STRAUSS GROUP LTD.

ANNUAL REPORT

AS AT DECEMBER 31, 2017

Board of Directors	Ofra Strauss, Chairperson Adi Strauss Ronit Haimovitch Dalia Narkys David Mosevics Prof. Arie Ovadia Meir Shanie Galia Maor Samer Haj-Yehia Joshua (Shuki) Shemer
President & CEO	Gadi Lesin
EVP, CLO & Company Secretary	Michael Avner
Auditor	Somekh Chaikin KPMG
Registered office	Hasivim St. 49 Petach Tikva 4959504, Israel

STAUSS GROUP LTD.
TABLE OF CONTENTS

STAUSS GROUP LTD.

DESCRIPTION OF THE

CORPORATION'S BUSINESS

Description of the Company's Business

Contents

Description of the Company's Business

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

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

The Company's Activities

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

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

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

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

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[1] Strauss Holdings is a private company registered in Israel. To the best of the Company's knowledge, the holders of the ordinary shares of Strauss Holdings are: (1) Michael Strauss Assets Company Ltd. [a company held by Mr. Michael Strauss (approximately 54.7%), Ofra Strauss (approximately 20.1%), Irit Strauss and Adi Strauss (approximately 12.6% each)] (hereinafter: "**Michael's Assets**"); (2) Raya Strauss Ben Dror Assets Ltd. [a company held by Raya Strauss Ben Dror's sons, Gil Midyan (approximately 50%) and Ran Midyan (approximately 50%)] (hereinafter: "**Raya's Assets**"); (3) Strauss Holdings (approximately 29%). The effective holding of Michael's Assets and Raya's Assets in Strauss Holdings, excluding the shares held by Strauss Holdings itself, is 73.4% by Michael's Assets and 26.6% by Raya's Assets. The voting shares in Strauss Holdings are held by Mr. Michael Strauss (99%) and Raya Strauss Ben Dror (1%).
To the best of the Company's knowledge, the voting shares in Strauss Holdings confer upon their holders the right to be invited, to participate and to vote in general meetings, not including with respect to resolutions relating to changes in Strauss Holdings' share capital and articles of association; the holders of the majority of the voting shares have the right to appoint the majority (half plus one) of the directors on the board of Strauss Holdings.
To the best of Company's knowledge, the ordinary shares in Strauss Holdings confer upon their holders full proprietary rights (dividend and receipt of the Company's residual value upon dissolution); the right to be invited and to participate without a voting right in general meetings, and to vote in general meetings only on resolutions regarding a change in any provision in Strauss Holdings' articles of association or a change in share capital; and also the right to appoint one director for each 15% holding of ordinary shares of Strauss Holdings.

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

Israel, and the subsidiary, Strauss Coffee B.V. (hereinafter: "**Strauss Coffee**"), according to Euromonitor[3], is one of the ten leading companies in the world in terms of market share.

In 2017, the Company held 11.7% of the total food and beverage market in Israel (in value terms[4]), not including the market share of Strauss Water Ltd. (hereinafter: "**Strauss Water**"), and it is the food group with the second-highest sales turnover among Israeli food companies[5]. The Group is also active in the coffee markets of Brazil[6], Russia and the CEE countries. In the US, Canada, Australia, New Zealand, Mexico and Western Europe the Group is active in the development, manufacture, marketing and sale of refrigerated dips and spreads. In Israel and the UK, the Group is engaged in the marketing, sale and servicing of water filtration and purification products. Strauss Water also has immaterial business operations in a number of other countries, which are carried out through local franchisees. Additionally, Strauss Water has a substantial investment (49%) in an associate, which is a joint venture established by Strauss Water with the Haier Group of China (hereinafter: "**Haier**") and is active in the purification and filtration of drinking water in China.

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

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

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

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

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

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

4 According to StoreNext data.

5 According to StoreNext data.

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

1.3 In 2004 the Company acquired, by way of a share swap, the companies Strauss Health Ltd. (formerly Strauss Dairies Ltd.) and Strauss Fresh Foods Ltd., which in 2017 was merged with the Company (hereinafter: the "**Merger Transaction with Strauss**"), and the Group initiated operations in dairy products and salads. For information on the Merger Transaction with Strauss, see section 25.1 below. It is noted that the dairy business was initiated in the 1930s by Hilde and Dr. Richard Strauss, who built a family dairy in Nahariya, which was incorporated as a private company in March 1947. In 1969, the dairy became active in yogurt and dairy desserts, and in 1996, the French concern Danone acquired 20% of the dairy's shares.

1.4 In 2005, the Group significantly expanded the international coffee operation through a series of acquisitions in Poland and Serbia, including the engagement in the Três Corações joint venture in Brazil (the "**Três Corações Joint Venture**" in Brazil- a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%)). The expansion of the international coffee operation continued in the following years – in Russia, additional brands were acquired and a leading coffee company was purchased in the years 2010-2013; in Brazil, via the Três Corações Joint Venture, additional brands were acquired in 2009, 2011, 2014, 2016 and 2017; in Romania - additional brands were acquired in 2014. In 2017 Strauss Coffee acquired a manufacturing facility in Germany (which it had leased since 2012), which produces freeze-dried instant coffee and mainly serves the operation in Russia and the CIS countries.

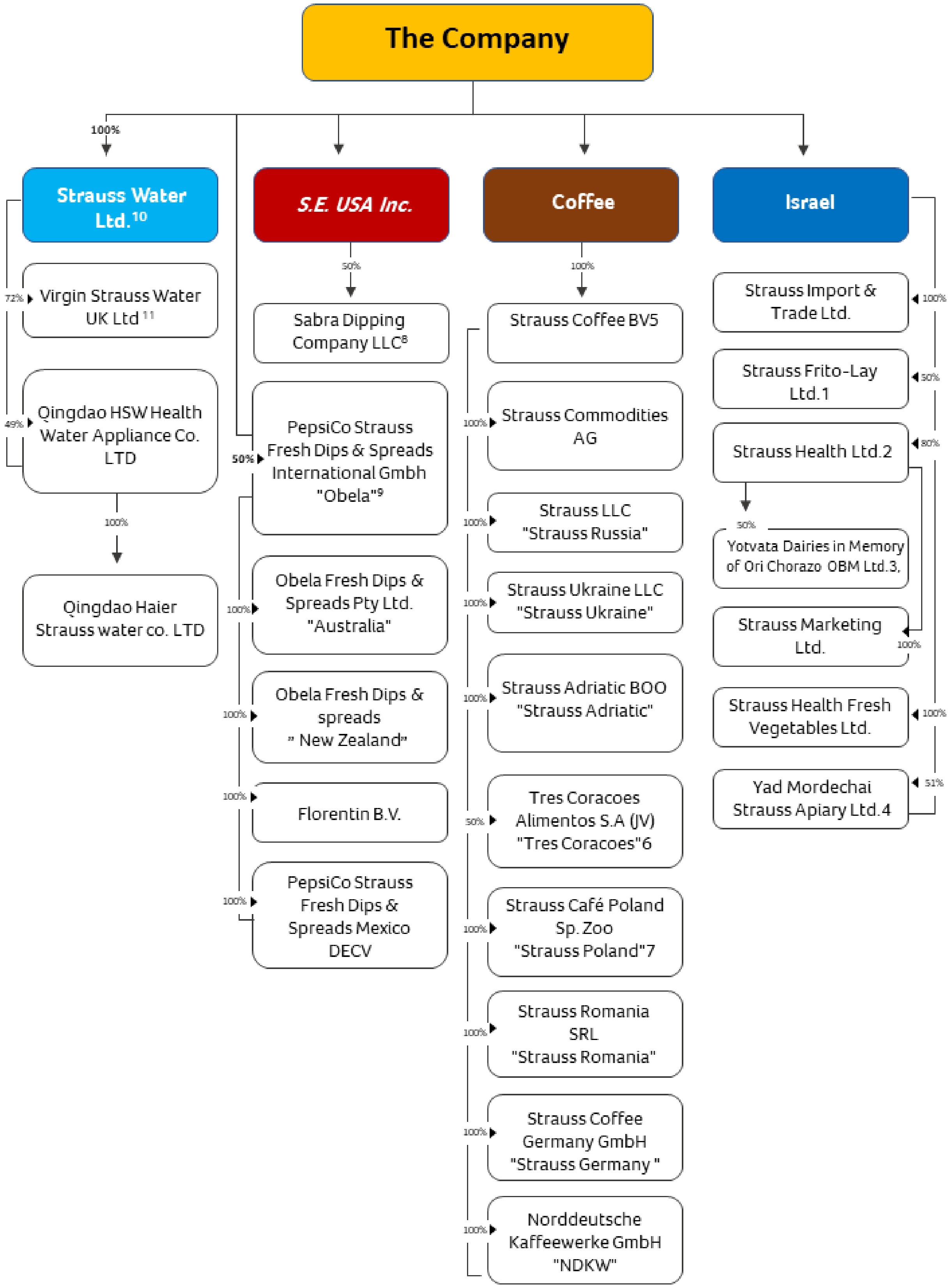
1.5 In 2005, the Group began operating in the US, in the refrigerated dips and spreads market. In late 2006, the Group expanded its business in the US and consolidated its products under the Sabra brand. In early 2008, the Group entered into a partnership agreement with PepsiCo to jointly operate in the US and Canada through Sabra. In October 2011, an additional partnership agreement was signed with PepsiCo for the establishment of a global joint venture in dips and spreads under the Obela brand, which began operating in Mexico and Australia. In June 2016 Obela entered into an agreement for the acquisition of 100% of the share capital of Florentin B.V. (hereinafter: "**Florentin**"), a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, which markets its products in Western Europe, particularly in the Netherlands, Germany and France, under the Florentin brand, and beginning in 2017, under the Obela brand in Germany. Additionally, in 2017 Obela launched operations in New Zealand.

1.6 In 2009, the Company acquired Tana Industries Ltd. (hereinafter: "**Tami 4**"). In October 2010, an agreement was signed with Haier Group for the establishment of a joint venture in China, and in November 2011, an agreement was signed with Virgin for the establishment of a joint venture in England and Ireland. In May 2015 Strauss Water signed a series of share swap and transfer agreements with companies of Haier Group as well as a joint venture agreement, with the aim of restructuring the Haier Strauss Water joint venture in China. In August 2017 Strauss Water exercised its option under the joint venture agreement and acquired a further 15% of the joint venture in China, such that following the acquisition Strauss Water holds 49% of the joint venture. For further information, see section 15.1.k below.

1.7 In December 2016 the Company acquired 12.44% of the issued and paid-up share capital of Strauss Water from the non-controlling interest in Strauss Water. Following the closing of the transaction, the Company holds 100% of the shares of Strauss Water. In March 2017 Strauss Coffee executed a buyback of 25.1% of its shares, which had been acquired by the private equity investment firm TPG Capital in 2008. Additionally, in May 2017 the Company sold the Max Brenner business. The acquisition of the non-controlling interest in Strauss Water, the buyback of Strauss Coffee's shares and the sale of Max Brenner were executed in the context of realizing the Company's strategy of focusing on its core businesses, exploiting the potential of synergies between the companies, and providing for strategic, operational and managerial flexibility.

The information in this section with regard to the possibility that the above transactions will lead to the exploitation of the potential of synergies between the companies and will deliver strategic, operational and managerial flexibility is forward-looking information as this term is defined in the Securities Law, 1968 (hereinafter: the "**Securities Law**"), which is based on information in the Company's possession on the date of this report and includes estimates on the reporting date, the actual realization of which is uncertain. Actual results may differ materially from those anticipated, among other things as a result of the business and operational nature of the companies in question.

1.8 The following chart presents the structure of the Company's holdings in major companies proximate to the date of the Periodic Report.


The Company
100%
Strauss Water Ltd.[10]
72%
Virgin Strauss Water UK Ltd [11]
49%
Qingdao HSW Health Water Appliance Co. LTD
100%
Qingdao Haier Strauss water co. LTD
S.E. USA Inc.
50%
Sabra Dipping Company LLC[8]
50%
PepsiCo Strauss Fresh Dips & Spreads International Gmbh "Obela"[9]
100%
Obela Fresh Dips & Spreads Pty Ltd. "Australia"
100%
Obela Fresh Dips & spreads " New Zealand"
100%
Florentin B.V.
100%
PepsiCo Strauss Fresh Dips & Spreads Mexico DECV
Coffee
100%
Strauss Coffee BV5
100%
Strauss Commodities AG
100%
Strauss LLC "Strauss Russia"
100%
Strauss Ukraine LLC "Strauss Ukraine"
100%
Strauss Adriatic BOO "Strauss Adriatic"
50%
Tres Coracoes Alimentos S.A (JV) "Tres Coracoes"6
100%
Strauss Café Poland Sp. Zoo "Strauss Poland"7
100%
Strauss Romania SRL "Strauss Romania"
100%
Strauss Coffee Germany GmbH "Strauss Germany "
100%
Norddeutsche Kaffeewerke GmbH "NDKW"
Israel
100%
Strauss Import & Trade Ltd.
50%
Strauss Frito-Lay Ltd.1
80%
Strauss Health Ltd.2
50%
Yotvata Dairies in Memory of Ori Chorazo OBM Ltd.3,
100%
Strauss Marketing Ltd.
100%
Strauss Health Fresh Vegetables Ltd.
51%
Yad Mordechai Strauss Apiary Ltd.4

The Holding Structure Diagram

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

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

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

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

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

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

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

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

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

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

[10] 49% of the shares of Qingdao HSW Health Water Appliances Co. Ltd. are held by Strauss Water and 51% of the shares are held by Haier Group of China. See section 15.l.k below.

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

2. Operating Segments

The Group engages in five key business areas that are reported as segments, as described in Note 27 to the Financial Statements of the Company as at December 31, 2017. Four out of the business areas are concentrated under two key frameworks: the **Israel Operation** and the **Coffee Operation**, as described below:

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

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

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

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

a. **The Israel Coffee segment:** In this segment, the Group develops, manufactures, sells, markets and distributes a range of coffee products in Israel under its brands; in addition, the Group manufactures and sells chocolate powders and other drink powders in Israel.

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

b. **The International Coffee segment:** In this segment the Group develops and manufactures a range of company-branded coffee products and drink powders in Brazil (through the Três Corações Joint Venture[7]), in Russia and in Eastern European countries. The Group also markets and distributes coffee machines in Brazil (through the Três Corações Joint Venture) and in Romania, and in Brazil (through the Três Corações Joint Venture), the Group purchases and

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[7] The Três Corações Joint Venture, a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

processes green coffee, corn products and juice powders. The Group markets and distributes its aforesaid product range in Brazil, Russia and in Eastern European countries. For additional information on this segment, see section 13 below.

The International Dips & Spreads segment - the Group develops, manufactures, markets and sells refrigerated dips and spreads through Sabra in the US and Canada under the Sabra and Santa Barbara brands, through Obela in Mexico, Australia and New Zealand (under the Obela, Red Rock Deli (RRD) and Copperpot (CP) brands), and in Western Europe (under the Florentin and Obela brands in Germany), in collaboration with the international food concern PepsiCo. For additional information on this segment, see section 14 below.

In addition to the segments described above, the Group has additional operations that are immaterial to its business, which do not meet the quantitative threshold for disclosure in the financial statements as reportable segments or as aggregation criteria for separate presentation as reportable segments. These operations are included in the Company's Financial Statements as at December 31, 2017 as the "**Other Operations**" segment. The main activity in this segment is Strauss Water: the Group develops, manufactures, sells, markets and distributes drinking water filtration, purification and carbonation devices in Israel and England. In addition, Strauss Water has a substantial investment (49%) in an associate, which is a joint venture established by Strauss Water in partnership with Haier Group that is active in the purification and filtering of drinking water in China. For further information, see section 15.1 below.

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

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

To the best of the Company's knowledge, in 2016 and 2017 and through to the date of publication of this report, there were no off-exchange transactions in the Company's shares other than as described in Note 26.1.2 to the Financial Statements of the Company as at December 31, 2017.

4. Dividend Distribution

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

For information on distributions of cash dividends by the Company in 2016 and 2017, see Note 26.3 to the Financial Statements of the Company as at December 31, 2017. The balance of retained earnings as at the date of the Statement of Financial Position is NIS 2,135 million.

For information on the Company's undertakings to external sources of finance to comply with financial covenants, which may influence the Company's ability to distribute dividends in the future, see section 21.3 below.

According to the terms and conditions of the Series D Debentures, for as long as the Debentures are not repaid in full, should the Company dispose of most its assets to any third party, then for a three-year period from the date of sale the Company shall not distribute dividends, if, immediately after the dividend distribution, the Company fails to comply with its financial covenants, as described in section 21.3 below.

According to the terms and conditions of the Series E Debentures, the Company has undertaken not to make a distribution, as this term is defined in the Companies Law, if, on the date of the resolution regarding a distribution or as a result of the distribution, one or more of the following occurs: (1) Grounds will be established for immediate repayment. For further information, see section 21.3 below; (2) The Company's equity in its consolidated financial statements, excluding a reduction in equity arising as a result of an acquisition of non-controlling interests made after the date of issue of the Series E Debentures, is less than NIS 700 million. The Company's compliance with this condition shall be computed as described in Note 20.6 below.

Part II – Other Information

5. Financial Information on the Company's Operating Segments

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

Since 2013, the Group has retrospectively applied IFRS 11 – Joint Arrangements. Pursuant to the standard, the income statement and the statements of financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses which are jointly controlled by the Group and additional partners are no longer stated according to Strauss's relative share in the entity as was formerly the practice, but in a separate row ("Income of equity-accounted investees", and in other reports, in the relevant section) (hereinafter: "**Financial Statements**"). The reporting method does not alter the Group's profit and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no managerial change in the jointly held businesses. In view of the fact that the Group's non-GAAP reports and the method in which Group management measures the results of subsidiaries and the jointly owned companies have remained unchanged, the Group has continued to present the operating segments in the same manner as they were presented prior to the implementation of IFRS 11, i.e. presentation of the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%) (hereinafter: the "**Management (Non-GAAP) Reports**" or the "**Non-GAAP Reports**"). Presentation of the data in this manner is different to the manner of their presentation in the Financial Statements of the Company as described.

