9 million (2013: NIS 4 million).

7.4 Tax loss carryforwards

The Company has no tax losses that are carried forward to next year.

7.5 Composition of income tax expenses

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Current tax expenses	(30)	(23)	(7)
Deferred tax expenses, net	(7)	(3)	(10)
Expenses in respect of changes in tax rates	-	(1)	-
Income tax expenses, net	<u>(37)</u>	<u>(27)</u>	<u>(17)</u>

STRAUSS GROUP LTD.

ADDITIONAL INFORMATION

Note 7 – Information on Taxes on Income (cont'd)

7.6 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2013	Increase (decrease) in deferred tax expense in profit or loss	Effect of change in tax rate recognize d in profit or loss	Balance as at December 31, 2013	Increase (decrease) in deferred tax expense in income statement	Balance as at December 31, 2014
Deferred taxes in respect of:						
Provision for doubtful debts	5	1	-	6	(3)	3
Provision for vacation and convalescence	6	(1)	1	6	1	7
Investment in investees	(3)	(4)	-	(7)	(9)	(16)
Fixed and intangible assets	(35)	(1)	(2)	(38)	4	(34)
Employee benefits	3	2	-	5	-	5
	<u>(24)</u>	<u>(3)</u>	<u>(1)</u>	<u>(28)</u>	<u>(7)</u>	<u>(35)</u>
	<u>25%</u>			<u>26.5%</u>		<u>26.5%</u>

- 7.7 In the reporting period 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 merger have not yet been fulfilled.

Note 8 – Information on Relationships, Commitments and Significant Transactions with Investees

8.1 Dividends from investees

In the reporting period the Company received dividends from investees in the amount of approximately NIS 303 million.

- 8.2 For further information on the Company's investment in investees, including loans and guarantees extended to investees, see Notes 6, 12 and 26.3 to the Consolidated Financial Statements.

Note 9 – Claims and Contingent Liabilities

For information on claims filed against the Company and other contingent liabilities, see Notes 26.1.1 and 26.1.2 to the Consolidated Financial Statements.

Note 10 – Other Income (Expenses), Net

For information on other income (expenses) net, see Note 35 to the Consolidated Financial Statements.

Note 11 – Liens

For information on encumbrances, see Notes 26.2.2 and 26.2.4 to the Consolidated Financial Statements.

Note 12 – Events after the Reporting Date

For information on events after the reporting date, see Note 40.1 to the Consolidated Financial Statements.

STRAUSS GROUP LTD.

ADDITIONAL DETAILS OF THE
CORPORATION

Regulation 10a:**Condensed Quarterly Statements of Comprehensive Income**

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u> <u>NIS in million</u>	<u>Q4</u>	<u>Total</u>
Profit and loss:					
Sales	1370	1266	1415	1364	5415
Cost of sales	774	777	871	896	3318
Gross profit	596	489	544	468	2097
Selling and marketing expenses	336	328	327	327	1318
Administrative and general expenses	91	82	83	83	339
	427	410	410	410	1657
Share in the profits of investee companies accounted for by the equity method	56	48	66	49	219
Operating profit before other income (expenses)	225	127	200	107	659
Other income	1	3	-	-	4
Other expenses	(13)	(9)	(41)	(55)	(118)
Other expenses, net	(12)	(6)	(41)	(55)	(114)
Operating profit	213	121	159	52	545
Financing income	16	5	28	26	40
Financing expenses	(32)	(41)	(35)	(34)	(107)
Financing expenses, net	(16)	(36)	(7)	(8)	(67)
Profit before income taxes	197	85	152	44	478
Taxes on income	(54)	(34)	(45)	(11)	(144)
Profit for the period	143	51	107	33	334
Attributable to:					
Shareholders of the Company	111	29	75	20	235
Minority interests	32	22	32	13	99
Profit for the period	143	51	107	33	334
Items of other comprehensive income (loss) that will subsequently be reclassified to the statement of income					
Currency translation differences	(12)	(4)	(52)	(165)	(233)
Changes in the fair value of available-for-sale financial assets, net	(2)	5	(6)	(7)	(10)
Total items of other comprehensive income (loss) that will be reclassified to the statement of income, net	(14)	1	(58)	(172)	(243)
Items of other comprehensive income (loss) that will not be reclassified to the statement of income:					
Change in employee benefits, net	-	-	-	(6)	(6)
Items of other comprehensive income (loss) that will not be reclassified to the statement of income, net	-	-	-	(6)	(6)
Comprehensive income (loss) for the period	129	52	49	(145)	85
Attributable to:					
The Company's shareholders	101	27	40	(107)	61
Minority interests	28	25	9	(38)	24
Comprehensive profit (loss) for the period	129	52	49	(145)	85

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 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 that were offered to the public pursuant to the shelf offering report amounted to NIS 241 million (hereinafter – “**the raised amount**”).

The issue proceeds 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 amount raised was deposited in Israeli banks until the dates of payment as aforesaid.

Regulation 11: List of investments in subsidiaries and in associated companies

The following are details on material subsidiaries and related companies of the Company (held directly by the Company) indicating 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 balance of Company loans to said companies, and details of other Company investments in them, the main ones being:

Company name	Type of share	No. of shares	Total par value of issued and paid up share capital	Total par value of the share capital held by the Company	Percentage holdings in the security	Percentage holding in the equity	Percentage holding in the vote	Percentage holding in the right to appoint directors	Value of investment in the Company's separate financial statements as of 31.12.2014	Value of loans to the subsidiaries as of December 31, 2014
			NIS						Million of NIS	
Prielite Ltd.	Ordinary A NIS 0.001	55,725,000	55,725	55,725	-	-	-	-	-	3
	Ordinary B NIS 0.001	65,000	65	65	-	-	-	-	-	-
	Ordinary C NIS 0.001	10,000	10	10	-	-	-	-	-	-
	Ordinary D NIS 0.001	180,000	180	180	-	-	-	-	-	-
	Ordinary E NIS 0.001	20,000	20	20	100	100	100	100	5	-
Strauss Import & Trade Ltd.	Ordinary NIS 0.001	25,002,001	25,002	25,002	100	100	100	100	*-	-
Strauss Frito Lay Ltd.	Ordinary NIS 0.001	28,775,854	28,775,854	14,387,927	50	50	50	50	68	-
Strauss Coffee BV	Ordinary EUR 1	190,600	€190,600	€142,759.4	74.9	74.9	74.9	74.9	1,594	-
SE USA Inc.	Ordinary \$US 0.001	1,000	US\$ 1	US\$ 1	100	100	100	100	164	131

* Represents a sum lower than NIS 1 million

Regulation 11: **List of investments in subsidiaries and in associated companies (Cont.)**

Company name	Type of share	No. of shares	Total par value of issued and paid up share capital	Total par value of the share capital held by the Company	Percentage holdings in the security	Percentage holding in the equity	Percentage holding in the vote	Percentage holding in the right to appoint directors	Value of investment in the Company's separate financial statements as of 31.12.2014	Value of loans to the subsidiaries as of December 31, 2014
			NIS						Million of NIS	
Elite Joint Recourses Ltd.	Ordinary NIS 0.0001	289,878	29	29	100	100	100	100	2	-
Yad Mordechai Apiary Strauss Ltd.	Ordinary NIS 1.00	1,100	1,100	561	51	51	51	51	17	-
Strauss Health Ltd.	Ordinary NIS 1.00	6,500,000	6,500,000	5,200,000	80	80	80	80	230	-
Strauss Fresh Food Ltd.	Ordinary NIS 1.00	51,000	51,000	51,000	100	100	100	100	108	-
Strauss Water Ltd.	Preferred A NIS 0.01	700,014	700,014	7,000	100	100	88	88	(561)	330
	Preferred B NIS 0.01	3,863,711	3,863,711	36,976	95.7	95.7	-	-	-	-
	Ordinary NIS 0.01	490,000	490,000	4,312	88	88	88	88	-	-
	Dormant NIS 1.00	1	1	-	-	-	-	-	-	-
PepsiCo Strauss Fresh Dips & Spreads International GmbH	Ordinary SF 100	200	200	100	50	50	50	50	*-	50

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 million
Strauss Water Hong Kong Trading Company Ltd	Capital injections	Jan. - Sept. 2014	–	15

**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 injections	October 2014	-	11

Regulation 13: Income of subsidiaries and associated companies and revenues therefrom as at the balance sheet date (NIS millions)

Below are the details of profit (loss) (in NIS million) before and after tax of the Company's material subsidiaries and associated companies, held directly by the Company [the profit (loss) data are the consolidated data of these companies], the dividend, interest and management fees received by the Company or which it is entitled to receive, as at December 31, 2014:

Name of the subsidiary/ Associated company	Pre-tax profit (loss)	Post-tax profit (loss)	Dividend	Reimbursement of management expenses*	Nominal interest income (expenses)	Other comprehensive income	Comprehensive income
Prielite Ltd.	-	-	16	-	-	-	-
Strauss Import & Trade Ltd.	1	-	27	-	-	-	-
Strauss Frito Lay Ltd.	22	15	20	2	-	-	15
Strauss Coffee BV	315	265	175	28	-	(276)	(11)
SE USA Inc.	73	53	-	-	(14)	44	97
Yad Mordechai Apiary Strauss Ltd.	7	5	1	-	-	-	5
Strauss Health Ltd.	159	115	64	41	2	(10)	105
Strauss Fresh Food Ltd.	20	15	-	9	-	-	15
Strauss Water Ltd.	(42)	(41)	-	-	(3)	(1)	(42)
PepsiCo Strauss Fresh Dips & Spreads International GmbH	(17)	(17)	-	-	-	(3)	(20)

The data refers to companies with profits (losses) or any balances whatsoever, held directly by the Company, including their profits on a consolidated basis.

* Including management fees

Regulation 14: List of Loans

The provision of loans is not one of the principal businesses of the Company.

Regulation 20: Trading on the Tel Aviv Stock Exchange

During the reported period, 452,063 ordinary Shares of NIS 1 par value were listed for trading on the Tel Aviv Stock Exchange Ltd. in respect of the exercise of option options, which were granted to senior employees of the Company.

During the reported period, trading in the Company's securities was not suspended.

Regulation 21: Payments to Interested Parties and Senior Officers

Details of recipients of compensation				Compensation for services (in cost terms), in thousands of NIS without share-based payment (based on the Company's managerial reports)					
Name	Position	Scope of Position	Percentage holding in the Company's equity and fully diluted (A)	Annual gross salary	Fringe benefits (B)	Total Salary	Bonus [of which – a deferred amount according to the compensation policy] (C)	Management fees/counseling fees/commission/other	Total without share-based payment
Mrs. Ofra Strauss (1)	Chairperson of the Board of Directors of the Company	100% since July 2014; until then at least 80%	--	1,743	966	2,709	1,433, of which a deferred amount of 83	--	4,142
Mr. Gadi Lesin (2)	President and CEO of the Company	100%	Fully diluted: 0.49%	1,807	753	2,560	1,747, of which a deferred amount of 386	--	4,307
Mr. Giora Bar-Dea (4)	Deputy CEO since August 2013	100%	Fully diluted: 0.22%	1,461	1,588	3,049	2,691 (of which 2,315 in respect of the term of office in the US as CEO of Obela), of which a deferred amount of 36	--	5,740
Me. Zion Blass (5)	CEO of Strauss Israel	100%	Fully diluted: 0.28%	1,333	849	2,182	630	--	2,812
Mr. Ronen Zohar (5)	CEO of Sabra until August 2014	100%	--	904	322	1,226	3,871 (this amount is in respect of the term of office in the US as CEO of Sabra)	--	5,097
Remaining directors (6)		--	--	--	--	2,675	--	--	2,675

Regulation 21: Payments to Interested Parties and Senior Officers (Cont.)

Details of recipients of compensation		Compensation for services (in cost terms), in thousands of NIS without share-based payment (based on the Company's managerial reports)		
Name	Position	Total cost of salary	Share-based-payment (D)	Total salary without share-based payment
Mrs. Ofra Strauss	Chairperson of the Board of Directors of the Company	4,142	--	4,142
Mr. Gadi Lesin	President and CEO of the Company	8,668	4,361	4,307
Mr. Giora Bar-Dea	Deputy CEO as of August 2014	6,166 (of which, 3,369 in respect of his term of office in the US as CEO of Obela	426	5,740
Me. Zion Blass	CEO of Strauss Israel	4,026	1,214	2,812
Mr. Ronen Zohar	CEO of Sabra until 2014	5,097 (this amount is in respect of his term of office in the US as CEO of Obela	--	5,097

Notes to the Table:

- (a) Full dilution – assuming full exercise of 3,430,895 stock options granted to senior employees, theoretically exercisable (as of March 22, 2015) into 3,430,895 ordinary shares of the Company and excluding dormant shares. It is noted that in practice, pursuant to the terms of the Company's option plan, when the stock options are exercised, the offerees will not be allotted the full number of shares arising therefrom, but only shares in the number reflecting the amount of the financial benefit in the stock options, i.e. the difference between the ordinary share price on the exercise date and the original exercise price of the option, linked to the Consumer Price Index and adjusted for the distribution of dividends. Therefore, the number of allotted shares arising from the exercise of the options is lower than the number indicated above.
- (b) Fringe benefits – regarding the recipients of compensation specified in the table, who are employed in the Company (including the chairman of the Board) – the amount indicated in the "fringe benefits" column includes wage-related terms, such as: car maintenance, telephone, clothing and social benefits at accepted rates. It is noted Company employees, including officers therein, are entitled to reimbursement of expenses, according to Company protocols.
- (c) Bonus – the amount indicated in the "bonus" column is the bonus amount for 2014, not including bonus amounts that were paid during 2014 with respect to 2013. In addition, in the event of retirement, the amount specified in this column includes a retirement/adjustment bonus, as well as bonuses for attaining long-term goals.

Regulation 21: **Payments to Interested Parties and Senior Officers (Cont.)**

The amount of the bonus to officers includes a portion that was deferred to the subsequent year, in accordance with the officers compensation policy (the portion of the bonus representing a "target incentive" as defined in the compensation policy, will be paid in the March 2015 salary, payable at the start of April 2015. The portion of the bonus that exceeds the salary amount, defined as a "target incentive", will be deferred to the subsequent year and paid close to the date of publication of the annual financial statements for 2015, provided that in 2015 the threshold condition for receipt of the 2015 annual bonus was met).

Regarding the Company's officers bonus plan, refer to the officers' compensation policy of the Company (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).

- (d) Share-Based Payment – the amount indicated in the "Share Based Payment" column is the expense recorded by the Company in 2014, in accordance with IFRS 2, in respect of the options granted.

Additional Data:

- (1) Mrs. Ofra Strauss – Mrs. Strauss serves as an active Chairman of the Board of Directors of the Company since June 2001. Mrs. Strauss is employed under a personal employment agreement. In accordance with the revised employment agreement with Mrs. Strauss, which was approved by the general meeting of Company shareholders on July 2, 2014, the agreement is for an unspecified period, beginning on June 1, 2014, which will expire when Ofra Strauss' term of office as chairman ends. However, the effectiveness of the agreement is subject to the approval of the Company's competent organs, pursuant to the provisions of the Companies Law, based on its wording from time to time. The employment agreement may be cancelled by the chairman of the board of directors on the one hand and by the Company in a resolution by the board, on the other hand, subject to a prior three-month notice (which may be shortened at the Company's initiative or consent) and in accordance with the provisions of the compensation policy. It is noted that Mrs. Strauss is not entitled to an adjustment period.

As an active chairman of the board, Mrs. Strauss is responsible for the management of the board of directors and her roles and duties as part of the board is to develop the Company's strategy and supervise the performance of the CEO and the senior management of the Company (GMT – Group Management Team). Mrs. 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 subordinated to her, but rather to the CEO. Furthermore, Mrs. Strauss does not hold additional positions with the Company, except for serving on the boards of the Company's subsidiaries. Maintaining the separation between the positions of the chairman of the board and Company CEO of the Company is the responsibility of the board of directors of the Company.

Regulation 21: **Payments to Interested Parties and Senior Officers (Cont.)**

Mrs. Strauss' wage component includes a monthly salary in the gross amount of NIS 150,000, linked to the Consumer Price Index for June 2014, as published in July 15, 2014, which is revised every three months in line with Company protocols; and also fringe benefits, as specified in note (b) above. Mrs. Strauss is entitled to an annual bonus, which is based on financial goals only without a discretionary incentive in respect of each calendar year, as set forth in the compensation policy.

For additional details on the aforesaid employment agreement see the Company's immediate reports dated May 27, 2014 (reference no. 2014-01-074055) and dated July 17, 2014 (reference no: 2014-01-092841).

The amount of the bonus paid to Mrs. Strauss for 2014 is NIS 1,433 thousand. This amount is for meeting financial goals only, with an average rating of 3.37. Financial performance is derived from sales of NIS 8,082 million, which is rated 2.6, managerial operating profit of NIS 727 million, rated 2.9, pro forma net earnings to the Company's shareholders, in the amount of NIS 366 million, rated 5.0, and cash flows from operating activities by the proportionate consolidation method (in line with the board of directors' report) in the amount of NIS 574 million, rated 3.0. As stated in note (c) above, part of the bonus amount will be deferred to the subsequent year, and will be paid close to the date of publication of the annual financial statements for 2015, provided that in 2015 the threshold condition for receipt of the 2015 annual incentive was met.

- (2) **Mr. Gadi Lesin** – Mr. Lesin serves as the president and CEO of the Company since July 2009 (before that he served as CEO of Strauss Israel from September 2007). Mr. Lesin's employment is for an unlimited period and may be terminated by a 90-day written notice to the other party (with an option to shorten the period at the Company's initiative or consent). At the end of the prior notice period, as specified above, employer-employee relations will continue to apply and the Company will continue to pay to Mr. Lesin salary and fringe benefits (including social benefits) for an additional 12 months in the event of dismissal, and for an additional 6 months in the event of resignation, except for circumstances where severance pay may be denied under the law.

Mr. Lesin's wage component includes a monthly salary in the gross amount of NIS 150,000, linked to the Consumer Price Index. In addition, Mr. Lesin is entitled to fringe benefits as specified in note (b) above.

The amount of the bonus paid to Mr. Lesin in respect of 2014 is NIS 1,474 thousand, where a portion of the bonus is calculated for meeting financial goals only, as described in subsection (1) above is NIS 1.445 thousand. In addition the compensation committee and board of directors of the Company approved a discretionary bonus in the amount of NIS 302 thousand, which is two monthly salaries (In accordance with the Company compensation policy that allows to grant the CEO a discretionary bonus of up to three months' salary- (provided that the total annual incentive shall not exceed an amount equal to 15 months' salary (gross) of the CEO and not to exceed NIS 2,500,000). In addition the policy allows for up to four monthly salaries to be paid to the CEO as a special grant. As stated

in note (c) above, part of the bonus amount will be deferred to the subsequent year, and will be paid close to the date of publication of the financial statements for 2015, provided that in 2015 the threshold condition for receipt of the 2015 annual incentive was met.

Regulation 21: **Payments to Interested Parties and Senior Officers (Cont.)**

It is noted that since the threshold conditions for the 2014 annual bonus were met, in accordance with the provisions of the compensation policy, close after the annual financial statements for 2014, Mr. Lesin will be paid the deferred bonus for 2013, in the amount of NIS 315 thousand. For details on the deferred bonus for 2013, see Regulation 21 in the Company's annual report as of December 31, 2013, which was published on March 26, 2014 (reference no: 2014-01-023988) and a supplementary report dated April 8, 2014 (reference no: 2014-01-042603) (hereinafter – “**the 2013 Report**”)

On September 25, 2012, the Company's board of directors approved an allotment to Mr. Lesin of 1,062,411 stock option, exercisable (theoretically) to 1,062,411 ordinary shares of the Company of NIS 1 par value each, at an exercise price of NIS 35.86, linked to the Consumer Price Index for August 2012. At the same time, 355,050 stock options that were previously granted to Mr. Lesin, the entitlement for receipt thereof was not realized on the date of the aforesaid resolution of the Board, were cancelled. Mr. Lesin's entitlement to receive the stock options will be made in four tranches, as follows: (1) 50% of the quantity of the stock options from September 16, 2014; (2) 16.66% of the quantity of the stock options from September 16, 2015; (3) 16.66% of the quantity of the stock options from September 16, 2016; and (4) the remaining stock options warrants from September 16, 2017. Mr. Lesin's entitlement to exercise each of the tranches will continue until September 15, 2020. The fair value of the stock options as of the date of the grant, net of the cancelled stock options, was NIS 13.8 million. For further details, see the offering report published by the Company on September 25, 2012 (Ref. No. 2012-01-244890). As of the date of the report, Mr. Lesin holds a total of 545,595 stock options of the Company (non-marketable).

- (3) **Mr. Giora Bar-Dea** – Mr. Bar-Dea is the Deputy CEO of the Company since August 1, 2014. Prior to that in 2014 he served as CEO of Obela. Mr. Bar-Dea's employment as deputy CEO of the Company is for an unlimited period and may be terminated by a 90-day written notice to the other party (with an option to shorten the period at the Company's initiative or consent). At the end of the prior notice period, and except for circumstances where severance pay may be denied under the law, employer-employee relations will continue to apply and the Company will continue to pay Mr. Bar-Dea salary and fringe benefits (except for those relating to the performance of duties, and except for an annual incentive and share-based compensation) for an additional 6 months.

Mr. Bar-Dea's wage component as deputy CEO includes a monthly salary in the gross amount of NIS 120,000, linked to the rise in the Consumer Price Index for August 2014, as published on September 15, 2014.

Regulation 21: **Payments to Interested Parties and Senior Officers (Cont.)**

For his term of office as CEO of Obela, Mr. Bar-Dea's wage component included an annual salary of US\$412,800 and fringe and social benefits (participation in medical insurance, vacation days, company car and reimbursement of expenses). In addition, Mr. Bar-Dea was entitled to a 12-month adjustment period (paid by way of a one-time amount or continued salary); however, in the event of continued employment in the Group or in PepsiCo, this amount will not be paid. In practice, this amount was not paid due to Bar-Dea's appointment as deputy CEO of the Company.

The amount of the bonus in respect of 2014 is NIS 2,691 thousand, partly for Mr. Bar-Dea's term of office as CEO of Obela and partly for his term of office as deputy CEO of the Company.

The bonus for his term of office as CEO of Obela in 2014 was composed of an annual bonus for meeting Obela's financial, strategic and functional goals, as well as a long-term bonus for meeting strategic goals in 2013 and 2014. According to Obela's annual incentive policy, the annual bonus is calculated based on the degree of performance: 60% of the annual bonus is for meeting Obela's financial goals (which are Obela's annual budget goals) and 40% is for meeting the CEO's strategic and functional goals. Full achievement of all the goals ("the target incentive") will provide an annual bonus of 6 monthly salaries, while a performance rate below 90% does not entitle to a bonus and a rate above 120% does not increase the bonus (the bonus for performance of 90%-120% will be calculated pro-rata to the degree of goal achievement). The calculation of the annual bonus for 2014 was based in the following financial goals: sales, pre-tax operating profit and net profit, and the rate of achievement was 98.6%. The rate of achievement of the strategic and functional goals was 110%.

The bonus for the term of office as deputy CEO of the Company is for meeting financial goals, as specified in subsection (1) above, and for meeting functional goals, based on the formula detailed in Section 11 of the Company's compensation policy, and it is paid for the relative portion of the year. As stated in note (c) above, part of the bonus amount in respect of the term of office as deputy CEO will be deferred to the subsequent year, and will be paid close to the date of publication of the financial statements for 2015, provided that in 2015 the threshold condition for receipt of the 2015 annual incentive was met.

As of the date of the report, Mr. Bar-Dea holds a total of 240,000 non-marketable stock options of the Company at an exercise price of NIS 70.13, which were allotted to him in accordance with the board of director's resolution dated August 19, 2014. Mr. Bar-Dea is entitled to receive the stock options in three equal tranches of 80,000 options each, at the following dates: August 19, 2016, August 19, 2017 and August 19, 2018.

Regulation 21: **Payments to Interested Parties and Senior Officers (Cont.)**

- (4) **Mr. Zion Blass** – Mr. Blass is the CEO of Strauss Israel since June 2009. Prior to this date he served as CEO of the Group's Sales Division since 2004). Mr. Blass' employment is for an unlimited period and may be terminated by a 90-day written notice to the other party (with an option to shorten the period at the Company's initiative or consent). At the end of the prior notice period, as aforesaid, employer-employee relations will continue to apply and the Company will continue to pay Mr. Blass salary and fringe benefits (include social benefits) for an additional 6 months, except for circumstances where severance pay may be denied under the law. Mr. Blass' wage component for 2014 includes a monthly salary in the gross amount of NIS 112,000, linked to the Consumer Price Index.

The amount of the bonus for 2014 is NIS 630 thousand, for meeting 50% of the Company's financial goals as specified in subsection (1) above, for meeting 50% of Strauss Israel's financial goals (achievement of Strauss Israel's financial goals is derived from sales of NIS 3.662 million, rated 1.7, managerial operating profit of NIS 313 million, rated 3.4, and cash flows from operating activities in the amount of NIS 329 million, rated 1.1) and for meeting functional goals, which is rated 2.43, based on the formula detailed in Section 11 of the Company's compensation policy, and includes a discretionary bonus of half of the monthly salary.