The chapter "Description of the Company's Business" in the Periodic Report is presented according to the Company's operating segments, and consequently all data presented in this chapter will be in accordance with the Company's Management (Non-GAAP) Reports, unless expressly otherwise indicated. For information on the Company's Management (Non-GAAP) Reports, see section 3, "Analysis of the Business Results of the Group", in the Report of the Board of Directors of the Company as at December 31, 2017.

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

It is understood that the amounts of income, expenses, assets (including inventory, fixed assets and other assets) and liabilities of different activities that are directly attributable to those segments – were attributed accordingly. Mixed operations were attributed to a single operating segment, according to the main activity carried out therein. Expenses and assets (including trade receivables) which cannot be attributed directly – were allocated according to the economic models implemented by the Group as at the date of the Periodic Report. For further information, see also Note 27 to the Financial Statements of the Company as at December 31, 2017.

2017 (based on Management (Non-GAAP) Reports)		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Other	Adjustments for Consolidation (**)	Consolidated
Income	From external entities	2,068	1,063	3,131	704	3,396	4,100	692	569	-	8,492
	From other operating segments	7	11	18	2	2	4	-	-	(22)	-
	Total	2,075	1,074	3,149	706	3,398	4,104	692	569	(22)	8,492
Total attributable costs	Costs that do not constitute income in another segment: Fixed	506	275	781	140	907	1,047	223	152	100	2,303
	Variable (*)	1,342	688	2,030	458	2,202	2,660	450	369	-	5,509
	Costs that constitute income in other segments	5	5	10	4	-	4	-	8	(22)	-
	Total	1,853	968	2,821	602	3,109	3,711	673	529	78	7,812
Income from ordinary operations: Attributable to the controlling shareholders		153	106	259	94	276	370	19	40	(110)	578
Attributable to non-controlling interests		69	-	69	10	13	23	-	-	10	102
Total assets		1,041	1,290	2,331	536	2,265	2,801	663	1,072	-	6,867
Total liabilities		581	350	931	802	644	1,446	228	2,307	-	4,912

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

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

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

For an explanation of the developments occurring in the past year, see the Board of Directors' Report on the State of the Company's Affairs as at December 31, 2017.

(*) and (**) – for an explanation see the 2017 table.

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

(*) and (**) – for an explanation see the 2017 table.

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

In addition to the trends and developments in the food and beverage industry and in the Group's business areas, there are macroeconomic factors which had or are expected to have a material impact on the Group's activities and its business results. For further information, see section 2, "Changes in the Economic Environment", in the Report of the Board of Directors of the Company as at December 31, 2017.

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

7. General – the Food Industry

The Group operates in the food and beverage industry, which is the key industry in the fast moving consumer goods (FMCG) sector and among the most competitive and mature markets in Israel and globally. It is a dynamic industry that responds to the needs, demands and variety of changing tastes of hundreds of millions of consumers in Israel and worldwide.

In recent years, the business environment has been influenced by technological, socioeconomic and regulatory changes that have left their mark on the economy and society. These changes are also affecting food consumers everywhere in the world and have led to changes in the food industry as well. Among other things, consumers seek to consume healthier, more natural products, such as products that contain a small number of ingredients and those that contain no processed ingredients. Consumers expect to get more from their food, and trends such as higher protein content and fewer ingredients such as sugar, salt and fats are growing stronger. In addition, today's consumer has gained power versus large corporations through the growing use of social media, and he aspires to and expects a more open, honest dialogue with food companies. The desired change in the conduct of food corporations is likely to be a growth opportunity for companies which are quick to adopt the changes in the market and tailor their product offerings, as well as manufacturing and sales processes, service and dialogue, to the reality now taking shape.

Another key change sparked by technology is the change in the strength of barriers to market entry. In some categories in the food market these barriers, which formerly made it difficult for new players to enter the market, have been lowered thanks to online marketing and sales capabilities, for example marketing via social media and outsourcing. Conversely, the demands made by the consumer and regulator of food companies have raised the entry barriers as far as food safety issues and quality challenges are concerned. Another factor which will affect the food industry in the near future is the changes which the retail industry is currently undergoing, in Israel and worldwide, particularly the accelerated growth of direct/digital channels, a change which will create an opportunity for firms that are wise enough to take advantage of it.

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

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

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

8. The Israel Operation

General information on the Israel Operation

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

8.1 Structure of the Israel Operation and changes occurring therein

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

According to StoreNext, the Group is the second-largest food and beverage group in Israel. In 2017, the Group's operation in Israel focused on efforts to improve its products through high-value innovation, innovations in variety and flavors, reduction of product prices, improvement of the price/weight ratio, improvement of nutritional value including the reduction of sugar, sodium and preservatives, enlargement of the gluten-free product offering, improved convenience of consumption and value for money, as well as targeting the different – and new – population groups and provided a response to new needs and trends.

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

The past few years were characterized by intensified competition in the food industry in Israel. The high density of retail stores contributed to price-strategy-based competition. The aggressive competition between retail chains, coupled with consumer protests and increasing regulation in the last few years have eroded retailer profitability and placed downward pressure on manufacturers' profit margins. In addition, M&A transactions were executed in the past few years, which have changed the retail map.

The most prominent of these transactions is the merger of Mega Retail Ltd. with Yenot Bitan in 2016, which further increased the density of the retail food market. Additionally, the chains were forced to contend with another increase in the minimum wage, which has impacted the chains' growth and profitability rates and has caused even more downward pressure on the manufacturers' profit margins.

Furthermore, two prominent events occurred in 2017, which have the potential to affect the retail food market and the competition in the market. The first is the acquisition of the New-Pharm chain by Shufersal, as reported by Shufersal in December 2017. New-Pharm's business areas include cosmetics and toiletries, pharmacy and natural products. The second event is the partnership between Rami Levy Hashikma Marketing and the coffee shop and supermarket chain, Cofix. To the best of the Company's knowledge and as reported by the media, the investment by Rami Levy is part of his plans to initiate business activity in city centers by opening branches in cities and through acquisitions.

Additionally, great interest has been observed in the recent period among large retailers in becoming involved in wholesale businesses with the goal of providing small businesses with products at attractive prices. To the best of the Company's knowledge, in January 2018 Shufersal opened its first wholesale outlet in Beer Yaakov.

The information in this section with regard to the potential to influence the retail food market and competition in the sector is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of different developments in the Israeli economy.

In 2017, the Company avoided raising prices in Israel and continued to take various steps to reduce retail prices by means of campaigns across a broad variety of products with the aim of maintaining a competitive price level, as well as by making permanent reductions in the prices of dairy products such as enriched milk, yogurt and milk beverages. These moves impacted the Company's profit margins and were carried out in tandem with extensive operational efficiency enhancement measures. Profitability was also affected by volatility in the prices of raw materials in 2017. For additional information, see section 6 above.

For details on the impacts of the above trends and on changes in revenue and profitability in the Health & Wellness and the Fun & Indulgence segments, see section 3.2.2 in the Report of the Board of Directors of the Company as at December 31, 2017.

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

According to StoreNext, in 2017 sales value in the food and beverage sector increased nominally by 1.5% compared to a decrease of 0.5% in 2016. In 2017, the food and beverage industry in Israel was estimated at approximately NIS 35.7 billion in nominal terms, versus NIS 34.9 billion in 2016.

The increase in sales value in 2017 is evident in most of the major food segments (based on StoreNext figures):

Food & Beverages	
Ready salads (dips and spreads)	-0.8%
Cold cuts	3.6%
Snacks	4.1%
Chocolate world	4.7%
Sweet and savory bakery products	1.7%
Bread and substitutes	1.8%
Canned foods	1.2%
Wine, beer and alcoholic beverages	1.9%
Cookery	2.4%
Non-alcoholic beverages	-0.3%
Fish and meat	1.2%
Dairy world	1.6%

For further information, see section 3.2.2 "The Group's Activity in Israel" in the Report of the Board of Directors of the Company as at December 31, 2017.

The main consumer trends in the food and beverage industry in 2017 include a search for premium as opposed to basic products and for products with components that are considered healthier, with "clean" labels (a minimum of ingredients and preservatives), as opposed to a drop in consumption of diet products, especially those that contain artificial sweeteners, and for products designed for vegetarians and vegans. Another trend is the desire for functional products and products with environmentally friendly packaging. In Health & Wellness, consumer trends are based on products that contain no lactose, gluten, sugar or preservatives, contain fewer calories and less sodium, and also products that are rich in protein and other ingredients that are considered beneficial (probiotics, vitamins). In Fun & Indulgence, the prominent consumer trends are of fun and flavor: appetizing ingredients, creamy textures, layers and varying flavors. In this sphere, the snacking trend (a small, portion controlled meal) is developing, coupled with a global increase in the demand for premium products.

In terms of the retail market, in 2017 the small private market (minimarkets, groceries and convenience stores) and convenience formats gained strength at the expense of the retail chains.

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

	2017	2016(*)
Large customers (national chains)	61.4%	61.9%
Large private market (retail chains that do not have a full national spread)	11.2%	11.5%
Minimarkets + grocery stores + convenience stores	27.4%	26.6%

(*) The figures for 2016 were adjusted for StoreNext's updated calculations.

E-commerce sales in the retail arena continued to gain strength in 2017, providing a quick and convenient shopping experience, and estimates predict that additional retailers will become active this sales channel.

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

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

For further information, see section 2, "Changes in the Economic Environment", in the Report of the Board of Directors of the Company as at December 31, 2017.

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

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

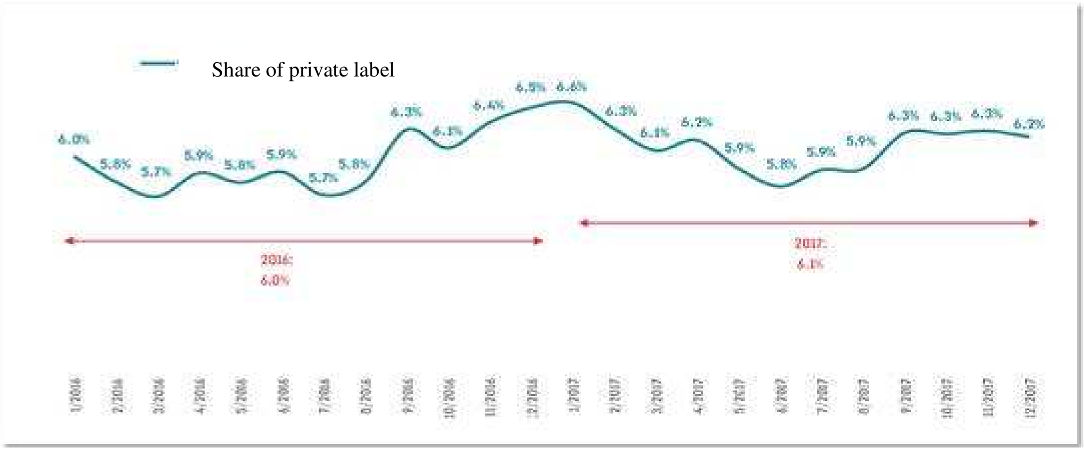
8.6 <u>Major entry barriers to the activity framework and changes therein</u>

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

8.7 <u>Competition and substitutes for the products of the activity framework</u>

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

Moreover, in recent years the large retail chains have promoted their private label products, which compete with the products of food manufacturers. This trend continued in 2017, as private label brands began to expand into additional categories such as frozen, refrigerated, fresh and dry products (with emphasis on the meat, beverage and infant formula markets) and into premium products, intensifying the competition. Sales of private label brands amounted to approximately NIS 2.54 billion in 2017, an increase of 3.3% compared to 2016. According to StoreNext figures, private label's market share of the FMCG market (food, beverages, home care and personal grooming) in 2017 was 6.1%, compared to 6.0% in 2016.



(*) The figures for 2016 were adjusted for StoreNext's updated calculations.

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

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

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

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

8.8 Fixed assets, real estate and facilities

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

8.9 Raw materials and suppliers

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

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

c. The main packaging materials used by the Group in the Israel Operation are laminates and plastic sheets, readymade cartons, cups and bottles, and test tubes for the manufacture of bottles (most of them for Health & Wellness), which are purchased from various manufacturers in Israel and overseas (mainly in Europe). Packaging material prices are influenced by global supply and demand and oil prices, since oil is a key component in the manufacture of packaging materials. In 2017 oil prices continued to rise, perpetrating the trend of rising prices which began in 2016.

For further information, see section 2.2 in the Report of the Board of Directors of the Company as at December 31, 2017.

The following diagram presents the changes in the price of a barrel of Brent Oil (US dollars per barrel) in 2012 – 2017 according to Bloomberg:

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

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

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

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

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

9. The Health & Wellness Segment

9.1 General information on the Health & Wellness segment

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

9.2 Products

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

The year 2017 was characterized by continuing variation and innovation in most Health & Wellness products, targeting new audiences and providing a solution to new needs. Thus, for example, processes for decreasing the sugar content of dairy desserts continued as did the development of the Danone PRO series, which contains more protein and less sugar, and the protein rich PRO beverage series was launched. Additionally, limited editions of Symphony cheese were launched, as well as the Danone series endorsed by Chef Moshik Roth and Danone PRO 700g. Products in calorie controlled portion sizes were launched, such as Mini Milky and Mini Danone multipacks. The dessert series for adults was launched under the "Splendid" brand and the Joy brand eliminated. The fun trend continued, expressed in a collaboration with Disney, which yielded sales growth in the relevant categories and the launch of limited editions of Milky and Gamadim. Yotvata significantly decreased the sugar content in Choco (chocolate milk), the series of sugar-free Choco, which contains no sweeteners at all, was launched, and a switch was made from producing enriched milk in cartons to bottles with a considerable reduction in price. In the salads (refrigerated dips and spreads) category the trend of using fresh, high quality raw materials with reduced sodium and fat content continued in 2017, while maintaining the "Achla" brand's quality standard, leading to an increase in the brand's market share.

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

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

Group of Similar Products	Income in NIS Millions			Percentage of Group's Total Income		
	2017	2016	2015	2017	2016	2015
Dairy products	1,441	1,394	1,342	17.0%	17.5%	17.6%
Salads	345	277	277	4.0%	3.5%	3.6%
Other Health & Wellness products	282	286	279	3.3%	3.6%	3.6%
Total Health & Wellness products	2,068	1,957	1,898	24.3%	24.6%	24.8%

9.4 <u>Competition</u>

The main competitors in Health & Wellness are Tnuva, Tara (of the Central Bottling Company) and Osem Nestle. Other competitors include Gad, Meshek Zuriel and Jacobs Dairy Farm. Tnuva and Tara compete mainly in dairy products, Gad, Zuriel and Jacobs in cheeses, and Osem Nestle in salad products. In 2017 private label brands continued to grow stronger, as evidenced by the expansion of the Shufersal private label. For further information, see section 8.3 above. In every product group in the segment there are other local competitors. The past few years have been characterized by the intensification of the competition in Israel's food sector and increased imports, which was also expressed in Health & Wellness with 2017 being marked by aggressive competition in liquid milk, with which the Company contended through intensive innovation with differentiated added value and by strengthening its existing brands. In the packaged salads category Strauss became market leader after 14 years, in a period marked by a crisis of trust in the market, with private label brands shrinking and the rival Osem Nestle losing sales and market share.

The following table presents information on the market shares of the Group and its major competitor in each group of similar products in the years 2017 and 2016 with regard to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Similar product groups	Weighted Market Share (in Percent – Value)			
	For 2017		For 2016(*)	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts[8]	46.1%	33.6%	44.9%	35.1%
Cheeses[9]	23.5%	57.8%	23.9%	57.5%
Dairy desserts[10]	62.9%	24.8%	59.2%	27.9%
Flavored milk	61.3%	30.7%	61.2%	29.4%
Fresh drinking milk[11]	12.4%	61.4%	11.7%	62.5%
Packaged salads[12]	37.7%	34.4%	34.7%	35.3%
Rinsed and packaged vegetables	40.2%	25.8%	40.5%	29.0%
Honey	55.7%	23.1%	58.4%	22.2%
Olive oil	24.7%	16.6%	23.8%	17.6%

(*) The figures for 2016 were adjusted for StoreNext's updated calculations.

The drop in market share in the cheese product group is mainly the result of price competition between other players in the product group; the Company chose not to participate in this competition.

The drop in market share in the rinsed and other vegetables group is mainly the result of new players entering the market and shortages of imported products following strikes in the ports and delays in the release of the goods by the Ministry of Health.

9.5 Seasonality

Following are data for the years 2017 and 2016 with respect to the Company's income in the Health & Wellness segment, by quarter, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

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

	2017		2016	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	486	23.5%	474	24.2%
Q2	516	25.0%	492	25.1%
Q3	552	26.7%	525	26.9%
Q4	514	24.8%	466	23.8%
Total	2,068	100.0%	1,957	100.0%

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

9.6 <u>Production capacity</u>

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

The maximum potential yearly production capacity of the Group's manufacturing sites in the Health & Wellness segment, operating in three shifts, in tons product per year in 2017 and 2016 was approximately 341 thousand tons and 348 thousand tons, respectively. The actual average capacity utilization rate in 2017 and 2016 was approximately 52% and 49%, respectively. It is noted that a number of production lines in the activity segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. The Company does not anticipate that it will be required to make any material investments in equipment and machinery in the Health & Wellness segment in 2018, beyond current annual investments.