It is noted that since the threshold conditions for the 2014 annual bonus were met, in accordance with the provisions of the compensation policy, close after the annual financial statements for 2014, Mr. Blass will be paid the deferred bonus for 2013, in the amount of NIS 95 thousand.

As of the date of the report, Mr. Blass holds a total of 310,000 non-marketable stock options of the Company, as specified hereunder: (1) 110,000 options at an exercise price of NIS 39.2, linked to the Consumer Price Index for June 2012, which were allotted to him in accordance with the board of director's resolution dated July 15, 2012. Mr. Blass is entitled to receive the stock options in two equal tranches of 55,000 options each, at the following dates: July 15, 2014 and July 15, 2015; (2) 200,000 options at an exercise price of NIS 67.14, which were allotted to him in accordance with the board of director's resolution dated March 25, 2014. Mr. Blass is entitled to receive the stock options in three equal tranches of 33.33% at the following dates: March 3, 2016, March 25, 2017 and March 3, 2018.

Regulation 21: **Payments to Interested Parties and Senior Officers (Cont.)**

- (5) **Mr. Ronen Zohar** – Until August 2014, Mr. Zohar was the CEO of Sabra (and is CEO of the Strauss Water Company since February 2015). For his term of office as CEO of Sabra, Mr. Zohar's wage component in 2014 included an annual salary of US\$360,000 as well as fringe and social benefits (participation in medical insurance, vacation days, company car and reimbursement of expenses).

In addition, the bonus for 2014 was composed of an annual bonus for meeting Sabra's financial, strategic and functional goals, as well as a long-term bonus for meeting strategic goals in 2013 and 2014 in the amount of US\$375,000, in line with goals defined by the board of directors, as well as a deferred bonus for meeting Sabra's financial goals in 2012, in the amount of US\$257,250. The annual bonus is calculated based on the degree of performance: 50% of the annual bonus is for meeting Sabra's financial goals (which are Sabra's annual budget goals) and 50% is for meeting the CEO's strategic and functional goals. Full achievement of all the goals ("the target incentive") will provide an annual bonus of 9 monthly salaries, while a performance rate below 93% does not entitle to a bonus and a rate above 105% does not increase the bonus (the bonus for performance between 93%-105% will be calculated pro-rata to the degree of achievement, so that the incentive will range between 0 (for meeting less than 93% of the goal) and a maximum of 167% of the target incentive (for meeting 105% or more of the goal)). The calculation of the annual bonus for 2014 was based in the following financial goals: sales, pre-tax operating profit and net profit, and the rate of achievement was 100%. The rate of achievement of the strategic and functional goals was 100%.

For the termination of employment at Sabra, Mr. Zohar was entitled to an adjustment period. Since he began his term of office as CEO of Strauss Water in February 2015, Mr. Zohar is entitled to a 6-month adjustment period.

- (6) The payments to the other directors include the total payments received by all the directors of the Company, with the exception of Mr. Ofra Strauss.
- (7) Regarding the indemnity and insurance of directors and officers of the Company, see note 26, sections 1.2.1 and 4.2.

Regulation 21a: **Control of the Corporation**

The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: "**Strauss Holdings**") and a direct holding in 21,882 ordinary shares of the Company and Mrs. Ofra Strauss, who is deemed a joint holder with him in the shares of the Company. For details regarding the holdings in Strauss Holdings, see section 1.3 of the Description of the Corporation's Business Report.

Regulation 22:

Following are details, to the Company's best knowledge, regarding each transaction with the controlling shareholder or where the controlling shareholder has a personal interest in its approval (each transaction, as aforesaid, that the Company or its subsidiary or a related company are a party thereto) in 2014 or at a date subsequent to the reported year until the date of filing of this report or which is still valid upon the date of publication of this report, except for interest in transactions made during the ordinary course of business of the aforementioned corporations. See also note 39 of the Company's financial statements as at December 31, 2014. Said transactions are reviewed by the Company's audit committee each year in accordance with procedures adopted by the Company.

Transactions enumerated in Section 270(4) of the Companies Law

- a. An employment agreement with Ofra Strauss, Chairman of the Board of Directors – for details, see Regulation 21 in this chapter.
- b. An undertaking to indemnify Messrs Ofra Strauss and Adi Strauss and insure Messrs Ofra Strauss and Adi Strauss under a directors and officers insurance policy – on July 2, 2014, the general meeting of the Company approved an amendment to the Company's remuneration policy, including the Company's entry into an employment agreement with the Company's active chairman of the board, Mrs. Ofra Strauss, who is the controlling shareholders of the Company together with her father, Mr. Michael Strauss. Pursuant to the agreement and in accordance with the Company's compensation policy, it was approved that the chairman of the board will be entitled to receive insurance coverage under the Company's directors and officers insurance or any other insurance coverage that will apply to officers of the Company, and shall be entitled to an undertaking to indemnify by the Company in the wording of the current undertaking that is given by the Company. On the same date, the general meeting also approved an undertaking to indemnify Mr. Adi Strauss, who is a relative of the controlling shareholders of the Company, in the wording of the current undertaking to indemnify directors and officers, which is given by the Company. For additional details see immediate reports dated May 27, 2014, June 17, 2014 and July 2, 104 (reference no: 2014-01-074055, reference no: 2014-01-092841 and reference no: 2014-01-105546, respectively).

Regulation 22 (Cont.)

In addition, on May 26, 2014, the board of directors of the Company resolved, in accordance with the Companies Regulations (Relief in Transactions with Interested Parties), 2000 (hereinafter – “**the Relief Regulations**”) to approve the inclusion of Mr. Adi Strauss as a beneficiary in the current directors and officers insurance policy. For additional details see note 26.4 of the Company’s financial statements as of December 31, 2014, in part C above. For additional details see also immediate report dated May 27, 2014 (reference no: 2014-01-074040).

- c. Directors’ fee - 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) and Regulation 21 in this chapter.
- d. Undertakings to indemnify and granting of right to use the "Strauss" name in accordance with the merger transaction with Strauss – for details, see section 26.1 of the chapter “Description of the Corporation's Business”. As stated in this section, members of the Strauss family were undertaken not to compete against the Company and not to use the Strauss brand in specific areas and over specific periods, as set forth in the section above. In the Company’s best knowledge, the Strauss family members are in compliance with the aforementioned undertakings.

Transactions which are not enumerated in section 270(4) of the Companies Law

- a. Negligible transaction – 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 a consolidated subsidiary or a proportionately 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 Statement), 2010. These rules and guidelines will also serve to examine the scope of disclosure in the periodic report and in the prospectuses (including the 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 which the controlling shareholder has a personal interest; and also to review the need to issue an immediate report with respect to a transaction of the Company, as stated. The guidelines, *inter alia*, include provisions regarding transactions of the same type, which are not inter-dependent, carried out frequently and repeatedly every period, inter-connect or inter-dependent transactions and multi-annual transactions.

Regulation 22 (Cont.)

- b. In 2014, no transactions were executed and as of 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. It is emphasized that the negligibility of the transactions specified hereunder was reviewed for purposes of this report, according to an updated resolution of the board of directors of the Company, as stated above.
1. The purchase of UHT milk (ultra-high temperature milk) from the Ramat Hagolan Dairies – since 1983, the Group has been purchasing and distributing UHT milk produced by Ramat Hagolan Dairies [which is held by Gideon Holdings Ltd. (a subsidiary of Strauss Holdings Ltd.), Tnuva and Tara, in equal shares]. The purchase volume is immaterial and the terms are equal to those granted to the other shareholders of Ramat Hagolan Dairies. To the Company's best knowledge, on November 23, 2009, an agreement regarding the sale of the shares of the dairy was signed by the three aforementioned shareholders. Pursuant to the sale agreement, the aforementioned shareholders undertook to continue purchasing UHT milk from Ramat Hagolan Dairies for a period of five years from January 1, 2010, at the quantities specified in the sale agreement. Accordingly, Strauss Health Ltd. (a subsidiary 80% held by the Company) entered into a manufacturing, supply and marketing agreement with Ramat Hagolan Dairies on February 21, 2010 (hereinafter – **“the Original Agreement”**), pursuant to which Ramat Hagolan Dairies will manufacture the products ordered by Strauss Health. Strauss Health undertook that during a period of five years, from January 1, 2010, it will order from Ramat Hagolan Dairies a minimum quantity of products per annum, according to the quantities specified in the agreement (hereinafter – **“the Target Quantity”**). The agreement will automatically be extended for an additional 12 months, unless either party notifies the other of its intention not to extend the agreement. It is noted that the undertaking to purchase UHT milk, pursuant to said agreement, is on terms equal to those at which Strauss had previously purchased UHT milk from Ramat Hagolan Dairies, in the volume of purchase, at an identical marketing commission (deducted from the purchase price of UHT milk) and at identical terms of payment. Furthermore, the marketing commission to which Strauss Health is entitled is at a similar rate to the marketing commission to which all the shareholders were entitled prior to the sale of their shares in the dairy. On October 26, 2010, the parties agreed to extend the agreement until the earlier of: the date by which the Target Quantity specified in the Original Agreement is reached or until three years have passed from the date of amendment of the agreement, as aforesaid. (For the financial amount of UHT milk purchases from Ramat Hagolan Dairies, see note 39.5 of the Company's financial statements, as at December 31, 2014).

Regulation 22 (Cont.)

2. Purchase of advertising time – the Group purchases advertising time through the media company Reshet, a TV franchiser, in accordance with the Second Authority for Television and Radio Law, 1990. In the Company's best 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. Below are details on 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 the transactions executed by it, and the extent of their impact on the Company's operations and its results:
 1. Leasing a distribution center in Petach Tikva – for details on the leasing of the distribution center in Petach Tikva, pursuant to a lease agreement between Strauss Marketing and Rav Etgar Ltd. (which to Company's best knowledge is controlled by the controlling shareholders of the Company) was extended until December 31, 2015, in consideration for an insignificant rental fee; see note 39.5 of the Company's financial statements as at December 31, 2014.
 2. The subsidiary Strauss Water Ltd. (88%) entered into an agreement with I.M.S. Electronics Ltd. which, to the Company's best knowledge, Mr. Michael Strauss is part of the group of controlling shareholders therein, for the development of electronic cards for Strauss Water's appliances. The agreement was based on the turnkey method, and was dependent on the extent of orders made by Strauss Water from time to time, according to accepted market conditions in agreements of this kind, and during the ordinary course of business. The board of directors of the Company resolved that this is a "negligible transaction" and further to the audit committee's resolution, decided to ratify the agreement with IMS Electronics Ltd., and determine that this agreement is consistent with the Company's best interests.

Regulation 24:

Holding of Interested Parties and Senior Officers

For details concerning the holdings of interested parties and senior officers, see the Company's immediate report dated March 5, 2015 (reference no: 2015-01-044800).

Regulation 24a:**Authorized Capital, Issued Capital and Convertible Securities**

For details, see notes 28.1.1, 28.1.2, 28.2 and 25 of the Company's consolidated financial statements as at December 31.2014 and the definition of "fully dilution" in Regulation 21 above.

Regulation 24d:**Shareholder Register**

For details on the Company's shareholder register, see the Company's immediate report dated February 1, 2015 (reference no: 2015-01-021802).

Regulation 25a:**Registered Address**

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 Corporation**

Below are the details on directors of the Company serving on the board as of the date of the report:

Name of the director	Ofra Strauss, chairperson of the board	Adi Strauss	Ran Midyan	Ronit Haimovitch	Dr. Michael Angel (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	Bluya Alley, 6 Maoz St., Tel Aviv	4 Apter St., Tel Aviv, 69362	11a Hashomer St., Raanana
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	February 1996	August 25, 2011	November 2004	August 2003	June 12, 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 – the 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, the University of Columbia, New York, USA and PhD in Financing – Columbia University, New York,	Ph.D. in Economics – Wharton University (Pennsylvania, US); MBA in Finance and Accountings – Tel Aviv University

					US	
Occupation in the last five years	Chairman of the board of directors from June 2001	Business manager	Active manager at Nemaskara Ltd.	CEO of Strauss Investments (1993) Ltd.	Director in various companies	Business consultant to companies; lecturer in 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' 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; Rayan Ben-Dror's son, Gil Midyan's brother and the cousin of Ofra Strauss, Adi Strauss and Irit Strauss	None	None	None
Position in the Company, its subsidiary, a related company or in an interested party of the Company	Chairman of the board of directors of the Company	Director in Strauss Holdings Ltd., director in Max Brenner; director in Strauss Health	None	An employee of a related company of the controlling shareholder of the corporation – the CEO of Strauss Investments (1993) Ltd.; a director in Strauss Holdings Ltd.	None	None
Additional corporations in which he/she serve as a director	Strauss Holdings Ltd.; held and related companies of the Company	Strauss Holdings Ltd.; Adis Investments Ltd.; Adis Lifestyle Ltd.; Adis Montefiore Ltd.; Adis Herbert Samuel Ltd.; Adis Achad Haam Ltd.; Adis Alma Ltd.; Adis Marina Ltd.; Idan Marina Ltd.; Marina H. Hotel Management Ltd.; H.S. R.S.T. Marine (Herzeliya) Ltd.; Adis Assets Ltd.; Adis Hosting Ltd.;	Namascara Ltd.; Strauss Holdings Ltd.;	Strauss Holdings Ltd.; Rav Etgar Ltd.; Noga Network Ltd.; Hashachar Haole Holdings Ltd, Hashachar Haole, Consulting and Investment Management Ltd.; Shvil Haela Ltd.; Acro Real Estate Development Ltd., Acro Neot Afeka General partner Ltd., Acro Z.A.R. Projects Ltd., Acro Israel Ltd., Acro Tenders Ltd., Acro Herzeliya-General Partner Ltd., Or Mania Ltd.; Alaska Advisor S.A.;	Partner Communications Ltd.; Abugin Ltd.; Orbotech Ltd.; Dan Hotels Ltd.; LHV – Qualification Studies in Management with the Tel Aviv University; Biuline rx Ltd.; Lomus Ltd.	Aenetz Consultants Ltd.; Bazan – Oil Refineries Ltd.; Giron Ltd.; Petrochemical Plants in Israel Ltd.; Destiny Investments Ltd.; Compugen Ltd.; Elrom Ltd.; Elron Electronic Industries Ltd.

				Red Canyon Industries Ltd; Perl Properties Holding Inc.;; Emanate Technology & Trade Ltd. Deep Blue Yachting LTD; Ocean Blue Holdings LTD; Ocean Blue Yachting LTD;		
Membership on committee/s of the board of directors	Chairperson of the ad hoc committee on investments, mergers and acquisitions	None	None	The ad hoc committee on investments, mergers and acquisitions	Chairman of the audit committee; the balance sheet and finance committee (review of financial statements); the compensation and human resources committee; the ad hoc committee on investments, mergers and acquisitions.	The balance sheet and finance committee (review of financial statements); the compensation and human resources committee ; the ad hoc committee on investments, mergers and acquisitions.
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number determined by the board.	No	No	No	Yes	Yes	Yes

Name of the director	David Moshevitz	Meir Shani	Dalia Lev (independent) ¹	Prof. Daphna Schwartz (external director)	Akiva Mozes (independent) ²	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	31 Hasapir St., Rishon Lezion, 75437	10 Haparsa St., Ramat Gan, 5242550
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	December 1977	September 1997	June 12, 2008	June 12, 2008	June 12, 2008	May 2013
Education	LL.B – Hebrew University	BA in Economics and Accounting – Tel Aviv University; MBA – Tel Aviv University; qualified accountant	Accounting – Hebrew University of Jerusalem; MA in Law – 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 Sciences – 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	Balgol Ltd. Investments, Real Estate and Management Services; and a director in the Company.	A director in different companies; business economic consultant; head of the Department of Initiatives and Hi Tech Management, the Business Administration Department; manager of the Bungis Hi Tech Initiatives and Management Center, the Gilford Glazer Management Faculty with the Ben Gurion University; member of the Civil Research &	Chairman of the board of Oil Refineries Ltd.; CEO of Israel Chemicals Ltd.; chairman of the Public Companies Association; public representative at the National Labor Court; chairman of the Agriculture Committee of the International Fertilizer Manufacturer Organization; member of the managing council of the International Fertilizer Manufacturer Organization (IFA); chairman of the	President and CEO of Bank Leumi of Israel; Chairperson Leumi Private Bank Switzerland

¹ The Company believes that the conditions for Ms. Dalia Lev's qualification as an independent director, as it is defined in the Companies Law, 1999, are met with.

² The Company believes that the conditions for Mr. Akiva Mozes' qualification as an independent director, as it is defined in the Companies Law, 1999, are met with.

				Development National Council; member of the Board of trustees of Achva College; member of the Work Group Committee of the EU on the issue of -"policy relevant research on entrepreneurship and SME's"	Friends Society of the Soroka Medical Center in Beer Sheba; member of the board of trustees of the Ben Gurion University in Beer Sheba; member of the board of trustees of the Shenker School for Arts and Design; member of the Academic Industrial Advisory Committee of the Kineret Academic College, Emek Hayarden; 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, its subsidiary, a related company or in an interested party of the Company	None	None	None	None	None	None
Additional corporations in which he/she serve as a director	None	I.D.B. Holdings Ltd.; Sano Intertrans Ltd.; Shani-Aharoni Investments Ltd.; family companies, Deleksen Ltd.; Fidel	Balgol Ltd.; Paz Petroleum Company Ltd.; the First International Bank Ltd.	Bank Hapoalim Ltd.;	Tagamal Muss Management 2012 Ltd.; A.E. Muss Investments 2012 Ltd.; Anthill; Abugen Ltd., member of the executive committee of the Tel Aviv Committee Ltd.; Eucalyptus Industries Ltd.; Ein Shemer Rubber Industries Ltd.	Equity One Inc.; Teva Pharmaceutical Industries Ltd.; Aphalion G.I. Ltd.; Frihalion G.I. Ltd.
Membership on committee/s of the board of directors	Audit Committee	The balance sheet and finance committee (review of financial statements); the ad hoc	The balance sheet and finance committee (review of financial	Chairman of the compensation and human resources committee; Chairman of	the ad hoc committee on investments, mergers and acquisitions.	the ad hoc committee on investments, mergers and acquisitions.

		committee on investments, mergers and acquisitions.	statements); the audit committee; the ad hoc committee on investments, mergers and acquisitions.	the balance sheet and finance committee (review of financial statements)		
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number determined by the board.	No	Yes	Yes	Yes	Yes	Yes

Regulation 26a: Senior Officers

Below are the details of senior officers of the Company as of the date of the report:

Name of officer:	Gadi Lessin, 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 1, 2009	July 4, 2011	April 1994	October 1, 2007	November 3, 2008	June 15, 2009
Position in the Company	President and CEO of the Group	Deputy CEO; directors in subsidiaries of the Company	Senior Deputy CEO, Chief Legal Consultant and Company secretary	VP Human Resources of the Group	CFO of the Group	CEO of Strauss Israel
Position in the Company, its subsidiary, a related company or in an interested party of the Company	Director in subsidiaries of the Company	Director in subsidiaries of the Company	Chairman of the board of directors of Max Brenner	None	Director in subsidiaries of the Company	Director in subsidiaries of the Company
Education	MBA – Ben Gurion University in Beer Sheva; BA in Business Administration, the Management College of Tel Aviv	BA in Humanities, Tel Aviv University; graduate of the Advance Management Program (AMP) of the Business Administration School of Harvard University, US;	LL.B. – Tel Aviv University	BA in Educational Psychology, Sociology – the 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	CEO of Strauss Israel; President and CEO of the Group – from July 1, 2009	CEO of Strauss Noth America, 2007-2010; CEO of PepsiCo Strauss International Dips & Spreads Ltd. from October 2007	Senior VP, Chief Legal Consultant and Company Secretary	VP Human Resources of the Group from October 1, 2007	CFO of the Group from November 3, 2008	2006-2009 CEO of the Sales Division; CEO of Strauss Israel from June 15, 2009
Family relations with another interested party	None	None	None	None	None	None

Senior Officers

Name of officer:	Rami Ronen (*)	Tomer Harpaz (**)	Yaniv Reuven (***)	Ronen Zohar (***)	Shelly (Tal Dina) Shoval Shalit (***)	Shlomo Ben Shimol
Identity no:	58102138	25257304	024216160	56216013	055430821	1230878-9
Date of birth:	June 17, 1963	February 28, 1973	January 30, 1969	February 9, 1960	April 17, 1959	July 2, 1956
Commencement of term of office	July 12, 2009	July 19, 2010	January 6, 2015	April 1, 2015	August 1, 2014	1999
Position in the Company	CEO of Strauss Water	CEO of Strauss Coffee BV;	Controller	CEO of Strauss Water	CEO of Sabra Dipping Company	Internal auditor
Position in the Company, its subsidiary, a related company or in an interested party of the Company	A director with subsidiaries of the Company	Director in subsidiaries of the Company,	None	None	None	None
Education	Graduate of Electronic Engineering – Tel Aviv University; MBA – Tel Aviv University	LL.B. University of East Anglia Norwich; Posgraduate Diploma in Business Administration, Hull University, London, England	B.A. Business Administration, the College of Management	B.A. 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	CEO of Strauss Water	2010-2014 VP of the Business Development and Strategy of the Strauss Group; 2006-2014, chairman of Re:Bar; 2006-2009 CEO of ARA Minerals	2013 – controller of the Soda Stream Group; 2010-2013, controller of the Better Place Group; 2005-2010, CFO Paradigm Geophysical	CEO of Sabra Dipping Company	2013-2014, VP marketing of Sabra Dipping Company; 2009-2013, CEO of Strauss Frito-Lay	A partner with the accounting firm of Brightman, Almagor Zohar & Co.
Family relations with another interested party	None	None	None	None	None	None

- (*) On December 29, 2014, the Company reported that Mr. Ronen Zohar resigned from his position as CEO of Strauss Water Ltd. To the best of the Company's knowledge, the retirement does not involve circumstances that should be brought to the attention of the security holders. For details see immediate report dated December 29, 2014, reference no: 2014-01-233412. On February 4, 2015, the Company reported the appointment of Mr. Ronen Zohar as CEO of Straus Water Ltd. For details see immediate report dated February 4, 2015, reference no: 2015-01-024382.

(**) On January 3, 2014, the Company reported the resignation of Mr. Todd Morgan, who served as CEO of Strauss Coffee BV. To the best of the Company's knowledge, the retirement involves circumstances that should be brought to the attention of the security holders. For additional details see immediate report dated January 3, 2014, reference no: 2014-01-003436.

(***) On July 21, 2014, the Company reported that Mr. Shafir Engelberg resigned from his position of Company controller. To the best of the Company's knowledge, the retirement does not involve circumstances that should be brought to the attention of the security holders. For additional details see immediate report dated July 21, 2014, reference no: 2014-01-118077.

Regulation 26b: Independent Signatories in the Corporation

There are no independent signatories in the Company.

Regulation 27: The Corporation's accountants

Someck Chaikin, 17 Harbaa St., Millennium Tower, Tel Aviv 64739.

Regulation 28: Changes in the Memorandum or Articles of Association made during the Reported Year

During 2014 there were no changes in the Company's memorandum or articles of association

Regulation 29: Resolutions of the Extraordinary General Meeting

On July 2, 2014, the general meeting of the Company approved an amendment to the Company's compensation policy, including the Company's entry into an employment agreement with the Company's active chairman of the board, Mrs. Ofra Strauss, who is a controlling shareholder of the Company together with her father, Mr. Michael Strauss. In addition, on that date, the meeting approved the issue of an undertaking to indemnify Mr. Adi Strauss, a relative of the controlling shareholder of the Company, in the wording of the current undertaking to indemnify directors and officers. For additional details 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).

Regulation 29a: Company Resolutions

Exemption, insurance or undertaking to indemnify an officer

(1) As of the date of this report, the undertakings to indemnify all the directors serving in the Company are in effect and their wording is in accordance with the resolution of the extraordinary general meeting of the Company, dated June 6, 2011 (reference no: 2011-01-177714). It is noted that upon the re-appointment of directors, the Company, for the sake of caution, approves the continued validity of the undertakings to indemnify, in accordance with the aforementioned resolution.

Regulation 29a: Company Resolutions (continued):

- (2) On September 9, 2013, the Company's compensation policy was approved, pursuant to which officers of the Company will be entitled, in accordance with the provisions of the Companies Law and the Company's Articles, to receive insurance coverage under the officers liability insurance policy, including a "Claims Made" insurance, a "Run Off" insurance, or any other insurance coverage that will apply to the officers of the Company, in line with the decisions of the Company's competent organs. It was likewise determined that according to the principles set forth in the resolution of the extraordinary general meeting of shareholders of the Company dated July 17, 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) thousands (or any other amount if it is determined in a proper resolution of the general meeting of the Company's shareholders) (for the Company's compensation 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)).

Pursuant to the resolution of the general meeting of the Company dated July 17, 2012 (as specified in the Company's reports dated June 24, 2012 and July 17, 2012, reference numbers: 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 the controlling shareholders or their relatives), a basic policy for the Company (which does not include Strauss Coffee BV), a basic policy for Strauss Coffee BV and an umbrella policy whose liability insurance is in excess of specified the other two policies, was approved in advance, for several insurance periods until September 30, 2017. It was stipulated that the limit of insurance coverage shall not exceed US\$200 million, the annual premium shall not exceed US\$250 thousand and no material differences shall exist between the terms of the aforesaid policy and the policy that was approved for the period until September 30, 2013 (as stated in the Company's reports above). 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's CEO. See also note 26.4.2 of the Company's financial statements as of December 2014, in part C above.