The information in this section that the Company will not be required to make material investments in 2018 is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of various developments in the Israeli economy, in regulation and in market demand for the Company's products, etc

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

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

A. Plants

Nature and Location	Site Designation	Land Area	Built-Up Area	Rights in and to the Site	Liens
Dairy in the Bar-Lev industrial park	Production of dairy products	66,500 m²	21,000 m²	Leased from the Israel Land Authority under a capitalized lease agreement of 2003. The lease period is 49 years, from June 1997.	---
Dairy in Kibbutz Yotvata	Production of milk beverages and enriched milk	26,000 m^2	6,100 m²	Sublease from Kibbutz Yotvata. Part of the area of the dairy has been leased until 2026 (under a 1977 lease agreement) and another part until 2046. The sublease has not yet been approved by the Israel Land Administration; however, the Company is of the view that there is no impediment against the receipt of said approval, although the receipt thereof is likely to involve payment of capitalization fees to the ILA.	---
Carmiel	Production of salads	18,000 m²	9,000 m²	Ownership	
Sde Nitzan	Cutting, mixing and packaging of fresh refrigerated vegetables	2,800 m²	2,560 m²	Lease from Sde Nitzan for a period of 23 years ending in January 2031; the Company has the possibility of shortening said period with 9 months' advance notice. As at the date of this report, a decision on the possibility of making continued use of the Sde Nitzan site after the activity has been transferred to Bror Hayil has not yet been made.	---
Bror Hayil	Cutting, mixing and packaging of fresh refrigerated vegetables	12,590 m²	3,110 m²	Lease from Kibbutz Bror Hayil for 13 years and 5 months, commencing January 1, 2018 and ending in May 2031.The Company has an option to extend the lease for a further 9 years and 6 months.	
Yad Mordechai Apiary	Honey products, olive oil, fruit preserves, cooking sauces, bottled lemon juice and natural maple syrup	10,400 m²	4,300 m²	Lease from Kibbutz Yad Mordechai for a 10 year period commencing January 1, 2003, which was automatically renewed for a further 10 years. At the end of said period, the lease will be renewed automatically for an additional 10 years.	---

. **Distribution, logistics and cross-docking centers**

Nature and Location	Site Designation	Land Area	Built-Up Area	Rights in and to the Site	Liens
Logistics center in Haifa Bay	Refrigerated distribution in northern Israel	8,865 m² (the Group holds 55% of this area)	5,300 m² (the Group holds 50% of this area)	Leased together with Strauss Ice Cream Ltd. (hereinafter: "**Strauss Ice Cream**")* from third parties for a 20 year period ending October 2018. As at the date of this report, the parties are negotiating the extension of the lease and the increase of the Group's space by an additional 489 m^2. The Group presently holds ~50% of the site area, and Strauss Ice Cream – 50%. Rental costs and municipal rates and taxes are allocated according to the holding ratio, and after the additional space has been transferred, if the transaction is closed, the Group's holding is expected to be ~60%, and Strauss Ice Cream – 40%. Electricity costs are allocated according to a fixed index jointly determined by the engineers of the parties; the remaining costs are allocated according to actual use (according to separate suppliers' invoices).	---
Cross-docking site in Beersheba	Refrigerated distribution in the northern Negev and Lachish region	4,920 m²	2,000 m^2	Leased from the Israel Land Authority under a capitalized lease contract for a period of 49 years ending in 2029. Part of the site is leased to Unilever for the ice cream business.	---
Acre storage and distribution site	Dry distribution in the northern region	17,600 m^2	8,700 m^2	Leased from Giron Development & Building Ltd. until January 2021 with an option for a 5-year extension (until 2026).	---

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

For information on Company policy for depreciating the machinery and equipment in its various manufacturing plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2017.

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

9.8 Research and development

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

9.9 Intangible assets

a. **Licenses and franchises**

Strauss Health has a licensing agreement with Danone for the use of knowhow and trademarks. For information on the licensing agreement and the payments paid in respect thereof, see section 9.14.a below.

b. **Trademarks**

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

The Group also uses the trademark "Strauss", registered in the name of Strauss Holdings. For information on the right granted by Strauss Holdings to the Company to use the name Strauss, see the description of the agreement between the Company and Strauss Holdings in section 25.1 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 indefinite.

For an itemization of costs and financial movement relating to intangible assets in the years 2017 and 2016, see Note 15.1 to the Financial Statements of the Company as at December 31, 2017.

9.10 Human capital

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

Following is information on the number of employees in the Group in the Health & Wellness segment (including 59 and 57 employment agency workers), as at December 31, 2017 and December 31, 2016, respectively:

	Number of Employees as at	
	December 31, 2017	**December 31, 2016**
Administration	98	99
Sales and distribution	54	53
Logistics	239	244
Operations	623	614
Total	1,014	1,010

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

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

The major raw material used by the Group in the manufacture of Health & Wellness products, the cost of which forms over 20% of total purchases of the raw materials used in these products, is raw (unprocessed) milk. In addition, the Group primarily uses milk powders and proteins, additives for yogurts and dairy desserts (cereals and granola), sugar, cocoa powder, tahini, hummus, vegetables, olive oil, honey and packaging materials.

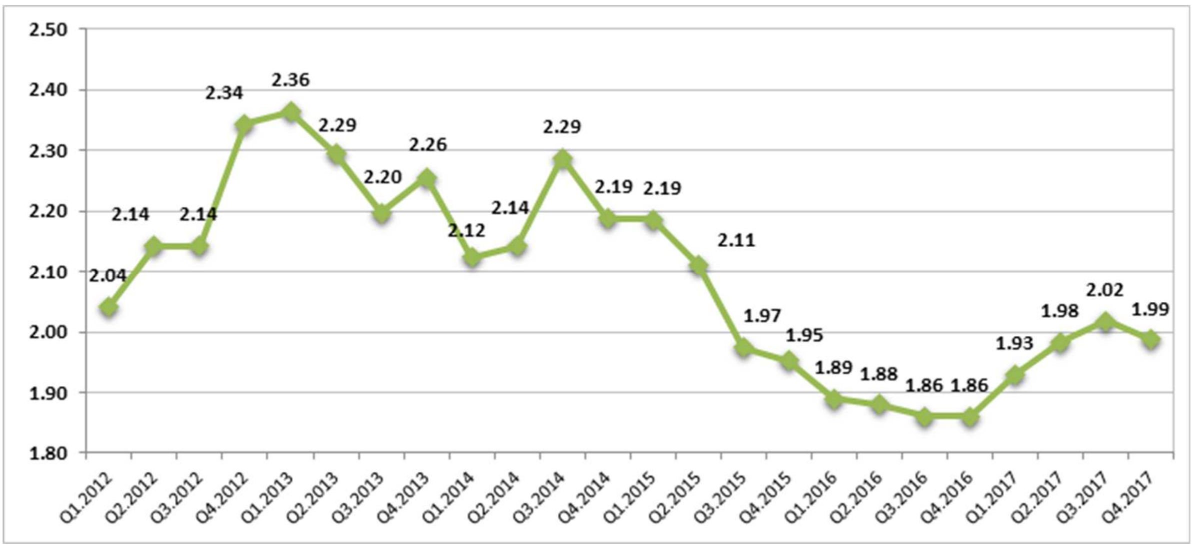
Liquid milk is purchased from various dairy farmers in the Western Galilee, Jezreel Valley, Zevulun region, Arava plain, northern Negev and Ramat Hanegev. Under the Milk Sector Planning Law, 2011, the Group is obliged to accept the entire quota of milk produced by the manufacturer from which it purchases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

It is noted that the Company also purchases milk from Kibbutz Yotvata, (which also holds Yotvata shares). The total quantity of milk supplied by Kibbutz Yotvata to the Company accounted for less than 5% of total milk purchases in 2017. The Company is not dependent on this supply.

It is noted that part of the Company's products in this segment are manufactured by external vendors with which the Company is engaged in agreements. In the Company's opinion, as at the present date the Company is not dependent on any of said vendors.

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

The following diagram presents the changes occurring in the price of raw milk in the years 2012-2017 (the figures on the vertical axis represent the cost price ("target" price) in NIS per 1 liter, and the figures on the horizontal axis represent time:



The average price of raw milk in 2017 was significantly higher than the average price in 2016. In accordance with the decisions in the Locker Outline (see section 9.13 below), a survey was performed with respect to updating the target price. According to the survey findings, the target price had been overly reduced. Consequently, in 2017 the target price was raised by 10 agorot in three installments throughout the year and therefore, 2017 was marked by a rising trend in milk prices.

The prices of milk powder and butter are derived from the price of raw milk, and in 2017 their prices rose, similarly to the price of raw milk. In 2017 milk powder and butter prices increased by approximately 4.1% and 12.5%, respectively.

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

For additional information, see section 2, "Changes in the Economic Environment", in the Report of the Board of Directors of the Company as at December 31, 2017.

9.12 <u>Working capital</u>

Following is the composition of working capital, in NIS millions, in the Health & Wellness segment in 2017, according to the Company's Non-GAAP Reports as defined in section 5 above:

	Amount Included in the Non-GAAP Reports
Operating current assets (*)	373
Operating current liabilities (**)	275
Excess of current assets over current liabilities	98

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

9.13 <u>Restrictions and supervision in the segment</u>

a. **Declaration as a monopoly in dairy desserts** – by virtue of the 1998 declaration under the Antitrust Law, Strauss Holdings (including any other corporation that manufactures or markets dairy desserts which is controlled by Strauss Holdings, controls Strauss Holdings or is controlled by its controlling shareholders) was declared a monopoly in dairy desserts. The declaration defined "dairy desserts" as "an unfermented milk product, sweetened with sugar or alternative sweetening agents and containing, in addition to the dairy ingredients, typical flavoring ingredients (chocolate, vanilla, chocolate powder, etc.) and meant to be eaten with a spoon". For further information, see section 29.1.w below.

b. On December 31, 2014, the Company received a letter from the Antitrust Commissioner regarding a hearing prior to declaring the Company a monopoly in the following markets: (1) creamy texture cheese; (2) dairy products in cups for toddlers; (3) flavored milk products; and (4) yogurt drinks. On July 30, 2015, the Company filed its response to the

Antitrust Commissioner, and as at the date of this report, a date for a hearing has not been set. For additional details see the Company's Immediate Report dated December 31, 2014 (reference no: 2014-01-048496).

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

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

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

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

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

The information in this section that the Company is unaware of any significant effect of the Milk Law or the Milk Regulations on its operations is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of various developments in the Israeli economy, etc.

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

Price control – for further information, see section 2.8 in the Report of the Board of Directors of the Company as at December 31, 2017.

9.14 Material agreements

a. Agreements with Danone

Investment and shareholders' agreement: On December 13, 1996 Strauss Health and Strauss Holdings contracted with the French concern, Groupe Danone, in an agreement for the allotment of 20% of Strauss Health's issued share capital.

In this agreement, as amended in January 2017, limitations were imposed on the transfer of shares, including a right of first refusal in the event of the acquisition of shares by a third party (not including a related party of the shareholders, as defined in the agreement, provided that the transferee will agree to be bound by the terms and conditions and obligations applying to the transferor) and a tagalong right to a sale of shares as a result of which a third party will hold more than 50% of Strauss Health's issued share capital, under the terms and conditions enumerated in the agreement.

In addition, each shareholder holding 10% of Strauss Health's issued share capital is entitled to appoint a director of Strauss Health. For as long as Danone holds 20% of Strauss Health's issued share capital, it will be entitled to appoint 20% of the directors, rounded upward.

The agreement determines a list of actions that will not be performed if opposed by all directors appointed by Danone, which include transactions between Strauss Health and other companies controlled by Strauss Group or an interested party in Strauss Group, unless they are executed under market conditions or were in effect at the time the purchase agreement was signed, other than in a case where Danone is willing to accept compensation for the difference between the value according to market conditions and the actual value of the transaction, as follows: payment of a dividend of less than 25% of the net annual profit (after retaining the balance required by Strauss Health, as determined in the agreement); a public offering or a change in the share capital diluting Danone's holding; establishment of subsidiaries by Strauss Health which are not directly or indirectly wholly owned by Strauss Health and which are active in products that are not dairy products, and if a shareholder therein is a competitor of Danone; a material change in Strauss Health's business or investments in a field that is not the dairy business, as a result of which the turnover in such other business exceeds the percentage of Strauss Health's turnover stated in the agreement; and distribution by Strauss Health or its subsidiaries of products manufactured by Strauss Holdings or by any company controlled by it or by its shareholders, if total annual sales of said products exceed the percentage of Strauss Health's consolidated annual turnover stated in the agreement.

The agreement also determines that the export of products by Strauss Health must be coordinated with Danone, and in any event Strauss Health will be prohibited from exporting products bearing Danone's trademarks without receiving Danone's prior approval.

By virtue of the agreement (and after the Company undertook Strauss Holdings' obligations pursuant to the agreement as part of the merger transaction), the Company is subject to the obligation that it and any of its subsidiaries or shareholders shall not sell, manufacture or import refrigerated baby food or refrigerated dairy products in or to Israel (including the Golan Heights, the Gaza Strip and the West Bank) other than through Strauss Health, except for products in which milk is not the main ingredient, such as salads with yogurt, pasta with cheese and cheese pastries; ice cream, frozen yogurt and other products sold at temperatures below 0ºC; long-life milk and long-life milk products; and dairy confectionery and chocolate. Additionally, the Company and Danone have undertaken not to make use of any knowhow purchased by them or obtained from Strauss Health, without Strauss Health's advance written consent.

The agreement prescribes provisions relating to collaboration between the shareholders with respect to activity in other countries adjacent to Israel.

Licensing agreement: In early 2017 Strauss Health contracted in a licensing agreement with Danone for the use of Danone's knowhow and trademarks (which replaced an earlier agreement) relating to all Danone's fresh, frozen and fermented dairy products, dessert products, yogurt products and all dairy products for infants over one year old, at present and in the future, not including infant formula and dedicated infant products (hereinafter in this section: the "**Products**"). The licensing agreement is for a period of ten years, after which it will be automatically renewed for additional five-year periods. The license granted to Strauss Health is an exclusive, non-transferable license that does not include the right to award sub-licenses, for the use of knowhow in manufacturing the Products and for the sale of the Products under the trademarks set forth in the licensing agreement in the territory of Israel, the Gaza Strip and the West Bank only (hereinafter in this section: the "**Territory**"). According to the agreement, Strauss Health is prohibited from exporting the Products covered by the agreement without Danone's advance written consent.

Use of trademarks other than Danone on the Products requires Danone's advance approval (except with respect to the "Strauss" trademark). Strauss Health further undertook to use the trademarks on every live thermophilic fermented milk product and on every new product globally marketed on the date of the licensing agreement or in the future by Danone under one trademark.

It is noted that the licensing agreement does not prevent Danone from making use of the trademarks in the Territory for other products, except for those under the licensing agreement and other refrigerated products.

Strauss Health has undertaken that the Products bearing the trademarks will comply with the quality requirements enumerated in the Agreement and with the quality requirements in place in the Territory. Strauss Health is also obliged, *inter alia*, to inform Danone of any material proceeding by a government or regulatory authority and also of any official inspection or inquiry relating to the quality or safety of any of the Products, in which context Danone will provide assistance and advice if necessary.

Danone has undertaken to provide Strauss Health with any and all technical and marketing information and assistance that may be required, as set forth in the licensing agreement. It is further determined that Danone will transfer to Strauss Health information regarding marketing strategy for the Products bearing the trademarks.

Additionally, it is asserted that unless otherwise agreed by and between the parties, the licensing agreement will not be cancelled other than in the following cases: in cases of bankruptcy, appointment of a liquidator, a trustee in a bankruptcy, a receiver, etc.; in a case where Strauss Holdings or any other company in Strauss Group transfers shares in Strauss Health without Danone's advance written consent such that the Group's total holdings in Strauss Health fall below 51% of the share capital and such that a material part or all of the abovementioned shares have been sold to one or more of the ten large dairy product manufacturers in the world, Danone will have the right to immediately revoke the agreement; and in a case where Strauss Health fails to act as provided in the licensing agreement in the matters set forth below, Danone will be entitled to announce the annulment of the licensing agreement, such annulment taking effect within a period of 3 or 12 months, according to the nature of the breach: breach of Strauss Health's obligation not to assign its rights under the license or grant sub-licenses; breach of its obligations relating to the territorial limitations in the license; breach of its obligation to comply with Danone's instructions relating to the use of the trademarks enumerated in the licensing agreement in a manner that is liable to materially harm Danone's interests; and breach of its obligation to discontinue sales of the Products under the aforesaid brand names if Danone has so requested, as provided above.

The agreement also includes provisions that will apply to the parties if the licensing agreement is revoked, including, *inter alia*, that Strauss Health will not be entitled to any compensation if the licensing agreement is cancelled by Danone pursuant to its provisions.

It is further determined that in the event that the licensing agreement is revoked on certain grounds, Danone will not be involved in manufacturing and marketing activities for the Products in the Territory under the trademarks that were in use prior to the annulment until two years have elapsed from the date the notice of annulment was sent.

In consideration for the license Strauss Health makes various payments to Danone on a quarterly basis, according to the rates prescribed in the licensing agreement.

The percentage of royalties in respect of the license was determined on the basis of a certain percentage of net sales (as the term is defined in the agreement) for the products determined in the licensing agreement, plus a certain percentage of the growth in the annual sales turnover compared to the prior year, as well as a fixed payment for knowhow in an immaterial amount.

It is noted that the total costs paid in respect of the license, knowhow and royalties according to the agreement with Danone in the years 2017, 2016 and 2015 were approximately NIS 18 million, NIS 13 million and NIS 12 million, respectively.

<u>Procurement services agreement</u>: Strauss Health also contracted with Danone in a procurement services agreement, pursuant whereto, *inter alia*, Strauss Health will be granted access to the network of suppliers that are relevant to the manufacture of

Danone's fresh dairy products. In consideration, Strauss Health will pay a yearly amount, which is immaterial to the Company. The agreement is valid until the end of 2021.

It is noted that Strauss Health has contracted with the Company in agreements for the receipt of services from the Company in the fields of sales and distribution, as well as general administrative services.

In the Company's estimate, the Group is not dependent on Danone, and termination of the engagement between Strauss Health and Danone will not have a material impact on the Group's business in the medium and long term.

b. **Agreement with Yotvata**

According to an agreement of November 12, 1998 for the acquisition of shares of Yotvata, the parties thereto being Kibbutz Yotvata (the "**Kibbutz**"), Yotvata Uri Horazo Dairies (Limited Partnership), Yotvata and Strauss Health, which was amended on August 20, 2003 and on September 25, 2017, Strauss Health acquired by way of an allotment of shares: (a) 50% of Yotvata's issued and paid-up ordinary share capital, conferring the rights generally conferred on shareholders in a limited liability company, not including the right to appoint or dismiss directors. The rest of the ordinary shares remained under the Kibbutz's ownership; (b) two management shares, each conferring the right to appoint or dismiss a director in Yotvata. Three additional management shares are held by the Kibbutz; and (c) one casting share, conferring the right to appoint or dismiss one director in Yotvata who is also chairman of the board of directors or chairman of the general meeting and has a casting vote in the board of directors and in the meeting of the shareholders in the case of a tie vote.