- (3) For details regarding an undertaking to indemnify directors and officers given to Messrs Ofra Strauss and Adi Strauss, see Regulation 22 above.

Strauss Group Ltd.

Name of signatories and their position:

Ofra Strauss, Chairperson of the Board of Directors

Gadi Lesin, CEO of the Company

Date: March 22, 2015

Corporate Governance Questionnaire¹

Independence of the Board of Directors

			Correct	Incorrect
1.		Throughout the reported year, two or more outside 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 rate² of independent directors³ holding office in the corporation as of the date of release of this Questionnaire: 4 The rate of independent directors, stated in the Articles of Association⁴ of the corporation⁵: ____. X Irrelevant (no provisions was stated in the Articles).		

² Other than an "outside director" as defined in the Companies Law.

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 outside 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 outside (and independent) directors holding office in the corporation, and that they also fulfilled the conditions required for holding office as an outside (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 workers' representative, if there is a workers' 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 at the discussion and did not participate in a vote as aforesaid (other than a discussion and/or vote in circumstances as stated in Section 278(b) of the Companies Law): If your answer is "incorrect" – Was it for the purpose of presentation of a specific issue by him 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 discussion and/or participated in the vote, other than in circumstances as provided in Subsection a. : _____.	√	
	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		

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 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 presentation of a certain matter by him: <u> ?</u> Yes <u> ?</u> No (kindly <i>mark x in the appropriate box</i>) The rate of his attendance⁷ 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 outside 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 - <table border="1"> <tr> <td>a.</td><td>The time period prescribed in the articles of association for the office of a director: _____.</td><td></td><td></td></tr> <tr> <td>b.</td><td>The required majority prescribed in the articles of association for the termination of office of the directors: _____.</td><td></td><td></td></tr> <tr> <td>c.</td><td>The lawful quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: _____.</td><td></td><td></td></tr> </table>	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: _____.			√	
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: _____.														

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.

		_____.		
	d.	The majority required for amending these provisions in the articles of association: _____.		
8.		The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of serving directors, which is adjusted, <i>inter alia</i>, 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 qualification⁹: 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: _____. <i>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: _____.</i>	√	
	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: (2014) 4						
			Q2: 3						
		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]					_____	_____

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.

		Ofra Strauss	100.00%				The ad hoc Committee on Investments, Purchases and Mergers – 100.00%		
		Adi Strauss	85.71%		100.00%		The ad hoc Committee on Investments, Purchases and Mergers – 33.00%		
		Ran Midyan	71.43%						
		Ronit Haimovitch	100.00%		50.00%		The ad hoc Committee on Investments, Purchases and Mergers – 100.00%		
		Meir Shani	92.86%	75.00%					
		David Moshevitz	85.71%	100.00%					
		Micha Engel	100.00%	100.00%	100.00%	88.89%			
		Daphna Schwartz	85.71%	100.00%	100.00%	100.00%			
		Dalia Lev	100.00%	75.00%	100.00%		The ad hoc Committee on Investments, Purchases and Mergers – 100.00%		
		Akiva Mozes	92.86%				The ad hoc Committee on Investments, Purchases and Mergers – 100.00%		
		Arie Ovadia	92.86%		100.00%	100.00%			
		Galia Maor	92.86%				The Finance and Investment Committee – 100.00%		
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. <i>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: _____.</i>	√	
14.		Throughout the entire reported year, a CEO held office in the corporation. <i>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: _____.</i>	√	
15.		In a corporation in which the chairman of the board serves also as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law. ¹⁵ ___ Irrelevant (insofar as such dual office does not exist in the corporation).		
16.		The CEO is <u>not</u> a relative of the chairman of the board. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board) -	√	
	a.	State the 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. ___ 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 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.		√	
	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).		√	
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 discussion 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 outside 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 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: 4 days, out of them 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 (2014): 5 Q2 statement: 4 Q3 statement: 5 Annual statement: 5			
		c.	The number of days elapsed between the date of delivery of the draft financial statements to the directors and the date of approval of the financial statements: Q1 statement (2014): 12 Q2 statement: 7 Q3 statement: 8 Annual statement: 8			
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 outside 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 (as outside directors presenting 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 who is 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 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 hours¹⁷): 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): _____ - Have the agreements for such employment and/or management services been approved by the organs specified in the law: ☒ Yes ☐ No. (Kindly mark x in the appropriate box) ☐ Irrelevant (the corporation does not have a controlling shareholder) _____.		X
38.		According to the best knowledge of the corporation, the controlling shareholder has no additional business affairs in the field of operation of the corporation (in one or more areas). If your answer is "incorrect" – it should be indicated whether an arrangement for the setting bounds of activities between the corporation and the controlling shareholder thereof: ☐ Yes ☐ No. (Kindly mark x in the appropriate box) ☐ Irrelevant (the corporation does not have a controlling shareholder) _____.	√	

Chairman of the Board:
Ofra Straussu

Chairman of the Audit Committee:
Dr. Michael Engel

Chairman of the FSRC:
Prof. Daphna Schwartz

STRAUSS GROUP LTD.

ISOX DECLARATION



**Auditors' Report to the Shareholders of Strauss Group
Regarding the Audit of Internal Control Components over Financial Reporting in
accordance with paragraph 9b(c) of the Israeli Securities Regulations (Periodic and
Immediate Reports), 1970**

We have audited internal control components over financial reporting of Strauss Group and its subsidiaries (hereinafter "the Company") as of December 31, 2014. These control components were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the Company's internal control components over financial reporting accompanying the periodic report as of the above date. Our responsibility is to express an opinion on the Company's internal control components over financial reporting based on our audit.

Audited Internal control components over financial reporting were determined 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 (hereinafter "Auditing Standard 104"). These components are: (1) Entity level controls, including controls over the preparation and closure of the financial reporting process and general information technology controls; (2) controls over sales process in emphasis of issuing invoices and customer master file maintenance (3) controls over purchases in emphasis of cash disbursements to suppliers ; (4) Inventory process in emphasis of costing and measurement (process all these hereinafter are named together "audited control components").

We conducted our audit in accordance with Auditing Standard 104. This standard requires us to plan and perform the audit to identify the audited control components and to obtain reasonable assurance about whether these control components were effective in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, and testing and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, regarding those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the audited control components, as opposed to internal control over all significant processes related to financial reporting, therefore our opinion refers to the audited control components only. Our audit also did not refer to mutual effects between audited control components and non-audited control components, therefore our opinion does not take into account these possible effects. We believe that our audit provide a reasonable basis for our opinion in the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and internal control components in particular, may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective audited control components as of December 31, 2014.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 and our report dated march 22, 2015 expressed an

unqualified opinion on those financial statements based on our audit and on the reports of the other auditors.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 22, 2015

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 2014:

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. Giyora Bar Dea, Chief Executive Officer;
3. Shahar Florence, EVP & CFO;
4. Mike Avner, EVP, CLO, Company Secretary;
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. Based on the reporting and disclosure risks evaluation the company management focused on the processes which were defined as very material.

Examination of the actual performance and documentation of the controls defined in the control processes.

Internal control elements examined and evaluated:

1. Organizational level controls (ELC)
2. Financial statements preparation process
3. Information systems controls (ITGC)
4. Controls over very material processes to the financial reporting and disclosure: sales process, purchasing, vendor payments process and inventory process

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, 2014 is effective.

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 2014 (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), 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 22, 2015

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 2014 (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), 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 22, 2015

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 2014 and 2013
and independent auditors' report
on consolidated financial statements

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KPMG Auditores Independentes
Rua Desembargador Leite Albuquerque, 635
Salas 501 e 502 - Aldeota
60150-150 - Fortaleza, CE - Brasil

Telefone 55 (85) 3307-5100
Fax 55 (85) 3307-5101
Internet www.kpmg.com.br

Independent auditors' report on consolidated financial statements

To Directors and Shareholders of
Três Corações Alimentos S.A.
Fortaleza – CE

Report on the 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 2014 and 2013, and the related consolidated statements of Income, comprehensive income (loss), 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 financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 financial position of Três Corações Alimentos S.A. and its subsidiaries as of 31 December 2014 and 2013, the results of their operations and their cash flows for the years then ended, in accordance with International Financial Reporting Standards accounting principles.

Fortaleza, 05 March 2015

KPMG Auditores Independentes
CRC 2SP014428/O-6

Cristiano Jardim Seguecio
Accountant CRC SP-244525/O-9 T-RS

Três Corações Alimentos S.A.

Consolidated statements of financial position as of 31 December 2014 and 2013

(In thousand of Brazilian Reais)

Assets	Note	2014	2013	Liabilities	Note	2014	2013 (Reclassified)
Current				Current			
Cash and cash equivalents	5	87,775	36,952	Short term loans	14	281,034	186,920
Deposits	6	4,529	21,670	Trade payables	15	78,991	57,203
Trade receivables	7	287,513	250,914	Income tax payables		1,081	1,123
Inventories	8	236,803	214,147	Employees and other payroll related liabilities	16	39,886	31,503
Recoverable taxes	9	22,318	28,434	Proposed dividends	21.d	69,096	61,923
Income tax receivable		5,215	7,148	Payable taxes	17	16,139	15,478
Derivatives	27	-	77	Derivatives	27	-	11,133
Other current assets	10	14,690	11,753	Other current liabilities	18	27,828	20,011
		<u>658,843</u>	<u>571,095</u>			<u>514,055</u>	<u>385,294</u>
Non-current				Non-current			
Judicial deposits	19	14,390	17,058	Long term loans	14	81,820	136,790
Other non-current assets	10	4,215	2,282	Other non-current liabilities	18	3,023	4,406
Deferred tax assets	20	17,149	9,067	Deferred tax liabilities	20	16,288	17,293
Fixed assets	12	211,218	174,679	Provision for legal proceedings	19	17,308	15,091
Intangible assets	13	192,136	158,110			<u>118,439</u>	<u>173,580</u>
		<u>439,108</u>	<u>361,196</u>				
		<u>1,097,951</u>	<u>932,291</u>	Equity			
				Share capital	21.a	271,669	271,669
				Translation reserve	21.b	(68,574)	(50,388)
				Retained earnings	21.e	262,362	152,136
						<u>465,457</u>	<u>373,417</u>
						<u>1,097,951</u>	<u>932,291</u>

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 2014 e 2013

(In thousand of Brazilian Reais)

	Note	2014	2013
Revenue	22	2,352,499	2,039,186
Cost of sales	23	<u>(1,638,231)</u>	<u>(1,430,652)</u>
Gross profit		<u>714,268</u>	<u>608,534</u>
Selling and marketing expenses	24	(431,387)	(347,681)
General and administrative expenses	25	(67,041)	(55,513)
Other income (expenses), net		<u>(380)</u>	<u>198</u>
Operating profit		<u>215,460</u>	<u>205,538</u>
Finance income	26	75,859	48,889
Finance expenses	26	<u>(91,417)</u>	<u>(66,413)</u>
Profit before income tax		<u>199,902</u>	<u>188,014</u>
Income tax expenses	20	<u>(17,789)</u>	<u>(29,875)</u>
Profit for the year		<u><u>182,113</u></u>	<u><u>158,139</u></u>

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 2014 e 2013

(In thousand of Brazilian Reais)

	Note	2014	2013
Profit for the year		182,113	158,139
Foreign currency translation differences	21.b	<u>(18,186)</u>	<u>(5,791)</u>
Comprehensive income for the year		<u><u>163,927</u></u>	<u><u>152,348</u></u>

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 2014 e 2013

(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 2012	<u>271,669</u>	<u>6,955</u>	<u>41,468</u>	<u>15,904</u>	<u>(44,597)</u>	<u>-</u>	<u>-</u>	<u>291,399</u>
Dividends distributed relative to 2012	-	-	-	(8,407)	-	-	-	(8,407)
Profit for the year	-	-	-	-	-	-	158,139	158,139
Other comprehensive loss:								
Foreign currency translation differences	-	-	-	-	(5,791)	-	-	(5,791)
Total other comprehensive loss:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,791)</u>	<u>-</u>	<u>158,139</u>	<u>152,348</u>
Internal equity changes								
State VAT and Federal tax incentives	-	-	33,878	-	-	-	(33,878)	-
Profit destination:								
Legal reserve	-	7,907	-	-	-	-	(7,907)	-
Dividends proposed	-	-	-	-	-	-	(61,923)	(61,923)
Reserve for profit to be distributed	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,431</u>	<u>-</u>	<u>-</u>	<u>(54,431)</u>	<u>-</u>
	<u>-</u>	<u>7,907</u>	<u>33,878</u>	<u>54,431</u>	<u>-</u>	<u>-</u>	<u>(158,139)</u>	<u>(61,923)</u>
Balance as of 31 December 2013	<u>271,669</u>	<u>14,862</u>	<u>75,346</u>	<u>61,928</u>	<u>(50,388)</u>	<u>-</u>	<u>-</u>	<u>373,417</u>
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:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,186)</u>	<u>-</u>	<u>182,113</u>	<u>163,927</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,532</u>	<u>-</u>	<u>-</u>	<u>(63,532)</u>	<u>-</u>
	<u>-</u>	<u>9,164</u>	<u>40,321</u>	<u>63,532</u>	<u>-</u>	<u>-</u>	<u>(182,113)</u>	<u>(69,096)</u>
Balance as of 31 December 2014	<u>271,669</u>	<u>24,026</u>	<u>115,667</u>	<u>122,669</u>	<u>(68,574)</u>	<u>-</u>	<u>-</u>	<u>465,457</u>