The agreement sets forth the agreed arrangements relating to Yotvata's conduct, including that the CEO of Yotvata is appointed by the board of directors of Yotvata at the recommendation of the Kibbutz. The directors representing Strauss Health have a veto right to prevent the appointment of a CEO. The chairman of the board of directors is appointed by Strauss Health. The directors representing the Kibbutz have the right to oppose the appointment of a chairman who does not possess the appropriate qualifications for the position. Yotvata's CFO is appointed by Strauss Health. The directors representing the Kibbutz have a veto right over such appointment, but they are not entitled to exercise this right other than on reasonable grounds. It is noted that the agreement contains no provisions relating to the duration of the abovementioned arrangements. In addition, Strauss Health undertook to ensure alternative employment for Kibbutz members, should it decide within 25 years from the January 1, 1998, without the Kibbutz's consent, to downsize the number of Kibbutz members stationed in Yotvata to below the minimum quota set forth in the agreement, or to discontinue the dairy's activity.

Additionally, Strauss Health was issued convertible capital notes in a nominal amount of NIS 79,108 thousand, unlinked to the Index and interest-free, redeemable only upon the winding-up of Yotvata, but not earlier than the year 2100. The capital notes are convertible into Yotvata shares such that each NIS 500 thousand of the capital notes may be converted into one share of NIS 1 par value. The agreement prescribes that whenever capital notes are converted into shares, additional shares shall be allotted to the Kibbutz in the same number and of the same par value, in consideration for their par value, so that the Kibbutz's relative holding of the shares of Yotvata will remain identical to its relative holding prior to the allotment. The share allotment and issue of the capital notes were executed against the payment of a consideration determined in the agreement in the amount of US$32 million.

The agreement asserts that Yotvata's areas of expertise are milk beverages and premium milk, and that other than exceptions set forth in the agreement, Strauss Health will not market products in the milk beverage and premium drinking milk categories unless they are manufactured by Yotvata and the transfer prices are determined by and between the parties. It is further determined that Strauss Health will refrain from manufacturing these products unless the Kibbutz's approval for the manufacture and marketing thereof has been received. The abovementioned provisions will not apply in regard to the marketing and manufacture of certain products enumerated in the agreement.

The Kibbutz has undertaken that it will not use the Yotvata brand or logo in the food industry other than with the prior approval of Yotvata's board of directors, which will be entitled not to approve such use without being required to give grounds for its decision. The Kibbutz has further undertaken not to use the Yotvata brand or logo in other categories which are not in the food industry, other than with the prior approval of Yotvata's board of directors, which will be entitled not to approve such use on reasonable grounds only.

The agreement determines that for as long as the Kibbutz holds at least 20% of Yotvata's ordinary share capital, a resolution of Yotvata's board of directors or general meeting relating to certain matters (which are set forth in the agreement) will be passed by a majority of votes (of the directors or shareholders, as the case may be), on condition that the majority of votes includes the vote of at least one director appointed by the Kibbutz or of the Kibbutz's representative in the meeting of the shareholders, as the case may be. Notwithstanding the foregoing, in the case of a tie vote between the directors appointed on behalf of the Kibbutz and those appointed on behalf of Strauss Health or between the shareholders, as the case may be, the matter will be referred, at the request of any of the directors, for resolution by a deciding director, and his decision will be binding upon Yotvata. To clarify, this arrangement constitutes a special arrangement in the context of the general mechanism for deciding matters in the case of a tie vote, as described above.

The Kibbutz has the right to demand the distribution of a dividend of at least 25% of Yotvata's distributable profits, and Strauss Health has undertaken that in such case, it will procure that a resolution is duly adopted for the distribution thereof or will grant a loan to the Kibbutz in the amount of the dividend whereto it is entitled until the divided is actually distributed.

The agreement determines that Strauss Health will distribute Yotvata's products for a commission at the rates set forth in the agreement. It further determines that Strauss Health will continue to provide Yotvata with various management services, and that the Kibbutz will provide Yotvata with management services commencing in 2003 and will also supply various services such as guarding and accounting services.

The agreement determines that the parties will not be entitled to transfer all or part of their shares in Yotvata to a third party other than subject to the parties' right of refusal, which is subject, *inter alia*, to an undertaking not to transfer the casting share other than to the Kibbutz. The agreement further determines that where as a result of the transfer of shares held by Strauss Health its holding in Yotvata falls below 25% of Yotvata's ordinary share capital, it will be obliged to transfer the casting share to Yotvata, free of charge, and the Kibbutz will transfer one management share to the name of Strauss Health or to the name of the third party acquiring the shares from Strauss Health, and will be obliged, among other things, to grant the third party acquiring the shares and Strauss Health a non-controlling interest, as set forth in the agreement.

The agreement also determines that in a case where the Kibbutz transfers its shares to a third party, Strauss Health will undertake to the third party acquiring the shares and to the Kibbutz to grant it a non-controlling interest, as set forth in the agreement.

Additionally, the agreement determines that any party selling all or most of its shares to a third party shall deposit with Yotvata, as a loan, an amount in NIS that is equal to $8 million against an unlinked, interest-free capital note, payable only after 49 years have elapsed from the date on which the loan was made to Yotvata. Where a party has sold less than 50.1% of its shares, it will transfer to Yotvata a relative portion of the abovementioned amount under the aforesaid terms and conditions.

10. The Fun & Indulgence Segment

10.1 General information on the Fun & Indulgence segment

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

10.2 Products

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

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

Fun & Indulgence products focus on providing a response to the consumer trends of "fun and pleasure" and "indulgence". These products serve as an easy and immediate solution for between-meal snacks which are generally consumed on impulse, in many cases away from home and on the go. The general health trend in the food and beverage industry is also evident in Fun & Indulgence products and is expressed in the consumer's desire for a treat, while caring for his health at the same time. As part of enhancing the consumption experience and developing new solutions aligned with consumer trends, in 2017 the Group focused on products that deliver special added value to the consumer, products that meet the need for a little indulgence, products that are portion controlled (such as low weight wafers, mini snack bars, chocolate snacks, etc.), as well as assortments in bags and multipacks. In addition, the Company extended the production of gluten-free wafer products on a year-round basis.

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

The Group's Fun & Indulgence products are characterized by a relatively long shelf life of 3 to 18 months (apart from oatmeal in a can, which has a shelf life of 36 months). Chocolate products are stored and transported in a temperature controlled environment (16º-18ºC), whereas the rest of the products do not require special storage and transportation conditions. Rival products in the Fun & Indulgence segment are import-intensive and include numerous rival international and domestic brands. For further information, see section 10.4 below.

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

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

Group of Similar Products	Income in NIS Thousands			Percentage of Group's Total Income		
	2017	2016	2015	2017	2016	2015
Confectionery and bakery	828	788	761	9.7%	9.9%	9.9%
Salty snacks[13]	235	218	207	2.8%	2.8%	2.7%
Total Fun & Indulgence products	1,063	1,006	968	12.5%	12.7%	12.6%

10.4 Competition

Rival products in the Fun & Indulgence segment are saturated with numerous international and domestic brands. The major competitors of the Group's products are "Unilever", "Osem Nestle", "Diplomat", "Leiman Schlussel", "Frey", "Sides", "Ferrero Israel", "Mars Israel" and the private label products of various retailers. In addition, the Fun & Indulgence segment has numerous other, smaller competitors, including additional private label brands. As a result of the strengthening of the shekel and the absence of customs duties and quotas on most Fun & Indulgence products, products in the category are import-intensive, and in recent years additional competitors have joined the field, some of them importing familiar international branded products and others, products that are unknown. Accordingly, 2017 was characterized, among other things, by further escalation of the competition in chocolate products for children and adults and in wafers. To deal with the competition, the Group has focused on innovation while developing and expanding its product variety and entering into new categories. In addition, in 2017 the Company continued its marketing activities and campaigns, and increased the investment in commercial activity and consumer campaigns.

The following table presents information on the market shares of the Group and its major competitor in each group of similar products in the years 2017 and 2016 in reference to the Group's main products in the Fun & Indulgence segment, according to weighted data based on

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

StoreNext's figures for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Similar Product Groups	Weighted Market Share (in Percent – Value)			
	2017		2016 *	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate for children and adults[14]	38.5%	14.5%	39.9%	14.8%
Chewing gum	30 %	48.9%	28.3%	51.2%
Wafers	26.4%	28.3%	27.5%	26.1%
Sweet bakery products (excluding wafers)	14.3%	21.1%	13.1%	20.9%
Salty snacks	32.7%	52.1%	32.4%	52.6%

(*) Data for 2016 were adjusted for StoreNext's updated calculations.

10.5 Seasonality

Following are data for the years 2017 and 2016 with respect to the Company's income in the Fun & Indulgence segment, by quarter, according to the Company's Non-GAAP Reports, as defined in section 5 above:

	2017		2016	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	332	31.2%	302	30.0%
Q2	221	20.8%	221	22.0%
Q3	256	24.1%	260	25.8%
Q4	254	23.9%	223	22.2%
Total	1,063	100.0%	1,006	100.0%

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

10.6 Production capacity[15]

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

The maximum potential yearly production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in tons product per year in the years 2017 and 2016 was approximately 79 thousand tons and 76 thousand tons per year, respectively. The average capacity utilization rate in the years 2017 and 2016 was 53% and 52%, respectively. It

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

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

is noted that a number of production lines in the segment are liable, at certain points in time and during holiday seasons, to reach maximum production capacity.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. Based on the information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make any material investments in Fun & Indulgence equipment and machinery in 2018 beyond current annual investments.

The information in this section that the Company will not be required to make material investments in 2018 is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of various developments in the Israeli economy, in regulation and in market demand for the Company's products, etc.

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

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

<u>Production sites</u>

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

Logistics and cross-docking centers

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

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

(*) The plant in Nazareth does not have a valid Town Building Plan. As at the date of the report, the Company is handling the issue in full coordination with the local authority and local committee. The Company estimates that the foregoing has no significant implications upon the Company.

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

For Company policy regarding the depreciation of machinery and equipment in its various plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2017.

10.8 Research and development

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

10.9 Intangible assets

a. **Licenses and franchises**

Strauss Frito-Lay has an agreement with PepsiCo for the use of PepsiCo's trademarks with respect to all salty snack products marketed by Strauss Frito-Lay, which are based on

PepsiCo's knowhow. For information on the licensing agreement and the payments paid in its respect, see section 10.14 below. In addition, the Company has trademark licenses for its products from several third parties with which the Company has contracted, in consideration for the payment of royalties for such use in amounts that are immaterial to the Company.

b. **Trademarks and samples**

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

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

For an itemization of costs and financial movement in intangible assets in the years 2017 and 2016, see Note 15.1 to the Financial Statements of the Company as at December 31, 2017.

10.10 <u>Human capital</u>

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

Following is information on the number of employees in the Group (including all employees of Strauss Frito-Lay, a joint venture in which the Company holds 50%) in the Fun & Indulgence segment (including 176 and 260 employment agency workers), as at December 31, 2017 and December 31, 2016, respectively:

	Number of Employees as at	
	December 31, 2017	**December 31, 2016**
Administration	106	108
Sales and distribution	519	504
Logistics	211	210
Operations	1,004	1,013
Total	1,840	1,835

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

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

The main raw material used by the Group in the manufacture of Fun & Indulgence products is cocoa and its by-products (cocoa butter, cocoa mass and cocoa powder), the cost of which accounts for 32% of total purchases of raw and packaging materials. The Group also mainly uses sugar, nuts, vegetable oils, potatoes and packaging materials.

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

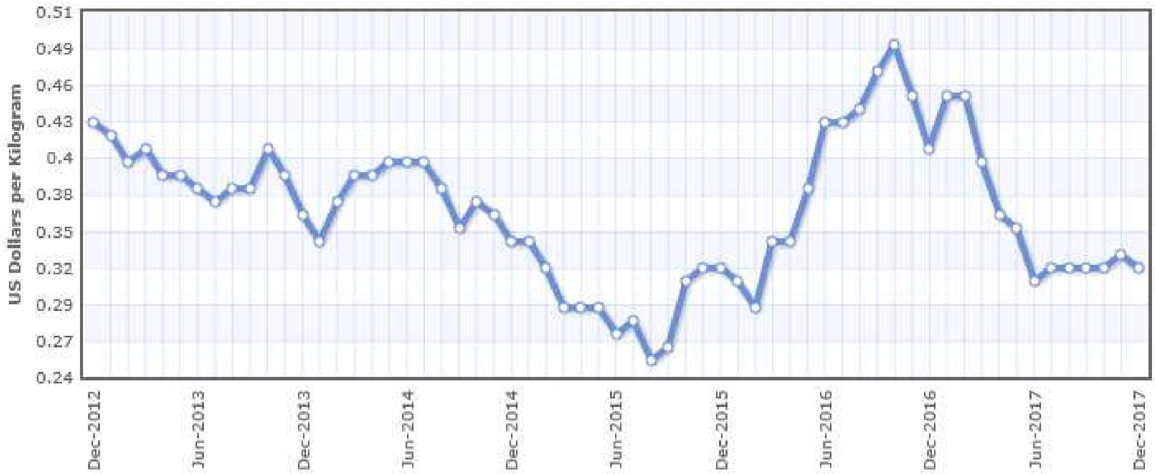
In 2017 cocoa prices continued on a declining trend that began at the end of 2016. In the last quarter of the year there was a further drop in prices and the year ended with an overall price decrease of approximately 20%. The price trend reversal at the end of 2016 was the result of an improvement in the world cocoa balance (high crop yields combined with stable demand for cocoa beans).

Cocoa butter processing costs have been on a rising trend since 2016 due to greater demand than expected. Commencing in mid-2017 the price of cocoa powders has been on a downward trend due to the low market price of cocoa beans.

The following graph shows the changes in the price of cocoa beans (pound sterling per ton) in the years 2012 – 2017, according to Bloomberg:

In 2017 sugar prices continued to follow the downward trend that began in the fourth quarter of 2016; during this period, sugar prices dropped by approximately 25%. The decrease is the result of surplus supply.

The following graph presents the changes in <u>sugar prices</u> (US cent per pound) in the years 2012 – 2017, according to Bloomberg:



For further information, see section 2, "Changes in the Economic Environment", in the Report of the Board of Directors of the Company as at December 31, 2017.

10.12 <u>Working capital</u>

Following is the composition of working capital, in NIS millions, in the Fun & Indulgence segment in 2017, according to the Management (Non-GAAP) Reports as defined in section 5 above:

	Amount Included in the Non-GAAP Reports
Operating current assets (*)	343
Operating current liabilities (**)	146
Excess of current assets over current liabilities	197

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

10.13 <u>Restrictions and supervision in the segment</u>

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

10.14 <u>Material agreements</u>

Agreements with PepsiCo

The manufacture, marketing and sale of salty snacks in Israel are carried out by Strauss Frito-Lay. The Company holds 50% of the shares of Strauss Frito-Lay, and the remaining 50% are held by the American food concern PepsiCo though its subsidiary, PepsiCo Investments Europe (I) B.V. (hereinafter: "**PepsiCo Europe**"). The Company, PepsiCo Europe and PepsiCo, Inc. (hereinafter: "**PepsiCo, Inc.**") contracted in a shareholders' agreement that regulates the joint relationship in all aspects relating to Strauss Frito-Lay. Additionally, there is a licensing agreement between Strauss Frito-Lay and the PepsiCo concern for the use of certain PepsiCo trademarks. The main agreements are as follows:

Licensing agreement for the use of knowhow and trademarks: According to an agreement of 2016 (which superseded a previous licensing agreement) between Strauss Frito-Lay and PepsiCo, Inc., Strauss Frito-Lay was granted an exclusive, non-transferable license for the manufacture, distribution and sale in Israel of salty snacks, spicy snacks and extruded snacks, and also for the use of PepsiCo, Inc.'s relevant trademarks. The agreement further determines that PepsiCo, Inc. has the right at any and all times to add to or alter the abovementioned trademarks at its exclusive discretion.

The licensing agreement will remain in force for as long as the Company (or a wholly-owned subsidiary of the Company) is a shareholder of Strauss Frito-Lay and for as long as the shareholders' agreement remains in force. The validity of the licensing agreement in a case where one of the parties ceases to be a shareholder of Strauss Frito-Lay is as provided in the shareholders' agreement, as described below. PepsiCo, Inc. has the right to revoke the licensing agreement in various cases, including a fundamental breach of the agreement by Strauss Frito-Lay.

In consideration for the grant of the license, Strauss Frito-Lay will pay PepsiCo, Inc., each quarter, a certain percentage of net sales (as defined in the agreement) and at least a minimum amount, as set forth in the agreement. Strauss Frito-Lay will also pay PepsiCo, Inc. a yearly payment for technical support services.

In 2016 and 2017 the Group credited PepsiCo, Inc., and the global PepsiCo corporation in 2015, for royalty payments pursuant to the agreement, amounting to approximately NIS 7 million each year.

Shareholders' agreement: According to the shareholders' agreement, in a case where the Company is controlled (directly or indirectly) by a party that is not the Strauss family, PepsiCo Europe will have the right, after 12 months have passed since control of the Company changed as aforesaid, to acquire all of the Company's remaining shares in Strauss Frito-Lay at the market price that will be determined according to the method set forth in the agreement, on condition that PepsiCo Europe will itself reasonably determine that its attempt to cooperate in good faith in said 12 month period did not succeed. The market value of the Company's remaining shares in Strauss Frito-Lay will be determined by one of the five largest international investment banks in the US, which will be chosen by PepsiCo Europe. The parties will have the right to appear before the investment bank and provide it with information relating to Strauss Frito-Lay's fair market value. Insofar as the market value determined by the investment bank is within the range of a multiplier of 5.4 to 6.6 by EBITDAR (the average for the three prior years (excluding years in which an irregular event influencing EBITDAR occurred) of yearly earnings before financing income/expenses, income tax, depreciation and amortization and royalties paid to any of the shareholders or to parties related to them) the market value of the shares will be determined by a multiplier of 6 by EBITDAR, less the net debt (financing from banks or others, less cash). Ten years after the transaction date, the parties may, at the request of a party to the agreement, which will not be made more often than once in five years, change said multiplier of 6 by mutual agreement.

The term “control” in the shareholders’ agreement means the ability to direct, directly or indirectly, the activity of the relevant entity (not including ability arising only as a result of holding the position of a director or other position), and a person is presumed to control a corporation if he holds, directly or indirectly, more than 50% of the share capital or voting rights in the relevant entity; or if he holds, directly or indirectly, the right to appoint more than 50% of the directors of the relevant entity. The term “holding” in this section shall have the meaning of the term within section 1 of the Securities Law, 1968.

For information on the risk factor in a case where the Strauss family ceases to be the controlling shareholder of the Company, including enumeration of the sales turnovers of the operations that are likely, in such case, to be sold by the Company to its partners in said operations, see section 29 below. For information on Strauss Frito-Lay’s profit, before and after the provision for tax, see regulation 13 in the “Additional Information on the Company” report as at December 31, 2017.

PepsiCo Europe has the right to appoint the CEO and CFO of Strauss Frito-Lay with the Company’s prior consent, which shall not be withheld other than on reasonable grounds. The Company and PepsiCo Europe each have the right to appoint 50% of the members of the board of directors of Strauss Frito-Lay. The chairman of the board will be appointed by the Company from among the directors appointed by the Company (the chairman of the board does not have a casting vote), on condition that he is not an officer of the Company. Resolutions of the board will be passed with a majority of votes, excluding resolutions that will be passed unanimously, *inter alia* with respect to the discontinuation of Strauss Frito-Lay’s activity in Israel or its winding-up for any reason other than insolvency, change of the name or logo of Strauss Frito-Lay, merger, acquisition of companies or other businesses, modification of the articles of association and changes in Strauss Frito-Lay’s share capital (not including dilution as a result of financing by either of the shareholders).

The agreement defines provisions relating to the financing of Strauss Frito-Lay and to the dilution of a shareholder who refuses to provide its share of additional financing that is required by Strauss Frito-Lay’s board of directors.

The shareholders’ agreement determines that a shareholder will be entitled to transfer its shares to a third party only and solely after having received the other shareholder’s prior consent. The agreement further determines a right of first refusal mechanism upon the transfer of shares by the parties thereto, and requires that each of the parties transfer all of its shares in Strauss Frito-Lay as a condition for the transfer (the abovementioned provisions do not apply to a “permitted transfer” to a wholly-owned subsidiary, directly or indirectly, of the transferor).

The agreement also defines a mechanism for the resolution of disputes between the parties (by means of a representative of each of the shareholders, and in the absence of agreement – by an outside arbitrator); in the absence of agreement of one of the parties with the arbitrator's decision, the other party will have the option of acquiring its shares. If both parties do not agree with the arbitrator's decision or in a case of non-realization of a party's right to acquire the other's shares as aforesaid, the parties will take joint action to locate a buyer for all of Strauss Frito-Lay's shares. If no such buyer is located within one year, Strauss Frito-Lay will be wound up.

The agreement defines a number of "triggering" events (including regulatory changes that have a material influence on the parties' ability to draw dividends from Strauss Frito-Lay or to perform the agreement; a government act requiring that either party sell or transfer all or part of its holdings in Strauss Frito-Lay; a material breach of the agreement; a breach of the non-competition stipulation set forth in the agreement) on the occurrence of which either party (but not both parties simultaneously) will have the right to oblige the other to acquire its shares or sell it its shares, in the manner and at the price set forth in the agreement.

In the case of a sale of shares by a party to the other, the agreement determines the obligation of the seller party to continue to abide by the agreements between it and Strauss Frito-Lay (if PepsiCo sells its shares – the licensing agreement; and if the Company sells its shares – the sales and distribution agreement, the major services agreement and the licensing agreement for the use of the Company's trademark) for periods ranging between 3 to 4 years, as set forth in the agreement (or shorter periods if the buyer party subsequently sells all or part of its shares in Strauss Frito-Lay to a third party whose identity is not approved by the seller party).

If PepsiCo Europe's shares are sold as a result of regulatory changes or government acts that are material to the agreement, the global PepsiCo corporation will continue to perform the licensing agreement for a period of 10 years, and PepsiCo Europe will be entitled to buy back its shares in Strauss Frito-Lay within those 10 years under the terms and conditions set forth in the agreement. In this period PepsiCo Europe will have the right of first refusal to acquire the Company's shares in Strauss Frito-Lay. In a case of the sale of the Company's shares to a third party and non-realization of said right of first refusal, the period of global PepsiCo's obligation to abide by the licensing agreement, as set forth in the agreement, will be reduced.

The parties have agreed to the distribution of an annual dividend of 33% of the profits available for distribution according to Israeli law and Strauss Frito-Lay's financial statements.

The agreement further determines that annulment of the shareholders' agreement for any reason will not affect the parties' obligations under the abovementioned licensing agreement and under the agreements set forth below.

It is further noted that in the series of agreements between the Company and Strauss Frito-Lay, the services provided to Strauss Frito-Lay by the Company are also regulated; these include: (a) <u>a licensing agreement for the use of the Company's trademark</u> pursuant whereto the Company has granted Strauss Frito-Lay a non-exclusive license to use the “Elite” trademark in Israel in all aspects relating to the manufacture, sale, distribution, marketing and trade in salty snacks. Strauss Frito-Lay also undertook to use the “Elite” trademark for the entire term of the agreement. As at the date of the report, the agreement is renewed for 5-year periods (it was most recently renewed on January 1, 2014) unless a party has announced its intention to terminate it, and for as long as the Company is a shareholder of Strauss Frito-Lay. Should the Company cease to be a shareholder of Strauss Frito-Lay the agreement will be valid according to the periods set forth therein; (b) a major services agreement in which the Company undertook to provide Strauss Frito-Lay with management services and IT services. The agreement is valid for as long as the Company (or a wholly-owned subsidiary) is a shareholder of Strauss Frito-Lay, subject to the provisions of the shareholders’ agreement relating to its validity; (c) a sales and distribution agreement in which the Company undertook to exclusively distribute and sell the salty snacks manufactured by Strauss Frito-Lay, in Israel. The Company provides Strauss Frito-Lay with storage services, as well as distribution and sales services to customers. Strauss Frito-Lay has undertaken not to distribute its products to customers other than through the Company. Since 2013, the agreement is valid for one year and renewed each year.

In addition, in 2014 the Group began marketing products under PepsiCo’s Quaker brand, according to an agreement in which Strauss Frito-Lay was granted a marketing and distribution license for said products in Israel. The distribution agreement is for an unlimited period and may be terminated, according to its provisions, following advance notice by either party. According to the distribution agreement, Strauss Frito-Lay purchases the products and markets and distributes them in Israel. Strauss Frito-Lay has undertaken not to manufacture, sell or distribute products that compete with the aforesaid products in Israel (with the exception of the “Energy” products) without PepsiCo’s consent.

11. The Coffee Operation

General information on the Coffee Operation

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

11.1 Structure of the Coffee Operation and changes occurring therein

In Brazil (through the Três Corações Joint Venture[16]), Russia, Eastern European countries and Israel, the Group manufactures, markets and distributes a variety of coffee products (roast and ground (R&G) coffee, instant coffee, filter coffee and coffee capsules), coffee substitutes (in Israel and Russia), hot drink powders (such as chocolate and cappuccino powders) and cocoa powders for baking. The Group also markets and distributes coffee machines. As part of its activity in Israel, the Group is engaged (through the Elite Coffee café chain) in the retail sale of coffee products, bakery products and soft drinks at some 68 points of sale throughout Israel, most of which cater to customers in public places. In addition, as part of its activity in Brazil (through the Três Corações Joint Venture) the Group purchases, processes and sells green coffee, corn products and juice powders, and also markets and distributes coffee machines.

According to Nielsen[17] and StoreNext figures, approximately 75% of sales by the Coffee Operation in 2017 originated in markets where the Company holds first or second place in market share in retail coffee sales – Brazil, Israel, Romania and Serbia.

For an analysis of the foreign currency effect on the Group's sales, see the chapter "Analysis of Financial Results" in the Report of the Board of Directors of the Company as at December 31, 2017.

In 2017, the Group focused on the implementation of its growth strategy while improving its competitive position in the markets where it operates, taking long-term industry trends into account and promoting the global coffee culture in target markets. Among other things, the Group strengthened its capabilities in the development and launch of new, high added value products and in direct-to-consumer e-commerce sales, while managing operations and risks in a complex macroeconomic environment in some of the markets in which it operates.

[16] The Três Corações Joint Venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

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

11.2 The global coffee market

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

	2017	2016(*)	2012-2017	2011-2016
Global Retail Coffee Market (excluding cafés)				
Scope of sales in retail prices (excluding cafés)	US$ 83 billion	US$ 81.4 billion	---	---
Sales volumes	5.6 million tons	5.5 million tons		
Cumulative annual growth rate (CAGR) in value terms	---	---	2.7%	3.1%
CAGR in volume terms	---	---	2.1%	2.6%
Global Retail Roast & Ground (R&G) Coffee Segment Including Fresh Coffee Beans, Ground Coffee Beans and Capsules				
Percentage of global coffee market in value terms	63.7%	63.4%	---	---
Percentage of global coffee market in volume terms	72.6%	72.7%	---	---
Sales value	US$ 52.9 billion	US$ 51.6 billion	---	---
Sales volumes	4.1 million tons	4 million tons	---	---
CAGR in value terms	---	---	3.4%	3.5%
CAGR in volume terms	---	---	1.6%	2%
Global Retail Instant Coffee Segment				
Percentage of global coffee market in value terms	36.3%	36.6%	---	**---**
Percentage of global coffee market in volume terms	27.4%	27.4%	---	**---**
Sales value	US$ 30.1 billion	US$ 29.7 billion	---	**---**
Sales volume	1.5 million tons	1.5 million tons	---	**---**
CAGR in value terms	---	**---**	1.5%	2.4%
CAGR in volume terms	---	**----**	3.4%	4.5%

(*)The figures for 2016 were adjusted for Euromonitor's updated calculations.

Following are data on the major players in the **world retail coffee market**, according to Euromonitor figures:

	Global Retail Coffee Market - Value Market Share	
	2017	2016(*)
Nestle	22.5%	22.4%
JAB(**)	12.7%	12.5%
Lavazza	2.5%	2.7%
Starbucks	2.5%	2.3%
Strauss Coffee(***)	**2.5%**	**2.3%**
JM Smucker	2.1%	2.3%
Kraft Heinz	1.9%	2.0%

(*) Figures for 2016 were adjusted for Euromonitor's updated calculations.
(**) Figures include all companies acquired by JAB Holdings in recent years.
(***) Figures include 100% of the business of the Três Corações Joint Venture according to Euromonitor data.

For additional information, see section 11.3 below.

The global R&G market is a decentralized market, which is characterized by the presence of numerous companies with smaller market shares than those that are typical of the instant coffee market.

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

	Global Retail R&G Market, Including Fresh Beans, Ground Beans and Capsules - Value Market Share	
	2017	**2016(*)**
JAB(**)	13.1%	13.4%
Nestle	10.1%	9.5%
Lavazza	3.6%	3.6%
Starbucks	3.7%	3.6%
Strauss Coffee (***)	**3.1%**	**3.2%**
JM Smucker	2.8%	3.0%
Kraft Heinz	2.7%	2.7%

(*) Figures for 2016 were adjusted for Euromonitor's updated calculations.
(**) Figures include all companies acquired by JAB Holdings in recent years.
(***) Figures include 100% of the business of the Três Corações Joint Venture according to Euromonitor data.

For additional information, see section 11.3 below.

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

	Global Retail Instant Market - Value Market Share	
	2017	**2016(*)**
Nestle	37.4%	38.2%
JAB(**)	11.0%	11.1%
Prima Abadi PT Java	1.5%	1.4%
Mayora Indah Tbk PT	1.4%	1.3%
Ajinomoto Co. Inc.	1.3%	1.4%
Tchibo	1.3%	1.2%
Strauss Coffee (***)	**1.2%**	**1.2%**

(*) Figures for 2016 were adjusted for Euromonitor's updated calculations.
(**) Figures include all companies acquired by JAB Holdings in recent years.
(***) Figures include 100% of the business of the Três Corações Joint Venture according to Euromonitor data.

For additional information, see section 11.3 below.

Global coffee sales by geographic segmentation:

	Volume Sales	
	2017	**2016(*)**
Western Europe	22%	23%
North America	15%	15%
Latin America	19%	19%
Australia Asia Pacific	26%	25%
Eastern Europe	9%	9%
Middle East and Africa	9%	9%

(*) Figures for 2016 were adjusted for Euromonitor's updated calculations.

11.3 Mergers and acquisitions in the global coffee industry

In 2017, the consolidation trend in the global coffee market continued, with giant corporations active in the industry adopting the modern coffee culture, as follows:

In 2017 Nestle acquired Blue Bottle Coffee, a café chain active mainly on the West Coast in the US. To the best of the Company's knowledge and according to publications in the financial press (Bloomberg, Financial Times) Nestle paid approximately $500 million for 68% of the shares of Blue Bottle Coffee. One month later, Nestle acquired Chameleon Cold-Brew, a leading manufacturer of cold brewed coffee beverages sold in the US.

In 2017 the JAB Holdings group, which holds JDE, continued its acquisition spree. According to the international financial press, in the past five years JAB Holdings has acquired coffee companies and café chains at a cost of over $30 billion. According to the media, in April 2015 JAB Holdings acquired the American café and food chain Panera for $7.2 billion. In July 2017 JAB Holdings acquired the leading German café chain Balzac for an undisclosed amount, and in December 2017, according to publications in the financial press, offered $361 million for OldTown Coffee of Malaysia.

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

In December 2017, according to the financial press, Starbucks increased its holdings by buying out its partners in a joint venture in East China for $1.3 billion. To the best of the Company's knowledge, this is the biggest transaction in Starbucks' history.

In May 2017 Lavazza acquired 80% of the shares of the Canadian organic coffee brand Kicking Horse for $160 million and announced its intention of making further acquisitions in the next few years, according to the publications in the financial press.

In April 2017 Melitta acquired the Brazilian coffee brands Barao and Forte D+ from Grupo Mogyana for an undisclosed amount.

11.4 Consumer trends in the coffee market

Generally, the coffee industry is an attractive, big and stable market, which is growing continuously in domestic currency terms within the food and beverage industry. According to Euromonitor figures, the global coffee industry generated approximately $83 billion in sales in 2017 (in retail selling prices), with Brazil being the second-largest national coffee market in the world with retail sales of $6.2 billion in 2017. According to Euromonitor, in 2017 Brazil, the Eastern European countries and Israel accounted for 13.3%, 9% and 0.2%, respectively, of world retail coffee sales. 2017 witnessed the continuation of the major consumer trend in the coffee arena in recent years - the development of a global coffee culture, characterized by a continuous increase in the level of sophistication of consumers and products.

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

In light of these trends, the Company carries out research from time to time in an attempt to foresee such changes. In recent years the Group has expanded its activity in single-portion capsules and in premium products such as customized orders of fresh coffee beans. Developments in the Group's Coffee Operation are as follows:

In **Brazil** (through the Três Corações Joint Venture[18]), in 2017 a manufacturing site for the production of coffee capsules became operational, and in **Israel** Strauss Coffee manufactures and markets capsules sold direct-to-consumer via e-commerce and retail. In **Romania** the Group launched the BeanZ brand in 2017 and began to market and sell machines and single portion capsules for home use online and at dedicated points of sale, further to the launch of specialty coffees in **Romania** and **Poland** in 2016. Freshly roasted coffee beans from several regions are sent directly to the consumer after roasting, delivering maximum freshness, personally tailored to the customer's taste (origin of the coffee, roasting method, grinding thickness, etc.) and sold directly to the consumer, in Romania at dedicated points of sale and in Poland – via e-commerce under the MK Fresh brand. In recent years the Company has also expanded its portfolio of single-origin products marketed in retail chains, i.e. coffee originating from one country only, such as Brazil, Colombia, India, etc. In **Eastern European countrie**s the Group launched R&G coffee products with green coffee extract as part of the health trend, and in **Israel**, the Company launched freeze-dried coffee blended with R&G under the "Intense" brand. In addition, in 2017 the Group enhanced its capabilities in the development and launch of

[18] The Três Corações Joint Venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

new high added value products. The Group intends to continue to develop new technology and products delivering high added value and to deepen collaboration with other technology entities in the Group.

The information in this section regarding the Group's intention to continue to develop new technology and products delivering high added value and to deepen collaboration with other technology entities in the Group is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of market demand for the Company's products, market conditions, etc.

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

For further information, see section 2, "Changes in the Economic Environment", in the Report of the Board of Directors of the Company as at December 31, 2017.

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

Changes in the scope of activity

The Group's operation in the coffee business has expanded and grown in recent years both in and outside of Israel as a result of organic growth, building and developing existing and new brands, and launching new high added value products in alignment with consumption trends, first and foremost the birth of a global coffee culture as described in section 11.4 above. Additionally, in 2017 Brazil (via the Três Corações Joint Venture) acquired a number of additional retail coffee brands in the R&G and instant coffee categories.

Changes in profitability

For information on changes in income and profitability in the Israel Coffee segment and the International Coffee segment, see section 3.2.1 in the Report of the Board of Directors of the Company as at December 31, 2017.

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

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

In **Brazil**, the crisis that began in the second half of 2014 receded and the economy slowly improved during 2016 and 2017, which was expressed in a drop in unemployment rates and relative stability of the local currency. By contrast, in 2017 private consumption in Brazil dropped 4% compared to 2016 (according to Nielsen figures) and negative trends in consumption habits were observed, which were expressed in fewer away-from-home purchases, shopping in diverse channels in an attempt to find special offers, fewer visits to points of sale, shopping in an organized manner and buying less, as well as buying bigger, more worthwhile packs and cheaper brands. Nevertheless, and notwithstanding significant currency volatility, the Company's local operation in Brazil continued to grow in domestic currency terms in the abovementioned period.

In **Russia**, the economic crisis that began in 2014 receded in 2016 and in 2017 the economic situation stabilized and the local currency grew stronger – it is evident that the ruble was less affected by oil prices than in the past. In Russia brand loyalty is declining and consumers are continuously looking for discounts and campaigns, particularly in the organized (modern trade) market, and the competitive environment is challenging. For further information, see section 13.4 below. In 2017 new laws took effect, regulating trade between manufacturers and retailers in the organized market, in which context discount rates and trade credit days granted to the retailers were limited. Although these laws did not have a material effect on net sales prices in the Group's sales to retailers, gross sales prices and retailer discounts were impacted. In 2017 the Group succeeded in increasing sales turnover in domestic currency.