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 2014 e 2013

(In thousand of Brazilian Reais)

	2014	2013
Cash flows from operating activities		
Profit for the year	182,113	158,139
Adjustments for:		
Depreciation and amortization	21,333	16,855
Provision for legal proceedings	2,217	4,692
Other expenses, net	380	(198)
Financing expenses, net	15,558	17,524
Income tax expenses	17,789	29,875
Interest paid, net	(13,296)	(15,331)
Income tax paid	(28,989)	(32,690)
	197,105	178,866
Change in:		
Trade receivables	(27,553)	1,454
Inventories	(22,206)	(36,526)
Recoverable and payable taxes, net	6,777	(17,389)
Derivatives, net	(10,998)	9,199
Judicial deposits	2,668	(2,196)
Trade payables	21,788	404
Employees and other payroll related liabilities	8,383	10,623
Other current and non-current assets and liabilities	19	2,675
Net cash flows provided by operating activities	175,983	147,110
Cash flows from investing activities		
Change in deposits	17,141	(11,620)
Payment for acquisition of operations	(26,703)	(8,441)
Proceeds from sales of fixed assets	2,562	1,448
Acquisition of fixed assets	(56,235)	(27,005)
Investments in intangible assets	(5,220)	(3,392)
Long-term loans to related parties	379	87
Net cash flows used in investing activities	(68,076)	(48,923)
Cash flows from financing activities		
Proceeds from loans	524,727	472,719
Repayment of loans	(517,097)	(508,050)
Dividend paid	(64,714)	(42,407)
Net cash flows used in financing activities	(57,084)	(77,738)
Net increase in cash and cash equivalents	50,823	20,449
Net increase in cash and cash equivalents		
Cash and cash equivalents as of beginning of year	36,952	16,503
Cash and cash equivalents as of end of year	87,775	36,952
	50,823	20,449

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

Notes to the consolidated financial statements

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

1 Reporting entity

Três Corações Alimentos S.A. and its controlled entities are an industrial and commercial group of companies, which operates in Brazil, in producing and selling branded coffee products, multibeverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports.

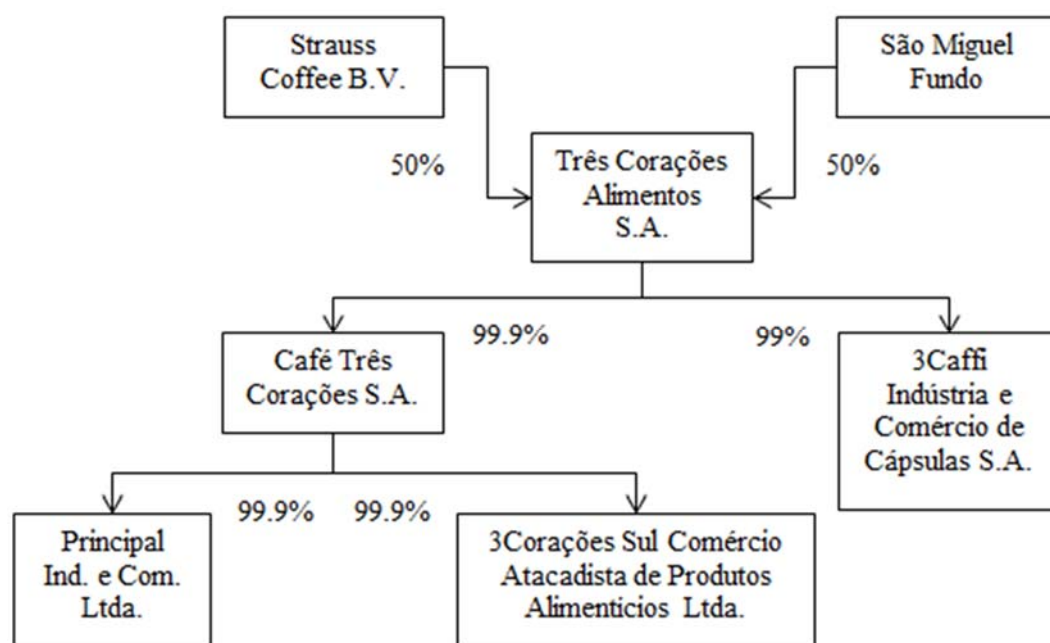
The Company controls the entities 3Caffi Indústria e Comércio de Cápsulas S.A. and Café Três Corações S.A., which controls the entities 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda. (former Polo Participações Ltda.) and Principal Comércio e Indústria de Café Ltda. all together referred as “the Group”.

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

The Group is one of two largest groups in roasted and ground coffee business in Brazil, and owns the brands Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronimo, 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. (Note 2). As of 31 December 2014, the Group had the following structure:



2 Business combination

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 to be paid in March 2015, with interest; and
- R\$ 3,000 to be paid in December 2016, with interest.

The amount to be paid is presented as other liabilities (Note 18).

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 are listed below:

	Note	R\$
Fixed assets		
Machinery and equipment	12	751
Intangible assets:		
Brands and trademarks	13	<u>701</u>
Net identifiable assets		<u><u>1,452</u></u>

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

c. Goodwill

	R\$
Acquisition cost	
Consideration transferred, paid or to be paid	31,631
Net identifiable assets	<u>(1,452)</u>
Goodwill	<u><u>30,179</u></u>

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 issue on 05 March 2015.

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 4 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 estimates are recognized prospectively.

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 2013.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the years ending 31 December 2014 and 2013 is included in the following notes:

- Note 7 – Provision for doubtful accounts;
- Note 12 – Useful life of fixed asset items;
- Note 13 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- Note 19 – recognition and measurement of provisions for legal proceedings: key assumptions about the likelihood and magnitude of an outflow of resources.
- Note 20 – recognition of deferred tax assets: availability of future taxable profits against which tax loss carryforwards can be used;
- Note 27 – 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 27. 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 27 on financial instruments.

4 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 values 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 reais using the exchange rates at the reporting date. Income and expenses of foreign operations are translated to Brazilian reais 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 4.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 4.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 4.g.

Other intangible assets

The intangible assets include brands, trademarks, 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
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 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 4.f and 4.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 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 21.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, foreign currency gains, and gains on derivative instruments (other than commodities) that are recognized in the statement of income.

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 20.c and 21.e.

Deferred tax

Deferred taxes are recognized in relation to temporary differences between accounting balances of assets and liabilities and the corresponding balance amounts used for tax purposes. Deferred income tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for tax loss carryforwards, tax credits and deductible temporary differences to the extent that it is probable that taxable income will be generated in the future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

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 2014, 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 2015, 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 2017 and earlier application is permitted. The Company is yet to assess IFRS 15's impact, and no early application is planned.

5 Cash and cash equivalents

	R\$	
	31/12/2014	31/12/2013
Bank balances	36,524	22,658
Cash on hand	51	60
Short Term Deposits:		
Deposits in banks (*)	51,200	14,234
	<u>87,775</u>	<u>36,952</u>

- (*) 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 100.9% of the Brazilian Interbank Deposit rate (in 2013, 64% of the Brazilian Interbank Deposit rate).

6 Deposits

	R\$	
	31/12/2014	31/12/2013
Deposits with brokers (*)	4,529	21,670
	<u>4,529</u>	<u>21,670</u>

- (*) 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.

7 Trade receivables

	R\$	
	31/12/2014	31/12/2013
National customers:		
Third parties	287,112	254,040
Foreign customers	18,978	16,200
Related parties (Note 11)	660	1,068
	<u>306,750</u>	<u>271,308</u>
Less:		
Provision for discounts (a)	<u>(15,279)</u>	<u>(15,781)</u>
Subtotal	291,471	255,527
Provision for doubtful debt accounts (b)	<u>(3,958)</u>	<u>(4,613)</u>
	<u>287,513</u>	<u>250,914</u>

- (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\$	
	31/12/2014	31/12/2013
Not past due	265,440	215,768
Past due 1 to 30 days	17,909	33,404
Past due 31 to 60 days	3,420	1,119
Past due 61 to 90 days	593	544
Past due 91 to 120 days	108	46
More than 120 days	43	33
	<u>287,513</u>	<u>250,914</u>

The movement in the allowance for doubtful debt accounts during the period was:

	R\$	
	2014	2013
Balance at 1 January	(4,613)	(5,621)
Provision in the year	(1,873)	(1,545)
Write-offs	<u>2,528</u>	<u>2,553</u>
Balance at 31 December	<u>(3,958)</u>	<u>(4,613)</u>

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 4.80% of 2014 gross revenue (4.36% in 2013).

8 Inventories

	R\$	
	31/12/2014	31/12/2013
Finished goods	164,619	146,407
Work in progress	257	359
Raw material	25,429	25,342
Packaging and other materials	23,435	26,089
Other	<u>23,063</u>	<u>15,950</u>
	<u>236,803</u>	<u>214,147</u>
Carrying amount of inventory pledged as security for financial liabilities (including variable lien)	<u>26,687</u>	<u>11,747</u>

In 2014 the write-down of inventory to net realizable value amounted to R\$ 2,305 (2013: R\$ 2,036), recorded in profit or loss, in 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.

9 Recoverable taxes

	R\$	
	31/12/2014	31/12/2013
Tax recoverable:		
State VAT - ICMS	15,035	15,934
Federal VAT - PIS and COFINS	5,713	10,241
Other	1,570	2,259
Total	<u>22,318</u>	<u>28,434</u>

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.

10 Other current and non-current assets

	R\$	
	31/12/2014	31/12/2013
Assets:		
Advances to suppliers	2,285	3,402
Advances to employees	1,886	1,605
Prepaid expenses	8,821	5,012
Special Bank Deposit for reinvestment	2,605	948
Sundry	3,308	3,068
	<u>18,905</u>	<u>14,035</u>
Current assets	<u>(14,690)</u>	<u>(11,753)</u>
Non-current assets	<u>4,215</u>	<u>2,282</u>

11 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.

Três Corações Alimentos S.A.
*Consolidated financial statements as of and for the
years ended 31 December 2014 and 2013 and independent
auditors' report on consolidated financial statements*

The prices and credit terms in respect of transactions with related parties are determined according to customary commercial terms.

	R\$	
	31/12/2014	31/12/2013
Current assets		
Trade receivables (Note 7)		
Strauss Commodities AG	660	1,068
	<u>660</u>	<u>1,068</u>
Non-current assets		
Loans to related parties (Note 10)		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	-	378
Other	-	1
	<u>-</u>	<u>379</u>
Current liabilities		
Trade payables (Note 15)		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	3,514	3,443
	<u>3,514</u>	<u>3,443</u>
Profit or loss		
Revenue		
Strauss Commodities AG	20,985	18,732
	<u>20,985</u>	<u>18,732</u>
Cost of sales		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	1,785	2,303
	<u>1,785</u>	<u>2,303</u>
Sales and general and administrative expenses		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	2,532	1,859
	<u>2,532</u>	<u>1,859</u>

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.

12 Fixed assets

R\$						
Cost	Land and buildings	Machinery and equipment	Vehicles	Furnishing and other equipment	Leasehold improvements	Total
Balances as of 1 January 2013	35,574	137,819	23,328	27,179	20,479	244,379
Additions	1,573	15,199	8,707	6,236	2,290	34,005
Disposals	-	(909)	(1,081)	(888)	(31)	(2,909)
Transfer between classes of assets	(492)	236	209	334	(265)	22
Effect of changes in exchange rates	1,831	881	65	41	49	2,867
Balances as of 31 December 2013	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
Accumulated depreciation						
Balances as of 1 January 2013	(5,425)	(48,991)	(18,711)	(13,525)	(2,534)	(89,186)
Additions	(642)	(8,471)	(2,369)	(3,136)	(553)	(15,171)
Disposals	-	265	768	622	4	1,659
Transfer between classes of assets	(84)	(54)	27	50	61	-
Effect of changes in exchange rates	(314)	(499)	(91)	(27)	(56)	(987)
Balances as of 31 December 2013	(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)
Balance net as of						
31 December 2013	32,021	95,476	10,852	16,886	19,444	174,679
31 December 2014	40,134	100,282	26,335	23,533	20,934	211,218

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 2014 is R\$ 7,242 (R\$ 7,000 as of 31 December 2013).