In **Ukraine**, the economic crisis that began in 2014 continued, inflation and unemployment are high and the country is suffering from a continuing population decline that is mostly the result of negative migration and high mortality rates. The crisis in Ukraine has affected consumer behavior, and people are willing to buy products of lower quality for lower prices. The traditional sales channel in stores and groceries remains dominant in relation to the organized market. Nevertheless, in 2017 the Group's sales in domestic currency increased.

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

In Romania, macroeconomic conditions improved in 2017 with an increase in growth and per capita consumption. The local currency depreciated against the shekel and the competitive environment was challenging. For further information, see section 13.4 below.

In Poland, macroeconomic conditions improved in 2017 and unemployment is at its lowest since the 1990s. Additionally, growth of the retail chains and their market share in the retail sector has continued. In light of the constant search for low-priced products, the coffee operation in Poland was characterized by large discounts and campaigns.

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

For information on key consumer developments in the Company's markets in **Israel**, see section 8.3 above.

11.8 Critical success factors in the activity framework and changes therein

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

11.9 Major entry barriers to the activity framework and changes therein

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

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

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

11.11 Raw materials and suppliers

Main raw materials

The main raw material used by the Group in the Coffee Operation (the Israel Coffee segment and the International Coffee segment), the cost of which accounts for about 60% of total purchases of raw materials, is green coffee.

Approximately 60% of green coffee produced worldwide consists of Arabica coffee beans, and approximately 40% are Robusta coffee beans. Approximately 50% of the Group's purchases are of Robusta type coffee beans.

In the reporting period there was no single supplier of raw and/or packaging materials which accounted for more than 10% of the Group's total purchases of raw and packaging materials in the coffee segments, except for the powdered instant coffee supplier Ngon Coffee Company Ltd., as described in section 12.10 below.

According to information from the International Coffee Organization (ICO)[19], the leading countries in the production of Arabica green coffee are Brazil, Colombia and Ethiopia, and the leading countries in the production of Robusta green coffee are Vietnam, Brazil and Indonesia. Arabica is traded on the commodities exchange in New York (New York Board of Trade), and Robusta, on the commodities exchange in London (Euronext LIFFE).

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

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

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

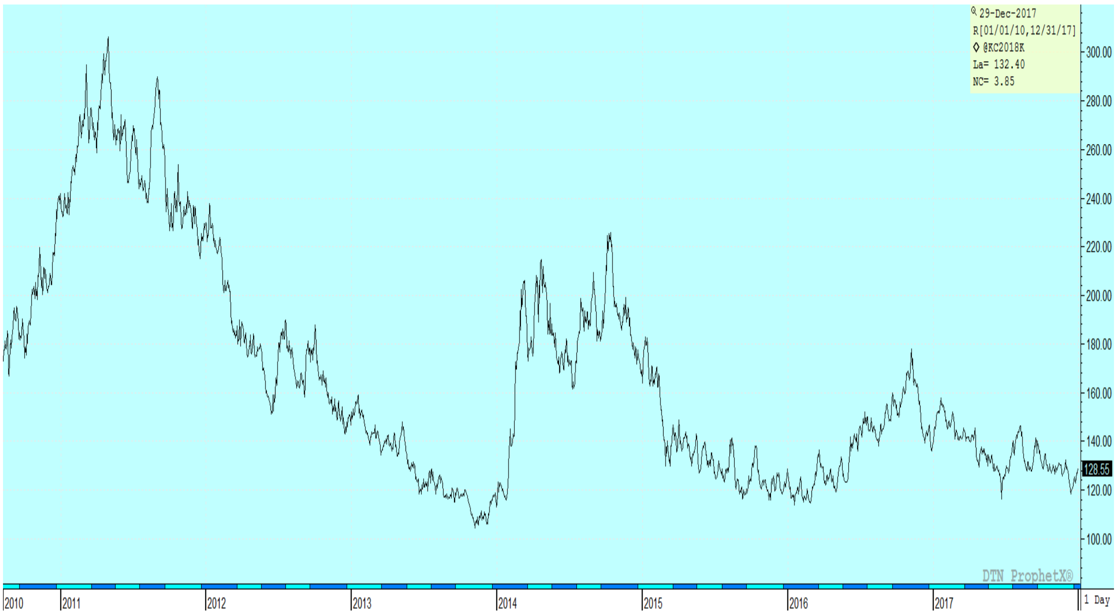
The price of green coffee is affected by the climate and by supply and demand. In 2017 Arabica prices dropped. The global (excluding Brazil) annual average price of Robusta rose in 2017 compared to 2016, but there has been a trend of decline in prices since the third quarter of 2017. In Brazil, Robusta prices dropped in 2017 compared to 2016.

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

[20] The Três Corações Joint Venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

The following graphs present the changes in prices of the different types of green coffee in the years 2010-2017. Source: DTN ProphetX[21].

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



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

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

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

12. The Israel Coffee Segment

12.1 General information on the Israel Coffee segment

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

The Israel Coffee segment includes Strauss Coffee's headquarters, which concentrate the Group's entire Coffee Operation (except for identifiable costs of Strauss Coffee's various investees and the results of procurement for the entire Coffee Operation, which are fully allocated).

12.2 Products

The Group's main products in the Israel Coffee segment are roast and ground coffee (black coffee, filter coffee and espresso), instant coffee (powder, agglomerated and freeze-dried), roasted coffee beans, capsules for espresso machines, chocolate powders ("Choco") under the Chocolite brand, and hot drink powders and home baking powders.

In addition, the Group operates the "Elite Coffee" chain, specializing in the sale of coffee products and accompanying products in the OTG (on-the-go) segment, mainly at coffee stands located in railway stations, academic institutions and hospitals.

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

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

In 2017, the income 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 rival products. The Group leads in some categories of coffee products and "Choco" powders. The main competitors in the different categories are as follows: (1) instant coffee – "Osem-Nestle" and "Jacobs", which is marketed by "Diplomat"; (2) roast and ground coffee products – "Landwer", "Jacobs" and the private brands of the retail chains Shufersal, Rami Levy and others; (3) espresso capsules – "Nespresso", which sells coffee capsules and machines at its stores; "Lavazza", which collaborates with "Yellow" convenience stores; Shufersal, Nespresso compatible private label coffee capsules; Cup O' Joe, Nespresso compatible private label of the Shufersal and Rami Levy chains have become competitors of the Company in its activity segments in the Israel Coffee segment.

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

Coffee Market (Instant and R&G Coffee)				
Market Share (in %)	**2017**		**2016**	
	The Group	**Main Competitor**	**The Group**	**Main Competitor**
Israel: instant coffee	38.2%	44.9%	38.1%	45.6%
Israel: R&G*	65.1%	4.2%	65.3%	4.3%
Israel: coffee (weighted)*	51.9%	24.1%	51.8%	24.8%

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

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

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

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

12.5 <u>Seasonality</u>

Following are data for the years 2017 and 2016 on the Company's income in the Israel Coffee segment, by quarter, in NIS millions, according to the Management (Non-GAAP) Reports, as defined in section 5 above:

	2017		2016	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	212	30.1%	194	28.8%
Q2	149	21.2%	153	22.7%
Q3	176	25%	179	26.5%
Q4	167	23.7%	147	22.0%
Total	704	100%	673	100%

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

12.6 <u>Production capacity</u>

The production capacity of the Group's plants in the Israel Coffee segment is measured by quantities of product per year. The maximum potential annual production capacity of the Group's plants in the Israel Coffee segment, operating in three shifts, in tons product per year for the years 2017 and 2016 was approximately 21 thousand tons and 18 thousand tons, respectively. The increase in production capacity is the result of the relocation of the Chocolite production line from the Lod plant to the Safed plant. The average production capacity utilization rate in the years 2017 and 2016 was 58% and 65%, respectively.

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

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. On the basis of information in the Company's possession as at the date of the Periodic Report, the Company does not anticipate that it will be required to make material investments in equipment and machinery in the segment in 2018. It is noted that a number of production lines in the activity segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity.

The information in this section that the Company will not be required to make material investments in 2018 is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of different developments in the Israeli economy, in regulation and in market demand for the Company's products, etc.

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

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

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

For information on the Group's logistics center in Shoham, see section 8.8 above.
The properties are not pledged.

For the Company's policy regarding depreciation of machinery and equipment in its different plants, see Note 3.4 to the Financial Statements of the Company as at December 31, 2017.

12.8 <u>Intangible assets</u>

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

For details on the costs and financial movement in intangible assets in the years 2017 and 2016, see Note 15 to the Financial Statements of the Company as at December 31, 2017.

12.9 <u>Human capital</u>

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

Following is information on the number of employees in the Group in the Israel Coffee segment (including 34 and 11 employment agency workers) as at December 31, 2017 and December 31, 2016, respectively:

	Number of Employees as at	
	December 31, 2017	**December 31, 2016**
Management and administration	81	84
Sales and distribution	436	435
Procurement and logistics	121	113
Operations	150	145
Total	788	777

b. The above administration staff includes, *inter alia*, the members of Strauss Coffee management, which directs the Group's entire coffee operation.

c. Strauss Coffee's headquarters are attributed to the Israel Coffee segment. For a description of the organizational structure of the Group's coffee operation, see section 20.1 below.

12.10 Raw materials and suppliers

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

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

12.11 Working capital

Following is the composition of working capital, in NIS millions, in the Israel Coffee segment in 2017, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	Amount Included in the Non-GAAP Reports
Operating current assets (*)	179
Operating current liabilities (**)	65
Excess of current assets over current liabilities	114

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

12.12 Restrictions and supervision in the segment

a. **Declaration as a monopoly**

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

b. **Antitrust approval**

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

c. **Consensual decree**

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

12.13 Material Agreements

On March 27, 2017 Strauss Coffee contracted in an agreement with TPG Capital, pursuant to which Strauss Coffee effectuated a buyback of TPG's entire holding (25.1%) in Strauss Coffee. The acquisition was completed on the signing date. For further information, see the Immediate Report of March 28, 2017 (reference no. 2017-01-025627).

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 variety of coffee brands in Brazil (through the Três Corações Joint Venture[22]), Russia and Ukraine and in additional countries in Central and Eastern Europe. For additional general information on the Coffee Operation, which is common to the Israel Coffee segment and the International Coffee segment, see section 11 above.

Brazil – in 2017, the Três Corações Joint Venture's sales in Brazil increased as the company continued to consolidate its position as the biggest coffee company in Brazil (according to Nielsen), despite the significant currency volatility and volatility in local green coffee prices throughout the period. In April 2017 a plant for the production of coffee capsules designated for the domestic market, where demand for these products has increased, began operating. The plant is a joint venture between the Três Corações Joint Venture and the Italian company, Caffitaly. In the second quarter the plant began production at full capacity. For further information, see section 11.7 above and 13.7 below.

Russia – in 2017 the Russian economy continued to stabilize, and the ruble began to appreciate against the dollar and the shekel after a period of devaluation that began at the end of 2014. In addition, the Company's sales grew in volume terms as well as in domestic currency.

Ukraine – in 2017 the trend of devaluation of the hryvnia as a result of the political crisis with Russia and the instability in the country continued, albeit less drastically. Raw material prices rose and consumer purchasing power eroded, expressed in declining brand loyalty and a search for cheaper products, discounts and campaigns. Nevertheless, the Group succeeded in growing its sales turnover in local currency, mainly as a result of raising sales prices at the beginning of the year. For further information, see section 11.7 above and also section 2, "Changes in the Economic Environment" in the Report of the Board of Directors of the Company as at December 31, 2017.

Poland – the Group's sales in domestic currency grew in 2017 compared to the prior year. Although consumers are continuously looking for cheaper products, discounts and campaigns, the trend of buying quality brands has continued.

Romania – macroeconomic conditions improved with an increase in growth, but the local currency weakened against the dollar. The Group's sales in Romania in local currency decreased in 2017, mainly as a result of the growing competition.

Serbia – is in a recession, accompanied by high unemployment rates. These processes have led consumers to look for low-priced products, discounts and campaigns. The Group's sales in

[22] The Três Corações Joint Venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

Serbia rose in 2017 due to an increase in sales prices at the beginning of the year. Innovation in the domestic market is developing, which has a favorable effect on consumer habits of shopping more frequently and seeking an enhanced shopping experience.

For an analysis of the foreign currency effect on the Group's sales, see section 2.3, "Exchange rate fluctuations", in the Report of the Board of Directors of the Company as at December 31, 2017.

13.2 <u>Products</u>

The Group's main products in the International Coffee segment are R&G coffee, instant coffee, espresso capsules and coffee machines, chocolate and other drinking powders, including coffee substitutes and juice powders. In 2017 Strauss Coffee focused on strengthening and positioning its brands, developing new categories and flavors, and strengthening its capsule and coffee machine brands.

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

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

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

Romania – the Group sells R&G, espresso and instant coffee. The Group mainly operates under the brands **Doncafé**, an umbrella brand that includes various brands bearing the brand name in the instant and R&G segments, **Doncafé Espresso** and **Totti Café Espresso** (espresso), **Amigo**

(instant coffee and R&G) and **Fort** (R&G). In 2015, the Group launched a new blend with green coffee extract under the brand **Doncafé Green Active**. In 2016 the Group launched the **Doncafé Fresh** brand in Romania for the sale of freshly roasted coffee beans, personally tailored to the customer's taste. In 2017 the Group launched the **BeanZ** brand in Romania, under which it markets and sells machines and single portion capsules for home use. The BeanZ brand is sold online and at dedicated points of sale.

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

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

a. Following is information on the International Coffee segment's income from external entities (consolidated) (according to the Company's Non-GAAP Reports, as defined in section 5 above), by geographical regions in which the Group operates, in NIS millions and as a percentage of the Group's total income, in the years 2017, 2016 and 2015:

Group of Similar Products	Income in NIS Millions			% of the Group's Total Income		
	2017	2016	2015	2017	2016	2015
Brazil	2,085	,1727	1,488	24.5%	21.8%	19.4%
Russia and Ukraine	645	603	602	7.6%	7.6%	7.9%
Poland	304	281	275	3.6%	3.5%	3.6%
Romania	222	253	263	2.6%	3.2%	3.4%
Serbia	140	136	157	1.7%	1.7%	2.1%
Total International Coffee segment	3,396	3,000	2,785	40.0%	37.8%	36.4%

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

b. Following is the segmentation 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 according to the Company's Non-GAAP Reports, as defined in section 5 above, in the years 2017, 2016 and 2015:

	Income in NIS Millions			% of the Group's Total Income		
	2017	2016	2015	2017	2016	2015
Roast & ground coffee	2,143	1,903	1,741	25.2%	24.0%	.227%
Instant coffee	620	552	526	7.3%	6.9%	6.9%
Other	633	545	518	7.5%	6.9%	6.8%
Total International Coffee	3,396	3,000	2,785	40.0%	37.8%	.364%

13.4 Competition

Brazil – the Federal Republic of Brazil is divided into 26 states and one federal district where the capital city of Brasilia is situated. As a result, the market is regional and decentralized (numerous small companies with no dominant domestic manufacturer). In each region, there are one or two competitors as leading major rivals, several medium size competitors and a large number of small local manufacturers.

The Group's major competitors in the R&D market in Brazil are Melitta, Marata and JDE; in instant coffee – Nestle, JDE and Melitta; and in single serve products (capsules and others) – Dolce Gusto, Nespresso and Pilão. In 2017, the Três Corações Joint Venture raised its prices by a rate corresponding to the increase in green coffee prices (this trend reversed toward the end of the year). Notwithstanding the price increase, in 2017 the Três Corações Joint Venture continued to consolidate its position as the largest coffee company in Brazil in terms of market share, according to Neilsen.

Russia – the domestic instant coffee market is the largest in the world. The main competitors in instant coffee are Orimi, JDE and Nestle, and the Group ranks fifth. The main competitors in R&G are Pauling, Lavazza, Orimi and JDE. The Group ranks fourth in terms of market share. 2017 was characterized by aggressive competition as rivals attempted to increase market share by granting discounts, launching new products and transferring products to the mainstream category. To contend with the competition, the Company applied a control mechanism over sales prices and applied a policy of channel- and consumer-targeted campaigns while planning its marketing budget to protect and grow market share.

Ukraine – the main competitors are the global concern, JDE (in R&G and instant coffee), Nestle and Galka (in powdered instant and chicory). According to Nielsen, the Group is the second-largest coffee company in R&G in Ukraine and the third-largest in instant coffee, in terms of market share.

There is an issue of counterfeit products and the smuggling of products to west Ukraine, and as a result, rivals have been granting significant discounts. The Company is working to counter this competition by cutting expenses and focusing on the promotion of its major brands.

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

Romania – in the R&G market, the main competitors are JDE and a number of small manufacturers. The Group is the second-largest in market share. In the instant coffee market, the main competitors are JDE, Nestle and private label, and the Group is in first place in market share. 2017 was characterized by aggressive competition and price reductions introduced by global rivals in an attempt to grow market share. The Company is working to counter this competition by focusing on sales promotion and on strengthening its brands. In addition, the Company has entered the coffee machine and capsule market under the BeanZ brand with the aim of strengthening its position in the Romanian coffee market.

Serbia – in the R&G market, the major competitor is Grand Prom, and the Company has the second-largest market share. In 2017 the problem of coffee bean smugglers in Serbia continued as a result of the relatively low price. The Group is applying an action plan to preserve its market share in light of this phenomenon. In 2017 competition in the shelf prices of R&G increased as a result of competitive pricing by small local companies.

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

Similar Product Groups	Weighted Market Share (in Percent – Financial)			
	2017		2016**	
	The Group	Major competitor	The Group	Major competitor
Brazil*: roast coffee	25.7%	18.1%	24.2%	18.6%
Brazil*: instant coffee	30.0%	51.8%	29.2%	50.4%
Brazil*: capsules	21.8%	54.9%	20.9%	60.7%
Poland: roast coffee	.194%	30.7%	18.9%	32.1%
Serbia: roast coffee	29.3%	52.5%	30.4%	52.5%
Romania: roast coffee	.232%	38.2%	.237%	40.5%
Romania: instant coffee	39.7%	23.2%	42.2%	21.6%
Russia: roast coffee	5.0%	28.3%	5.4%	30.0%
Russia: instant coffee	7.8%	30.3%	6.9%	31.2%
Ukraine: roast coffee	18.7%	19.0%	21.2%	23.1%
Ukraine: instant coffee	9.1%	44.6%	8.0%	44.0%

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

** The figures for 2016 were adjusted for Nielsen's updated calculations.

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

c. Positive factors which, in the Group's opinion, influence or are likely to influence its competitive position in the CEE countries, in addition to the factors set forth in section 7 above, include the Group's high-level capabilities in product development; its ability to tailor its products to the tastes of the local market in each country; increased regulation and enforcement in these countries, which is liable to shrink the "black market" for cheap coffee products that compete with the Group's products, and a rise in consumer purchasing power, will increase purchases of branded products.