The Group did not lease any land or buildings as of 31 December 2014 or 31 December 2013, except for operational leases with Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

13 Intangible assets and goodwill

Cost	R\$				
	Brands and trademarks (*)	Computer software	Goodwill (*)	Other	Total
Balances as of 1 January 2013	1,497	8,083	152,087	6,267	167,934
Additions	-	3,290	-	102	3,392
Transfer between classes of assets	-	42	-	(64)	(22)
Effect of changes in exchange rates	-	4	-	6	10
Balances as of 31 December 2013	1,497	11,419	152,087	6,311	171,314
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
Accumulated amortization					
Balances as of 1 January 2013	-	(5,518)	-	(5,998)	(11,516)
Additions	-	(1,631)	-	(53)	(1,684)
Effect of changes in exchange rates	-	-	-	(4)	(4)
Balances as of 31 December 2013	-	(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)
Balance net as of					
31 December 2013	1,497	4,270	152,087	256	158,110
31 December 2014	2,198	6,801	182,266	871	192,136

(*) Until December 2008, Goodwill was amortized. With the introduction of 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), amortization was not applied to those assets anymore. The total amortization, accumulated until that date, is presented net of the historical cost in the table above.

Additions to computer software refer to software acquired by the Company for use in automated process and software licenses acquired, such as:

- 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;
- in 2013, mainly SAP and Microsoft licenses and activation of the CO-PA SAP module and logistics software.

Impairment testing

As of 31 December 2014 intangible assets include an amount of R\$ 184,464 that is attributable to brands and goodwill, having an indefinite useful life (31 December 2013 - R\$ 153,584). 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 2014 and of 3.0% in 2013. The projected cash flows were discounted according to pre-tax discount rates of 7.2% in 2014 and of 6.9% in 2013. Both 2014 and 2013 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 2014 and 2013, the Group did not recognize any impairment loss from the operation.

14 Short and long term loans

a. Loans schedule

	Annual interest rate		Index	R\$	
	31/12/2014	31/12/2013		31/12/2014	31/12/2013
Brazilian reais loans and borrowings					
Loans for acquisition of machines and vehicles	5.03	6.06	TJL	25,926	18,165
Incentivized loan for projects in development regions (FNE)	7.50	7.50	P	17,765	23,230
Working capital loans	8.70	9.99	CDI	35,644	62,638
Loans for acquisition of green coffee	6.42	5.50	-	58,178	62,652
				<u>137,513</u>	<u>166,685</u>
United States dollar loans and borrowings					
Loans for acquisition of inventories (ACC)	1.12	1.52	-	101,252	86,573
Loans for acquisition of inventories (PPE)	2.72	1.62	-	72,001	42,060
Working capital loans	3.25	3.25	-	51,308	26,328
Loans for acquisition of machines	3.18	3.18	-	780	2,064
				<u>225,341</u>	<u>157,025</u>
Total loans and borrowings				<u>362,854</u>	<u>323,710</u>
(-) Current liabilities				<u>(281,034)</u>	<u>(186,920)</u>
(=) Non-current liabilities				<u>81,820</u>	<u>136,790</u>

There are no debt covenants on the Group's loans and borrowings contracts with the banks.

b. Non-current payment schedule

	R\$	
	31/12/2014	31/12/2013
13 to 24 months	31,063	60,050
25 to 36 months	35,974	40,774
37 to 48 months	4,828	27,919
49 to 60 months	3,407	3,336
Thereafter	6,548	4,711
	<u>81,820</u>	<u>136,790</u>

c. Guarantees

The following liens have been provided as security for the liabilities of the Group:

	R\$	
	31/12/2014	31/12/2013
Liens registered in favor of the banks	48,958	45,652
Mortgages registered in favor of the banks	29,263	29,263
	<u>78,221</u>	<u>74,915</u>

15 Trade payables

	R\$	
	31/12/2014	31/12/2013 (Reclassified)
National suppliers	75,477	53,618
Related party suppliers (Note 11)	3,514	3,443
Foreign suppliers	-	142
	<u>78,991</u>	<u>57,203</u>

The amount of R\$ 7,000 as of 31 December 2013, regarding fixed assets purchased on credit (Note 12) was reclassified to other payables. This reclassification has impacts on Notes 15, 18 and 27.

16 Employees and other payroll related liabilities

	R\$	
	31/12/2014	31/12/2013
Payroll and related charges	5,440	4,468
Provision for vacation	17,900	15,532
Provision for variable remuneration	10,597	6,657
Other	5,949	4,846
	<u>39,886</u>	<u>31,503</u>

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

17 Payable taxes

	R\$	
	31/12/2014	31/12/2013
Tax payable:		
State VAT – ICMS	14,844	13,829
Federal VAT - PIS and COFINS	109	76
Other	1,186	1,573
	<u>16,139</u>	<u>15,478</u>

18 Other current and non-current liabilities

	R\$	
	31/12/2014	31/12/2013 (Reclassified)
Liabilities:		
Loans to related parties (Note 11)	-	379
Advances from customers	812	443
Accounts payable for acquisition of operations – Polo	4,965	-
Accounts payable for acquisition of operations – Fino Grão	2,247	2,060
Other provision - marketing services	1,124	524
Provision for insurance	192	772
Payable for acquisition of fixed assets	7,242	7,000
Handling commission	5,960	972
REFIS (Government tax recovery program) provision	-	4,888
Sundry	8,309	7,379
Total	30,851	24,417
Current liabilities	(27,828)	(20,011)
Non-current liabilities	3,023	4,406

19 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\$					
	31/12/2014			31/12/2013		
	Probable loss	Possible loss	Remote loss	Probable loss	Possible loss	Remote loss
Labor*	16,262	25,260	63,053	13,857	32,583	53,572
Tax**	253	22,496	133,251	113	21,889	113,618
Civil	793	5,135	5,679	1,121	4,463	4,401
	17,308	52,891	201,983	15,091	58,935	171,591

(*) The Company and its subsidiaries are also 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

	R\$					
	31/12/2014			31/12/2013		
	Probable loss	Possible loss	Remote loss	Probable loss	Possible loss	Remote loss
State VAT – ICMS	128	10,784	5,036	24	9,644	1,651
Federal VAT - PIS/COFINS	104	5,379	95,837	51	6,517	82,287
Income taxes (IRPJ/CSLL)	-	-	22,063	-	-	20,339
Social contribution (INSS)	-	6,229	10,152	-	5,578	9,093
Other	21	104	163	38	150	248
	<u>253</u>	<u>22,496</u>	<u>133,251</u>	<u>113</u>	<u>21,889</u>	<u>113,618</u>

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 2014 the amount of the legal claim was R\$ 22,063 (R\$ 20,339 as of 31 December 2013). 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 2014 and as of 31 December, 2013, 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 2014 to R\$ 51,190 (R\$ 48,156 as of 31 December, 2013). The Group and its tax advisors are of the opinion that there is no need to record any liability. The increase is due to new tax assessments on the same issue received by the Group during 2014 and interest incurred.

The legal claims above are classified as remote loss as of 31 December 2014 and 2013.

Changes in provision for legal proceedings during the year

	R\$	
	2014	2013
Balance as of 1 January	15,091	10,399
Provisions made during the year	6,062	5,689
Legal proceedings closed during the year	(3,845)	(997)
Balance as of 31 December	17,308	15,091

Judicial deposits

The Group has, as of 31 December 2014, the amount of R\$ 14,390 of judicial deposits (R\$ 17,058 as of 31 December 2013). These deposits were required by courts associated to various open legal proceedings and comprise a number of individual case deposits of smaller amounts.

20 Income taxes and social contribution

a. Amounts recognized in profit and loss

	R\$	
	31/12/2014	31/12/2013
Current taxes	30,880	31,024
Deferred taxes	(13,091)	(1,149)
Tax in income statement as of 31 December	17,789	29,875

b. Reconciliation of effective tax rate

	R\$	
	31/12/2014	31/12/2013
Income before taxes on income	199,902	188,014
Income tax and social contribution at nominal rate (34%)	67,967	63,925
Adjustments to reconcile to effective tax rate:		
State VAT incentives	(12,729)	(10,730)
Foreign exchange effects of subsidiary	(6,707)	(3,180)
Benefit of Goodwill amortization for tax purposes	(2,959)	(2,959)
Federal incentive - "Exploration profit"	(17,861)	(12,845)
Federal incentive - "Re-investment"	(1,063)	(701)
Benefit of previously unrecognized Carryforward tax losses at subsidiary	(4,004)	-
Recognition of deferred tax assets on Carryforward tax losses	(5,303)	-
Other	448	(3,635)
Tax in Income Statement	17,789	29,875
Effective tax rate	8.90%	15.89%

c. Deferred income tax assets and liabilities

Temporary differences	Basis	Income tax (*)	Social contribution (9%)	R\$	
				31/12/2014	31/12/2013
Provision for legal proceedings	17,308	3,829	1,558	5,387	4,639
Inventory adjustments	6,625	1,542	596	2,138	1,511
Provision for doubtful debt accounts	3,958	661	356	1,017	1,297
Hedging transactions	190	47	17	64	(740)
Provision for discounts	15,278	3,308	1,375	4,683	4,841
Provision for variable remuneration	12,822	2,468	1,154	3,622	2,386
Provision for revenue recognition	2,685	585	242	827	359
Fixed assets revaluation	(4,588)	(739)	(413)	(1,152)	(1,728)
Goodwill amortization	(90,803)	(11,959)	(8,172)	(20,131)	(19,807)
Carryforward tax losses	15,598	3,899	1,404	5,303	-
Other	(2,705)	(654)	(243)	(897)	(984)
Total net deferred tax	(23,632)	2,987	(2,126)	861	(8,226)
Non-current assets				17,149	9,067
Non-current liabilities				(16,288)	(17,293)

(*) Income tax rate (excluding the Social contribution) is 25%, applicable to all Group's subsidiaries. However, as the Company has tax incentives (see Note 21.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 2014, R\$ 51,010 (31 December 2013, R\$ 68,454) of accumulated losses. The Group concluded that it is more probable than not that the amount of R\$ 15,598 of accumulated losses will be used in the foreseeable future, which corresponds to a deferred tax asset of R\$ 5,303.

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 are effective for calendar year of 2015, but can be optionally adopted already for the calendar year of 2014, and the Company has concluded that there were no material effects to be recorded.

21 Equity

a. Share capital

As of 31 December 2014, Três Corações Alimentos S.A.'s share capital is comprised of the following:

	<u>R\$</u>	
Shareholders	31/12/2014 and 2013	%
Strauss Coffee B.V.	135,834.5	50%
São Miguel Fundo de Investimento em Participações	<u>135,834.5</u>	50%
	<u>271,669.0</u>	

Share capital is comprised of 27,166,897,167 shares with a nominal value of R\$ 0,01 (one cent) each.

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 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 2014 and 2013:

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	R\$		
	Três Corações Alimentos	Café Três Corações	Total
31/12/2014			
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)
	R\$		
	Três Corações Alimentos	Café Três Corações	Total
31/12/2013			
Inventories	(4)	1,679	1,675
Fixed assets	1,881	-	1,881
Intangible assets	6	-	6
Trade receivables	70	5,136	5,206
Derivatives	1,121	-	1,121
Cost of sales	43	189	232
Loans and borrowings	225	(16,137)	(15,912)
Total	3,342	(9,133)	(5,791)

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 30 April 2014, the dividends related to 2013 profits were approved by the General shareholders meeting in the amount of R\$ 64,714, which represents additional R\$ 2,791 when compared to the original provision, made in December of 2013 based upon Management's proposal at the time. The approved dividends were paid in four installments: two in the amount of R\$ 10,000 each, paid in May and June 2014, and other two, in the amount of R\$ 22,357 each, paid in July and September 2014. Management's proposal for the 2014 profit destination is to pay dividend in the amount of R\$ 69,096 in 2015.

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\$	
	31/12/2014	31/12/2013
Profit for the year (*)	183,276	158,139
	5%	5%
Legal reserve (*)	<u>9,164</u>	<u>7,907</u>

- (*) 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\$ 1,163 in 2014. In 2013, there was no elimination of un-realized profit in intercompany transaction because margins were lower, and the amount was not material.

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 2014, the Company received government grants in the amount of R\$ 40,168 (R\$ 33,878 in the year ended 31 December 2013). 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.