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

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

13.5 Seasonality

Following is information for the years 2017 and 2016 on the Company's income in the International Coffee segment, by quarter, in NIS millions, according to the Company's Non-GAAP Reports, as defined in section 5 above:

	2017		2016	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	749	22.1%	586	19.5%
Q2	833	24.5%	724	24.1%
Q3	896	26.4%	776	.259%
Q4	918	27.0%	914	30.5%
Total	3,396	100%	3,000	100%

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

13.6 Production capacity[23]

The production capacity of the Group's manufacturing plants in the International Coffee segment is measured in quantities of product per year. The maximum potential annual production capacity of the Group's plants in the segment, operating in three shifts, in tons product per year for the years 2017 and 2016 was approximately 481 thousand tons and 432 thousand tons, respectively. The average capacity utilization rate in the years 2017 and 2016 was approximately 76% and 75%, respectively. It is noted that a number of production lines in the activity segment are liable, at certain points in time and during holiday periods, to reach

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

their maximum production capacity. 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 maintaining and increasing production capacity according to the Group's work plans. As at the date of the Periodic Report, the Company does not anticipate that it will be required to make material investments in equipment and machinery in the segment during 2018.

The information in this section that the Company will not be required to make material investments in 2018 is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of various developments in the economy, in regulation and in market demand for the Company's products, etc.

13.7 Fixed assets, real estate and facilities

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

Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area	Rights in and to the Site	Liens
A plant in Poland	In Swadzim, near Poznan	Production of R&G	52,689 m²	11,540 m²	Ownership of the land.	---
A plant in Romania	Bucharest	Production of R&G	6,535 m²	4,365m²	Leased from a third party, in effect until December 2023. May be extended with 6 months' advance notice.	---
A plant in Brazil	Near Bello Horizonte in the state of Minas Gerais	Production of R&G and cappuccino	73,000 m²	21,000 m²	The Três Corações JV owns the land rights.	A mortgage of NIS ~500 thousand (the Company's share). See note 24.2 to the Company's Financial Statements as at December 31, 2017.
A plant in Brazil	In Eusébio, in the state of Ceará	Production of R&G	10,000 m²	5,200 m²	The Três Corações JV owns the land rights.	A mortgage of NIS ~2 million (the Company's share). See note 24.2 to the Company's Financial Statements as at December 31, 2017.
A plant in Brazil	In Natal, in the state of Rio Grande do Norte	Production of R&G, packaging of instant coffee products, chocolate drink powder and cappuccino	38,000 m²	9,800 m²	SC Imóveis (a 50% owned subsidiary) owns the land rights.	A mortgage of NIS ~5 million (the Company's share). See note 24.2 to the Company's Financial Statements as at December 31, 2017.
A plant in Brazil	In Nova Iguaçu, in the state of Rio de Janeiro	Production of R&G and filter paper for filter coffee	5,600 m²	3,150 m²	SC Imóveis (a 50% owned subsidiary) owns the land rights.	See note 24.2 to the Company's Financial Statements as at December 31, 2017.

A plant in Brazil	In Mossoro, in the state of Rio Grande do Norte	Production of corn products and drink powders	54,000 m²	16,740 m²	SC Imóveis (a 50% owned subsidiary) owns the land rights.	A mortgage of NIS ~3 million (the Company's share). See note 24.2 to the Company's Financial Statements as at December 31, 2017.
Facility in Brazil	In Varginha, in the state of Minas Gerais	A facility used for mapping and sorting green coffee	70,000 m²	7,300 m²	The Três Corações JV owns right of title to the land.	---
Facility in Brazil	In Manhuaçu, east of Minas Gerais	A facility used for mapping and sorting green coffee	16,600 m²	7,000 m²	The Três Corações JV owns right of title to the land.	---
A plant in Brazil	Minas Gerais	Production of capsules	53,000 m²	20,600 m²	The Três Corações JV owns 50% of the rights in and to the plant.	---
A plant in Serbia	In Simanovci near Belgrade	Production of R&G	29,484 m²	8,500 m²	Strauss Adriatic owns right of title to the land.	---
A plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	7,785 m²	4,491 m²	Owned by Strauss Coffee in Russia.	---
A plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	9,409 m²	8,890 m²	Owned by the company Le Café.	---
A plant in Germany	Norddeutsche Kaffeewerke GmbH ("NDKW")	Production of roasted instant freeze-dried coffee	50,191 m²	4,804 m²	Owned by NDKW.	---

* For information on the Company's policy regarding the depreciation of machinery and equipment in its production plants, see Note 3.4.5 to the Financial Statements of the Company as at December 31, 2017.

13.8 Intangible assets

Trademarks and brands

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

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

For an itemization of costs and financial movement in intangible assets in the years 2017 and 2016, see Note 15 to the Financial Statements of the Company as at December 31, 2017.

13.9 Human capital

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

Following is information on the number of Group employees in the International Coffee segment (including all employees in the Três Corações Joint Venture in Brazil, in which the Company holds 50%[24]), and including 483 and 369 employment agency workers, as at December 31, 2017 and December 31, 2016, respectively:

	Number of Employees as at	
	Dec. 31, 2017	**Dec. 31, 2016**
Management and administration	880	818
Sales and distribution	,4779	,4312
Supply chain (procurement and logistics)	321	317(*)
Industry (operations)	,1909	,1781(*)
Total	7,889(**)	7,228

For information on employee claims in Brazil, see Note 24.1.3.5 to the Financial Statements of the Company as at December 31, 2017.

(*) Reclassified.
(**) The increase in the number of employees is primarily the result of opening the capsule production facility in Brazil.

13.10 Raw materials and suppliers

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

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

13.11 Working capital

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

	Amount Included in the Non-GAAP Reports
Operating current assets (*)	849
Operating current liabilities (**)	281
Excess of current assets over current liabilities	568

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

[24] The Três Corações Joint Venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

13.12 Restrictions and supervision in the segment

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

13.13 Material agreements

Joint venture in Brazil

Establishment of the joint venture: 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, designed to consolidate the parties' businesses in Brazil by establishing a joint corporation which would be equally held by the parties and which would absorb and control the parties' businesses in Brazil. The goal of the joint venture is to gain additional market share, penetrate new geographical regions, exploit synergies between the companies and become a leading coffee group in Brazil, including the establishment of a platform for the manufacture, marketing, distribution and sale of additional food products.

Within the framework of these agreements[25] it was determined that the joint venture agreement would be annulled when Strauss Coffee or São Miguel (or their "permitted transferees") would cease to be shareholders of the joint venture, Três Corações. Additionally, a dispute resolution mechanism was defined, and it was asserted that the joint venture agreement would be governed by Brazilian law.

The Três Corações Joint Venture shareholders' agreement: On December 29, 2005 a shareholders' agreement, as amended from time to time, was signed, which regulates the management and conduct of the joint venture, share transfers and the relationship between its shareholders (which, at the date of this report, are Strauss Coffee and São Miguel (hereinafter in this clause: the "**Shareholders**")).

The shareholders' agreement determines that the board of directors of the Três Corações Joint Venture will comprise 8 members, and subject to the Shareholders holding the Três Corações Joint Venture's shares in equal parts, each Shareholder has the right to appoint 4 directors. Board meetings will be held on condition that each Shareholder will be equally represented by directors. It was further agreed that a management would be appointed for the Três Corações Joint Venture comprising 5 members proposed by the Shareholders and appointed by the Três Corações Joint Venture's board of directors for a period of one year.

The shareholders' agreement determines methods for financing the Três Corações Joint Venture's activity, and, in this context, the Shareholders undertook to extend guarantees for external loans that would be granted to the Três Corações Joint Venture (according to the ratio of their holdings in the Três Corações Joint Venture) and also to grant loans or execute a capital increase; the parties also agreed on dilution should a Shareholder fail to contribute the financing

[25]To clarify, part of the rights of the parties under said agreements were transferred in the course of the years to permitted transferees, as defined in the agreements, including amendments to the agreements signed over the years, such that the following description describes the condition of the rights as at the date of this report.

decided upon at a general meeting of the Shareholders and the other Shareholder would extend the additional funding.

It was further determined that a transfer or sale of shares, directly or indirectly, by a Shareholder in the Três Corações Joint Venture to a third party unrelated to either of the Shareholders is subject to the right of first refusal to the sale, to the right of first offer and to a Shareholder's tagalong right to the sale of the other Shareholder's shares; the agreement also determines that the Shareholders will have precedence in regard to any future allotment of securities by the Três Corações Joint Venture, which will enable them to acquire such new securities according to the ratio of their holdings. Should a Shareholder of the Três Corações Joint Venture enter insolvency proceedings, the other Shareholder will have the right to acquire all of the shares of the Shareholder in insolvency proceedings according to the Três Corações Joint Venture's fair market value, subject to a defined valuation mechanism.

The parties undertook to refrain from activity in areas similar to the Três Corações Joint Venture's business areas and to limit the Três Corações Joint Venture's activity outside Brazil according to the terms and conditions of the agreement, but were released from the obligation to offer any new food business to the Três Corações Joint Venture, other than in categories in which the Três Corações Joint Venture is active. Non-compete provisions against the Três Corações Joint Venture by the Shareholders or any of their related companies were also determined. These non-compete limitations will also apply to a Shareholder that has ceased to be a shareholder of the Três Corações Joint Venture for a period of 5 years from the date of the sale of its holdings in the Três Corações Joint Venture. In addition, the Shareholders are subject to a restriction not to sell their shares to a competitor of the Três Corações Joint Venture; said restriction is in effect until January 1, 2020.

The agreement further determines that should an arbitrator appointed in a dispute between the Shareholders of the Três Corações Joint Venture rule that a Shareholder has breached the shareholders' agreement or the joint venture agreement, the non-breaching Shareholder is entitled to exercise its option to buy the shares of the breaching Shareholder for a price equal to 80% of the fair market value, or alternatively, to exercise its option to sell its shares to the breaching Shareholder for a price equal to 120% of the fair market value, according to a mechanism defined in the shareholders' agreement.

According to the shareholders' agreement, in the event of a "change of control" (i.e. any change, directly or indirectly, terminating the Strauss family's/Lima family's control. "Control" means the direct or indirect ownership of voting rights in a manner that ensures control in a vote in all general meetings and grants the power to appoint the majority of members of the board of directors, or the majority of the statutory executive officers) in one of the companies that are a party to the agreement (or in their parent companies), the counterparty will have the right to sell all of its shares in the Três Corações Joint Venture to the first party (put option) or to acquire all of the shares held by the first party in the Três Corações Joint Venture (call option) in consideration for the Três Corações Joint Venture fair market value, as agreed by and between the parties. In the absence of agreement, the market price of the shares will be determined by an external valuator; however, should the parties not succeed in reaching an agreement on the identity of the valuator, or if one of the parties opposes the price determined by the valuator, each party shall have the right to appoint another valuator. The final fair market value will be the arithmetic average of the valuations.

For information on sales volumes in Brazil, see section 3.2.1.4.1 in the Report of the Board of Directors of the Company as at December 31, 2017. For information on the risk factor in a case where the Strauss family ceases to be the controlling shareholder of the Company, including enumeration of the sales turnovers of the operations that are likely, in such case, to be sold by the Company to its partners in said operations, see section 29.y below.

14. The International Dips & Spreads Segment

14.1 General information on the International Dips & Spreads segment

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

In this segment the Group manufactures, sells, markets and distributes a variety of refrigerated dips and spreads in the US, Canada, Australia, New Zealand, Western Europe and Mexico. According to IRI (Information Resources, Inc.), Sabra is the largest dips and spreads company in the US in terms of sales volume and market share; in the hummus category Sabra has the largest market share in the US and the second largest market share in Canada (according to IRI and Nielsen figures). Obela has the largest market share in Australia and Mexico. The Group became active in this segment in the US in August 2005, and since March 2008 has operated in collaboration with the international food corporation PepsiCo through the Sabra joint venture. In October 2011, collaboration between the Company and PepsiCo was expanded with the establishment of the global joint venture Obela, which is active in Mexico, Australia and Western Europe, and since 2017, also in New Zealand. For additional details on the agreements with PepsiCo, see section 14.12 below. Since the operation was established, activities have focused on the hummus category.

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

<u>Changes in the scope of activity</u>

In 2017, the consumer trends of demand for healthy, gluten-free, preservative-free, natural and organic products continued. Additionally, consumers seek products that deliver value for money (price, quality and brand). In 2017 Sabra focused on regaining the market shares it had held in the US and Canada prior to the voluntary recall in the fourth quarter of 2016, on continued growth and on preserving market share in its other countries of operations. For further information, see section 3.1 in the Report of the Board of Directors of the Company as at December 31, 2017.

Due to the growth pace of the hummus category in recent years, the category has become highly competitive, which is expressed in the US, *inter alia*, in an aggressive pricing strategy to promote sales and penetrate a maximum of households. Furthermore, more retailers are marketing hummus under private labels both in the US and Canada, and continue to be strong players in the market, even increasing their share and positioning their status. In addition, rivals in Canada are investing more in innovation, which is expressed in the creation of different flavors. For additional details, see section 14.3 below.

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

Additionally, in June 2016 the joint venture active under the Obela brand acquired Florentin B.V., a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, which are marketed under the Florentin brand in Western Europe, particularly in the Netherlands, Germany and France. In 2017 Florentin began marketing hummus under the Obela brand in Germany. As at the date of this report, Obela intends to continue to develop its business in Western Europe.

The information in this section with regard to Obela's plans to continue to develop its business in Western Europe is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. Practically speaking, there is no certainty as to Florentin's continued development in Western Europe, among other things due to the economic situation, consumer preferences, demand, etc. In 2017 the joint venture began marketing its products in New Zealand under the Obela brand.

<u>Changes in profitability</u>

The US food and beverage market grew 1.2% in 2017, with part of the growth originating in the AFH market. In general, food companies in the US raised prices during 2017 by an average of 0.2% in order to increase margins after the prices of raw materials had risen in recent years, with the exception of the guacamole category, where prices were raised by 6%. In most categories in which the Company is active in the US prices remained stagnant. For information on changes in the income and profitability of the International Dips & Spreads segment, see section 3.2.3 in the Report of the Board of Directors of the Company as at December 31, 2017.

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

The hummus category has succeeded in reaching almost full distribution through existing distribution channels as described in section 16.1.c below, and future growth will need to be achieved through innovation, by increasing shelf space and launching new products, through marketing, by increasing purchase frequency by households which are customers of the Company, penetrating new households and optimizing current shelving at the expense of competing brands or other categories. Alternative channels, such as convenience stores, continue to represent distribution opportunities, particularly in light of the trend of switching to shopping at convenience stores, club chains (chains that operate giant warehouses specializing in no-frills sales of a limited variety of brands in large packages at discount prices), and online. The guacamole category experienced significant growth (45%) in 2017, accounting for around 15% of the dips and spreads category in the US in that year.

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

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

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

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

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

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

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

14.2 <u>Products</u>

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

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

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

Mexico – the **Obela** brand was launched in Mexico in June 2012 and is available in four different flavors and in packages of various sizes.

In **Western Europe** the Group markets organic hummus, falafel, spreads and pita bread under the **Florentin** brand. In September 2017, the Company began marketing hummus in five flavors in Germany under the **Obela** brand.

In **New Zealand** Obela sells hummus and refrigerated dips and spreads under the **Obela** brand.

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

In 2017, the income of the International Dips & Spreads segment accounted for less than 10% of the Group's total income.

<u>**Competition**</u>

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

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

<u>Market share</u>

Sabra's market share (in value terms) of the US hummus category in the 52 weeks ended December 31, 2017 was approximately 56.5%. The market share of private labels increased in relation to 2016 and reached 15.4%, making them the second-largest competitor[26] .

The Group's market share (value) of the US packaged salad market (based on data published by Symphony IRI Group) reached approximately 24.1% in 2017. Private labels hold a market share of approximately 17.1%, and they are the second-largest player in the category[27].

The Group is leader of the hummus market in Australia in market share with a share of 37.1%, and in Mexico its market share is 72.8%. In both countries the Group posted an increase in sale volumes in 2017.

In Canada, the Group has a market share of 22.5% in the hummus category and is the second-largest player. Private label hummus products hold a market share of 21.3%[28].

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[26] There are numerous competitors in the category, including multinational corporations and small, regional companies.

[27] See footnote #26 above.

[28] See footnote #26 above.

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

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

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

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

14.4 <u>Seasonality</u>

Following is information for the years 2017 and 2016 on the Company's income in the International Dips & Spreads segment by quarter (the Company's share), in NIS millions, according to the Company's Non-GAAP Reports, as defined in section 5 above:

	2017		**2016**	
	Income (NIS Millions)	**% of Total Segment Income**	**Income (NIS Millions)**	**% of Total Segment Income**
Q1	160	23.1%	185	25.9%
Q2	178	25.7%	197	27.4%
Q3	186	26.9%	199	27.8%
Q4	168	24.3%	136	18.9%
Total	692	100%	717	100%

As indicated by the above data, there is no trend of seasonality in the Dips & Spreads segment; generally, in the summer months consumption of dips and spreads is slightly higher compared to consumption during the winter. Additionally, at holiday times or on special occasions, consumption increases. For further information, see the section 3.2.3 in the Report of the Board of Directors of the Company as at December 31, 2017.

14.5 Production capacity[29]

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

b. The maximum potential annual production capacity in three shifts, in ton products per year in the Group's production facilities in the International Dips & Spreads segment in the years 2016 and 2017 was approximately 124 thousand tons(*) and 109 thousand tons, respectively. The decrease in production capacity is due to the further betterment by Sabra of the rigorous quality controls in place in the hummus factory in Virginia. The average actual capacity utilization rate in the years 2016 and 2017 was approximately 75% and 66.5%(*), respectively.