22 Revenue

	R\$	
	2014	2013
Gross revenue:		
Products – domestic	2,420,765	2,080,881
Products – foreign	335,880	312,790
Services	588	715
Other	740	852
Taxes on sales	(204,843)	(204,236)
Deductions	(200,631)	(151,816)
	2,352,499	2,039,186

23 Cost of sales by nature

	R\$	
	2014	2013
According to source		
Cost of sales – domestic	(1,309,251)	(1,145,468)
Cost of sales – foreign	(328,980)	(285,184)
	<u>(1,638,231)</u>	<u>(1,430,652)</u>
	R\$	
	2014	2013
According to components		
Materials consumed	(1,560,528)	(1,358,482)
Wages, salaries and related expenses	(35,151)	(31,117)
Depreciation and amortization	(9,391)	(8,233)
Services contracted	(10,675)	(9,283)
Maintenance	(5,843)	(5,288)
Other	(16,643)	(18,249)
	<u>(1,638,231)</u>	<u>(1,430,652)</u>

24 Selling and marketing expenses by nature

	R\$	
	2014	2013
Wages, salaries and related expenses	(170,050)	(143,667)
Depreciation and amortization	(8,509)	(5,622)
Transport expenses	(78,823)	(70,373)
Export expenses	(9,591)	(9,315)
Services contracted	(26,451)	(18,145)
Marketing	(112,812)	(80,914)
Travel expenses	(8,307)	(6,788)
Other	(16,844)	(12,857)
	<u>(431,387)</u>	<u>(347,681)</u>

25 General and administrative expenses by nature

	R\$	
	2014	2013
Wages, salaries and related expenses	(30,334)	(23,962)
Tax expenses	(4,763)	(3,808)
Depreciation and amortization	(3,433)	(3,000)
Services contracted	(14,108)	(12,120)
Provision for legal proceedings	(2,217)	(4,692)
Travel expenses	(2,903)	(1,653)
Other	(9,283)	(6,278)

26 Finance expenses, net

	R\$	
	2014	2013
	(67,041)	(55,513)
Finance expenses		
Interest expenses	(916)	(2,218)
Interest on loans and borrowings	(14,289)	(15,537)
Exchange rate effect	(72,582)	(47,269)
Other	(3,630)	(1,389)
	(91,417)	(66,413)
Finance income		
Interest income	2,887	3,500
Interest from deposits	4,237	1,674
Exchange rate effect	68,735	43,715
	75,859	48,889
	(15,558)	(17,524)

27 Financial instruments and risk management

Financial instruments by category

	R\$	
	31/12/2014	31/12/2013 (Reclassified)
Financial assets		
Financial instruments at fair value through profit or loss		
Short term deposits - Deposits in banks (Note 5)	51,200	14,234
Deposits with brokers (Note 6)	4,529	21,670
Loans and receivables		
Cash and cash equivalents (Note 5)	36,575	22,718
Trade receivables with third parties (Note 7)	286,853	249,846
Trade receivables with related parties (Note 7)	660	1,068
Loans to related parties (Note 11)	-	379
Other	29,402	26,357
Financial liabilities		
Financial instruments at fair value through profit or loss		
Derivatives, net	-	11,056
Financial liabilities measured at amortized cost		
Trade payables (Note 15)	78,991	57,203
Loans and borrowings (Note 14)	362,854	323,710
Other	94,256	81,491

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\$	
	31/12/2014	31/12/2013
Cash and cash equivalents (Note 5)	87,775	36,952
Deposits with brokers (Note 6)	4,529	21,670
Trade receivables (Note 7)	287,513	250,914
Other receivables	3,586	3,339
Derivatives	-	77
Other	16,995	18,385
	<u>400,398</u>	<u>331,337</u>

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated. The biggest customer represents 4.80% of 2014 gross revenue (4.36% in 2013).

In addition, provision for doubtful debt accounts amounts to R\$ 3,958 as of 31 December 2014 (R\$ 4,613 as of 31 December 2013), which represents 1.36% (1.81% as of 31 December 2013) of total trade receivables balance, to properly reflect the existing credit risk.

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 its 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 2014 and 2013:

	31/12/2014	31/12/2013
Purchase agreements:		
Fixed price	216,649	115,532
Sales agreements:		
Fixed price	243,560	281,917
Price to be fixed	47,313	147,982

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 2014, there were no open derivatives positions and no sensitivity analysis was required.

The open positions and the sensitivity analysis as of 31 December 2013 were as follows:

		R\$	
31 December 2013	Expiry date	Face value (1)	Fair value and carrying amount (2)
Future Contracts on commodities, net	Mar/2014 to Sep/2016	30,677	(422)
Options purchased:			
Buy call	Feb/2014 to Dec/2014	240,419	2,922
Buy put	Mar/2014 to Dec/2014	108,739	2,486
Options written:			
Sell call	Feb/2014 to Dec/2014	(275,375)	(8,862)
Sell put	Mar/2014 to Dec/2014	(118,564)	(7,180)
Open positions, net			<u>(11,056)</u>
Current assets			77
Current liabilities			11,133

- (1) Face value is the commodity strike price multiplied by the number of contracts and the commodity quantities per contract.
- (2) Fair value, which is the amount in the Group's financial statements, is the option market value multiplied by the number of contracts and the commodity quantities per contract. This amount represents the amount to be received or paid if the expiry date was 31 December 2013.

Sensitivity analysis

An increase in the prices of the following commodities as of 31 December would have increased (decreased) shareholders' equity and income or loss, in respect of forward transactions and options, by the amounts presented below. This analysis was performed using the Black&Scholes method to assess the derivatives sensitivity analysis. The variables considered in the Black&Scholes consider the fair value, market price, volatility, interest rate and expiry date of derivative open positions. This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

31 December 2013							
	R\$						
	Decrease of (2)	Decrease of 10%	Decrease of 5%	Fair value and carrying amount	Increase of 5%	Increase of 10%	Increase of (1)
Arabica	(4,325)	(602)	18	(11.056)	(595)	(1.709)	(2,590)

- (1) In the last ten years up to 2013, on the basis of closing rates, there was a daily maximum increase of 22% in the price of Arabica.
- (2) In the last ten years up to 2013, on the basis of closing rates, there was a daily maximum decrease of 13% in the price of Arabica.

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	
	R\$	
	31/12/2014	31/12/2013
Fixed rate instruments		
Financial liabilities	(181,466)	(168,902)
Variable rate instruments		
Financial assets	55,729	35,904
Financial liabilities	(181,388)	(154,808)
Net exposure	(125,659)	(118,904)

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 2014					
	R\$				
	Decrease of 2%	Decrease of 1%	Annual weighted interest	Increase of 1%	Increase of 2%
Total	2,513	1,257	(2,906)	(1,257)	(2,513)
31 December 2013					
	R\$				
	Decrease of 2%	Decrease of 1%	Annual weighted interest	Increase of 1%	Increase of 2%
Total	2,378	1,189	(5,756)	(1,189)	(2,378)

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 reported date would not have an effect on the statement of income.

d. Foreign currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	Exposure to US\$	
	R\$	
	31/12/2014	31/12/2013
Financial liabilities		
Short term loans and credit	(40,135)	(1,588)
Long term loans and credit	(11,953)	(26,803)
Total exposure	<u>(52,088)</u>	<u>(28,391)</u>

Sensitivity analysis to currency risk

Any change in the exchange rates of the principal currency, Brazilian Reais, 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 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 2014					
	R\$				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
Functional currency BRL/USD exchange rate	2.3906	2.5234	2.6562	2.7890	2.9218
Effect in R\$ Thousand	<u>5,209</u>	<u>2,604</u>	<u>(52,088)</u>	<u>(2,604)</u>	<u>(5,209)</u>
31 December 2013					
	R\$				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
Functional currency BRL/USD exchange rate	2.1083	2.2255	2.3426	2.4597	2.5769
Effect in R\$ Thousand	<u>2,839</u>	<u>1,420</u>	<u>(28,391)</u>	<u>(1,420)</u>	<u>(2,839)</u>

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 2014, 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/2015	31,323

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as of 31 December 2014 and 31 December 2013 in R\$. Any change in the exchange rates of the principal currency, Brazilian Reais, 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 2014					
	R\$				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
Functional currency BRL/USD exchange rate	2.3906	2.5234	2.6562	2.7890	2.9218
Effect of forwards	<u>(2,694)</u>	<u>(1,347)</u>	<u>386</u>	<u>1,347</u>	<u>2,694</u>
31 December 2013					
	R\$				
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
Functional currency BRL/USD exchange rate	2.1083	2.2255	2.3426	2.4597	2.5769
Effect of forwards	<u>(644)</u>	<u>(322)</u>	<u>57</u>	<u>322</u>	<u>644</u>

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 2014

	R\$							
	Carrying amount	Contractual cash flow	2015	2016	2017	2018	2019	Thereafter
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	-	-	-	-	-	-
Other payables	66,902	66,902	66,902	-	-	-	-	-
Total	<u>508,747</u>	<u>536,684</u>	<u>438,617</u>	<u>37,652</u>	<u>38,503</u>	<u>6,598</u>	<u>4,165</u>	<u>11,149</u>

31 December 2013

	R\$							
	Carrying amount	Contractual cash flow	2014	2015	2016	2017	2018	Thereafter
Non-derivative financial liabilities:								
BRL long term loan	70,159	78,863	-	25,046	32,190	13,101	3,574	4,952
BRL credit from bank	96,526	99,789	99,789	-	-	-	-	-
USD long term loan	66,631	68,670	-	44,014	10,932	13,724	-	-
USD credit from bank	90,394	91,098	91,098	-	-	-	-	-
Trade payables	57,203	57,203	57,203	-	-	-	-	-
Other payables	51,071	51,071	51,071	-	-	-	-	-
Total	<u>431,984</u>	<u>446,694</u>	<u>299,161</u>	<u>69,060</u>	<u>43,122</u>	<u>26,825</u>	<u>3,574</u>	<u>4,952</u>
Derivative financial liabilities:								
Options on commodities	(11,133)	(11,133)	(11,133)	-	-	-	-	-
Total	<u>(11,133)</u>	<u>(11,133)</u>	<u>(11,133)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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.

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The Group's equity and working capital versus net debt at the end of each year are presented below:

	R\$	
	31/12/2014	31/12/2013 (Reclassified)
Debt (Note 14)	362,854	323,710
Less: cash and cash equivalent (Note 5)	(87,775)	(36,952)
Net debt	275,079	286,758
Total equity	462,010	373,417
Equity/net debt ratio as of 31 December	<u>1.68</u>	<u>1.30</u>
Trade receivables (Note 7)	287,513	250,914
Inventories (Note 8)	236,803	214,147
Trade payables (Note 15)	(78,991)	(57,203)
Total working capital	445,325	407,858
Working capital/net debt ratio as of 31 December	<u>1.62</u>	<u>1.42</u>

Fair value

As of 31 December 2014 and of 2013, the fair value of financial instruments, as well as the carrying amounts presented in the financial statements are identified below:

	R\$			
	Carrying amount 31/12/2014	Fair value 31/12/2014	Carrying amount 31/12/2013	Fair value 31/12/2013
Financial assets				
Short term deposits - Deposits in banks (Note 5)	51,200	51,200	14,234	14,234
Deposits with brokers (Note 6)	4,529	4,529	21,670	21,670
Cash and cash equivalents (Note 5)	36,575	36,575	22,718	22,718
Trade receivables with third parties (Note 7)	286,853	286,853	249,846	249,846
Trade receivables with related parties (Note 7)	660	660	1,068	1,068
Loans to related parties (Note 11)	-	-	379	379
Other	29,402	29,402	26,357	26,357
Financial liabilities				
Trade payables (Note 15)	78,991	78,991	78,991	64,203
Loans and borrowings (Note 14)	362,854	358,571	323,710	298,001
Other	94,256	94,256	81,491	81,491
Derivatives, net	-	-	11,056	11,056

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 flow 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 2014 and 2013, the Group had no financial instruments classified at Level 3.

28 Subsequent events

On 22 January, the Company received a formal communication from tax authorities, claiming the tax treatment applied, in respect to federal tax IPI – tax on manufactured goods, for powder juice is not correct.

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 amount, including penalties and interests, which according to tax authorities, should be paid by the Company is R\$ 25,009.

The Group and its tax advisors are of the opinion that there is no need to record any liability.

29 Insurance

The Group hires insurance coverage for assets exposed to risks. The coverage is in an amount sufficient to cover eventual losses, considering the nature of the Group's activities.

On 31 December 2014, insurance coverage against operational risk comprised R\$ 83,776 (R\$ 84,417 on 31 December 2013) for material damage, R\$ 120,078 (R\$ 84,433 on 31 December 2013) for lost profits, R\$ 3,500 (R\$ 3,500 on 31 December 2013) for civil responsibility and R\$ 15,000 (R\$ 10,000 on 31 December 2013) for directors and members of the executive team civil responsibility.

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 2014 (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), 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 22, 2015

Shahar Florence, EVP& CFO;