(*) Restated.

c. It is the Group's practice to continuously improve and upgrade the equipment and machinery in its plants, as well as to expand production lines, with the aim of maintaining and increasing its production capacity according to its work plans. The Company does not anticipate that in 2018 it will be required to make material investments in manufacturing equipment and machinery in the International Dips & Spreads segment.

The information in this section that the Company will not be required to make material investments in 2018 is forward-looking information, as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. There is no certainty that these estimates will indeed be realized, among other things due to various developments in the economy, in regulation and in market demand for the Company's products, etc.

14.6 Fixed assets and real estate

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

Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area	Rights in and to the Site
Production plant	Colonial Heights, Virginia	Production of hummus	193,200 m²	23,226m²	Owned by Sabra.
Production plant	Farmingdale, New York	The plant manufactured dips. In 2017 production was transferred to an outside contractor	7,600 m²	3,800 m²	Leased from a third party until February 2018.
Production plant	Oceanside, California	Production of salsa	8,700 m²	3,600 m²	Owned by Sabra.

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

Production plant	Mijdrecht, Holland	Production of dips and spreads	9,750 m^2	7,600 m^2	Leased from a third party until June 2021, with 3 five-year options.
Production plant	In Cavan, South Australia	Production of dips	7,930 m²	2,000 m²	Leased from a third party until 2022, with a five-year option.
Production plant	In Mexico City, Azcapotzalco, Mexico	Production of dips	1,639 m²	1,639 m²	Leased from a third party for 10 years until 2021.

The assets are not pledged.

14.7 Research and development

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

14.8 Intangible assets

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

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

14.9 Human capital

a. Following is information on the number of employees employed by Sabra and Obela (including all employees of Sabra and Obela, joint ventures in which the Group holds 50%) (including 50 and 152 employment agency workers), as at December 31, 2017 and December 31, 2016, respectively:

	Number of Employees as at	
	Dec. 31, 2017	**Dec. 31, 2016**
Management and administration	166	150
Sales and distribution	57	59
Procurement and logistics	41	37
Operations	818	824
Total	1,082	1,070

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

14.10 Raw materials and suppliers

The main raw materials used by Sabra and Obela in the manufacture of their products are raw tahini (sesame), hummus (i.e. chickpeas or garbanzo beans), soybean oil, tomatoes, garlic and avocado. The products are packaged in plastic items (containers and lids). Chickpea (hummus grains) and tomato prices remained substantially unchanged in 2017 compared to 2016, whereas tahini prices dropped in 2017 as a result of the drop in sesame prices. The prices of avocado and garlic rose during the year compared to 2016 as a result of market constraints and demand for these products. Prices of packaging materials (plastic containers and lids) dropped slightly in 2017 as a result of the drop in oil prices.

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

14.11 Working capital

Following is the composition of working capital, in NIS millions, in the International Dips & Spreads segment in 2017, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	Amount Included in the Non-GAAP Reports
Operating current assets (*)	111
Operating current liabilities (**)	57
Excess of current assets over current liabilities	54

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

14.12 Material Agreements

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

In December 2007 a joint transaction was signed, such that commencing on March 28, 2008 the Company, through S.E. USA, Inc. (hereinafter in this section: "**Strauss USA**"), and PepsiCo (to the best of Company's knowledge, through Frito-Lay Dip Company, Inc., hereinafter in this section: "**PepsiCo**") each hold 50% of the "participation rights" in Sabra Dipping Company, LLC (hereinafter: "**Sabra**").

The relationship between the owners of the participation rights in Sabra was regulated in an agreement between the parties (the "**Bylaws**"), which determines that Sabra's management powers are fully delegated to the board of directors, which will comprise four directors, two on behalf of each of the parties, provided that if the holding of either of the parties should fall below 50% to a percentage of 25%, that party will be entitled to one representative on the board of directors, and if it should fall below 25%, that party will not be entitled to representation on the board of directors. The Bylaws further determine that a director representing PepsiCo and a director representing the Group will rotate as chairman of the board for two-year periods.

Resolutions of the board of directors will be adopted by a majority vote, provided that for as long as each party holds 50% of the participation rights in Sabra, support of the proposed resolution by at least one director representing each of the parties is required.

In the event of a deadlock, the Bylaws determine a decision mechanism to be applied by the parties, and in the absence of agreement between the parties, the issue will be referred to an agreed arbitrator. The Bylaws determine a mechanism for the acquisition of the participation rights of a party that does not agree to the results of the arbitration, on the basis of Sabra's market value (as set forth in the Bylaws), and if all owners of participation rights do not agree to the outcome of the arbitration (or if the participation rights of the non-agreeing party are not acquired), provisions are determined pursuant whereto the owners of the participation rights will take joint action to locate a third party which will acquire all participation rights in Sabra, and if no such party is located within one year, Sabra will be wound up.

The board of directors will appoint a general manager and a financial manager for Sabra. For as long as each party holds 50% of the participation rights in Sabra, then in a case where either of the aforesaid officers is related to one of the parties, the other owner of the participation rights will be entitled to appoint the next other officer (subject to approval by the other party, which will not be unreasonably withheld). Each of the parties is entitled to request the replacement of the general manager on the grounds enumerated in the Bylaws. Should the party to which the general manager is related refuse this request, the dispute resolution mechanism described above will be activated.

In accordance with the conditions enumerated in the Bylaws, the parties have undertaken that neither they nor a company related to them (as defined in the Bylaws) will compete, directly or indirectly, with Sabra in its business areas in the US or Canada.

Should a party holding participation rights cease to be a wholly-owned subsidiary of the Company or PepsiCo, according to the circumstances, or should a corporation included in the list of corporations enumerated in the Bylaws acquire over 20% of the holdings in the Company or in PepsiCo, according to the circumstances, the counterparty will be entitled to acquire, pro rata, all participation rights in Sabra held by that party on the basis of Sabra's market value.

After five years have elapsed from the date on which the Bylaws took effect, each of the owners of the participation rights in Sabra will have a put option to sell its participation rights to the other owner of participation rights in Sabra at such time, on the basis of Sabra's market value less 25%. The party against which this option has been exercised will have the right to acquire the participation rights of the party exercising the option or alternatively, to sell its participation rights to the party exercising the option on the basis of Sabra's market value plus 25%.

The Bylaws further define provisions relating to the manner of Sabra's financing, including provisions relating to the dilution of a party that does not contribute to Sabra's financing.

The Bylaws determine that a transfer of participation rights in Sabra will require prior approval by Sabra's board of directors, with the exception of a transfer to a related company (as defined in the Bylaws) controlled by the transferor owner of participation rights, and with the exception of a transfer made subject to the right of first refusal of the other owner of participation rights (which is permissible only if the offeror offered all of his rights in Sabra for sale, in consideration for cash).

Additionally, sale of participation rights to a third party is subject to the tagalong right of the other owners of participation rights, and if this right is not exercised, the seller will have the right to enforce a drag-along sale on the other owners of participation rights. This right will be available to the seller after five years have elapsed from the date on which the Bylaws took effect.

The Bylaws also enumerate certain corporations, to which any transfer of participation rights in Sabra will require the consent of the parties, according to the provisions of the Bylaws.

The Bylaws enumerate cases on the occurrence of which Sabra will be wound up, including if an owner of participation rights has committed a material breach of a provision of the Bylaws or a provision of the agreements relating to the closing of the joint transaction and has failed to cure such breach as provided in the Bylaws. Notwithstanding the foregoing, to the extent that the owners of the participation rights shall so choose and subject to the provisions of the Bylaws, they may acquire, pro rata, the participation rights of the breaching owner of participation rights on the basis of Sabra's market value, in lieu of Sabra's winding-up.

The Bylaws determine that a company related to PepsiCo (as defined in the Bylaws) will be granted an option to distribute Sabra's products under market conditions, provided that the terms and conditions of its offer are not inferior to those of similar offers.

To complete the picture, it is noted that in 2017 the Company contracted in an agreement with Sabra granting the Company a non-exclusive, non-transferable license to use Sabra's technological knowledge in favor of commercial use of sesame seeds and products based on them. The agreement is valid for 20 years, at the end of which it will be automatically renewed for a one-year period on each occasion, provided that it has not been revoked on any of the grounds for annulment enumerated in the agreement. In consideration for the agreement, the Company will pay Sabra commissions as set forth in the agreement. The agreement further determines that the Company will indemnify Sabra for damage it may be caused if the Company or a licensed distributor or licensed grower (as these terms are defined in the agreement) should breach the agreement.

For further information, see Note 24.4.6 to the Financial Statements of the Company as at December 31, 2017.

b. **<u>Joint transaction with PepsiCo – Obela</u>**

In July 2011 the Company contracted with PepsiCo (through PRB Luxembourg, hereinafter: "**PRB**") in an agreement for the establishment of a joint venture in a company in which the parties would be equal shareholders (each party holding 50%) – PepsiCo Strauss Fresh Dips & Spreads International GmbH (hereinafter: the "**Venture**").

<u>Board of directors of the Venture</u>: According to the agreement, the management powers in the Venture are fully delegated to the board of directors of the Venture, which will comprise six directors, three on behalf of each party, provided that if the percentage holding of either party should fall below 50% to 25%, that party will be entitled to two representatives on the board of directors, and if the holding should fall below 25% to 10%, that party will be entitled to one representative. If the percentage holding should fall below 10%, that party will not be entitled to representation on the board of directors. The agreement also determines that the chairman of the board will be appointed by the directors representing the shareholder that is not authorized to appoint the general manager of the Venture (as described below). The chairman of the board will be elected for a term of two years (and may be elected to this office for a further two years). The office will alternately be held by a director representing the Company and a director representing PRB. Resolutions of the board will be adopted by a majority of votes, provided that for as long as each of the parties holds 50% of the shares of the Venture, support of the proposed resolution by at least one director representing each party shall be required. Should the holding of a party fall below 50%, board resolutions will be carried by a majority of votes.

In the event of a deadlock as a result of the board's inability to approve resolutions, each director may, within 5 business days, demand another vote in a special meeting to be convened within 15 days from the date of the notice. If at the special meeting the board of directors fails to reach a decision regarding the issue in dispute, the issue shall be brought before the chairman of the board of directors of the Company and the chairman of the board of directors of PepsiCo (who also serves as PepsiCo's CEO). Should the parties fail to reach an agreement within a further 30 days the matter will be referred to a non-binding conciliation proceeding, subject to the terms and conditions of the agreement. If the dispute has not been resolved in the conciliation proceeding after three years have passed from the date the agreement took effect, either party may offer its shares to the other, or offer to acquire the shares of the other, on the basis of the market value of the Venture. If the offeree shareholder does not wish to buy or sell the shares of the Venture, the parties will be required to act jointly to locate a third party which will purchase all shares of the Venture. If a buyer is not found within one year, the Venture will be wound up.

Appointment of a general manager and a financial manager: The general manager and financial manager will be appointed by the board of directors. The general manager will be appointed by the directors representing the shareholder that did not participate in electing the chairman of the board of directors of the Venture. The general manager of the Venture will appoint officers as he deems fit.

For as long as each party holds 50% of the shares of the Venture, then in a case where one of the two above officers is related to either of the parties to the Venture, the other party (which is not related to the officer) will be entitled to appoint the other officer (subject to the other party's approval, which will not be unreasonably withheld). In no case will the board of directors' refusal to approve the appointment of the general manager or financial manager of the Venture cause a deadlock as defined in the agreement until the three candidates proposed by the proposing party have been rejected. Each of the parties may request of the board of directors that the general manager be replaced. If a party to which the general manager is related refuses this request, the dispute resolution mechanism described in the agreement will be activated.

Product distribution: A related company (as defined in the agreement) of PRB was granted an option to distribute the Venture's products, under market conditions, provided that the terms and conditions of its offer are not inferior to those of similar offers. In any case, the board of directors may propose that the products of the Venture will be distributed through third parties, and PRB will have the option to amend its offer such that it is comparable to the third party's offer.

Non-competition: The parties have undertaken that neither they nor a company related to them (as defined in the agreement) will compete, directly or indirectly, with the Venture within the territory of the US (including Puerto Rico), Canada and Israel (as set forth in the agreement), and will not hold shares of another business that competes, directly or indirectly, with the products of the Venture within the territories of said countries.

However, should one of the parties acquire ownership of another business which directly or indirectly competes with the products of the Venture within the territory of the US (including Puerto Rico), Canada and Israel (as set forth in the agreement), and the rival products account for less than 20% of the revenue of the Venture, this will not constitute a breach of the agreement. If the revenue of the other business from the rival products is more than 20% and more than ten million dollars, that party will be required to sell its holdings in the business or to merge it with the Venture.

It is noted that in the agreement, the Company acknowledged that PepsiCo had contracted in a joint venture with a third party relating to other product categories in certain countries (as set forth in the agreement).

In 2016 the Venture acquired the company Florentin, as described in section 14.1.b above. As part of the acquisition, the parties agreed that the Company will be permitted to manufacture, distribute and sell the products distributed by Florentin under the following conditions: (1) the products will be sold in agreed countries only; (2) the parties, directly and through their related companies, are authorized to manufacture, distribute and sell the products in the territory, as defined in the agreement, and the non-compete provisions between the parties will not apply to this matter.

Change in the holdings of a party: Should a corporation in the list of corporations enumerated in the agreement acquire over 20% of the holdings in the Company, the counterparty will be entitled to acquire, pro rata, all of the Company’s shares in the Venture on the basis of market value. This clause will apply, *mutatis mutandis*, should one of the corporations in the list of corporations enumerated in the agreement acquire over 20% of the holdings in PepsiCo, or if PRB ceases to be a subsidiary of PepsiCo.

Put option: After five years have elapsed from the date on which the agreement took effect, each of the parties to the Venture will have a put option to sell its shares to the counterparty on the basis of the Venture’s market value less 25%. The party against which the option has been exercised will have the right to acquire the shares of the party exercising the option at the same price and alternatively, to sell its shares to the party exercising the option according to the Venture’s market value plus 25%, all as set forth in the agreement.

Share transfer: The parties will not transfer the shares of the Venture to any of the corporations enumerated in the agreement or to companies related to those corporations, without first receiving the other party’s written consent. To clarify, a transfer of shares of the Venture by either party to a related company under its control does not require the counterparty’s consent (but requires the approval of the board of directors). The transferee (recipient of the shares of the Venture) will inform the counterparty that it agrees to and acknowledges the terms and conditions of the agreement. A party that has transferred all of its shares in the Venture pursuant to the provisions of the agreement will guarantee the obligations of its related companies (even though it does not have voting rights and is not a party to the agreement). Should the transferee related company cease to be a related company of the transferor shareholder the transferor will be obliged to buy back the shares of the Venture. Any transfer or attempted transfer other than in accordance with the agreement will be null and void. A party may not pledge its shares to any party whatsoever without receiving the counterparty’s consent.

Profit distribution: Dividends will be paid with the approval of the meeting of shareholders after a board proposal of the distribution has been adopted.

The parties will attempt to resolve any dispute that may arise in regard to the interpretation or performance of the agreement in a non-binding conciliation proceeding. Should the proceeding be unsuccessful the dispute will be brought for arbitration, as described in the agreement.

Dissolution of the Venture: The agreement enumerates cases, upon the occurrence of which the Venture will be wound up. In the case of bankruptcy or a breach by one of the parties, the Venture and the counterparty will be entitled to sue the breaching party for damages they were caused or to decide on the dissolution of the Venture. Notwithstanding the foregoing, if the shareholders so choose and subject to the provisions of the agreement, they will be entitled to buy the shares of the breaching party, pro rata, according to market value less 25%.

15. Other Operations

The Group has different business activities that are not included in the above operating segments, in which income and investments are immaterial, and they are included in the Financial Statements of the Company as at December 31, 2017 in the "Other Operations" segment. These operations include:

15.1 Strauss Water

a. **General information**

The Group is active in the global water market in the development, assembly, marketing and servicing of systems for the filtration and purification of drinking water, mainly in Israel, China and the UK. The drinking water market comprises mineral water (in jugs and bottles), bottled filtered water, electrical filtration and purification (POU) appliances and water filter pitchers (such as Brita).

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

In Israel, commercial activities were initiated in 2009 with the acquisition of Tami 4, and focus on the development, manufacture, sale and marketing of water purification and filtration systems, including and heating and cooling and carbonation systems. The Group provides drinking water solutions for households and offices, as well as a spare parts and repair service for its water bars.

In the UK, the operation consists of the marketing, sale and servicing of water bars and is executed in collaboration with Virgin Group. For further information, see section 15.1.j below.

Strauss Water also has immaterial business in a number of other countries through local franchisees operating under the Strauss Water brand.

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

Products

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

In Israel – the Group's products are marketed under the leading brand, Tami 4. In 2017, Tami 4 continued to be the strongest water bar brand in Israel.

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

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

b. **Competition**

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

In 2017 the POU category grew, while other categories remained stable or decreased. The Company's share of the water market is presently 27% and is stable in relation to 2016.

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

In the UK – competitors are companies selling bottled water and water filter pitchers (e.g. Brita). In 2017 the Group focused on recruiting new customers via digital channels and the connection to the Virgin brand, and by placing sales counters in a number of malls throughout London.

c. **Seasonality**

Following is information for the years 2017 and 2016 on income from the water segment, by quarter, in NIS millions, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

	2017		2016	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	125	23.3%	114	23.0%
Q2	136	25.0%	124	25.0%
Q3	144	26.4%	133	26.8%
Q4	136	.253%	125	25.2%
Total	541	100%	496	100%

d. **Customers**

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

e. **Marketing and distribution**

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

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

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

f. **Fixed assets and real estate**

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

Nature of the Site	Location of the Site	Site Designation	Built-Up Area	Rights in and to the Site
Production plant	Industrial zone, Kibbutz Netiv Halamed Heh	Logistic center	3,500 m^2	Leased from a third party until June 30, 2018. As at the date of this report, the Company has exercised the option and extended the lease for three more years commencing on July 1, 2018.
Offices (in two adjacent buildings)	Or Yehuda Industrial Zone	Management offices, call center, service and sales	7,800 m^2	Leased from a third party until December 31, 2019
Subleased to a tenant and not in use by the Company	Henley Business Park, Guildford		1,412 m^2	Leased from a third party until May 2020
Offices	Shanghai, China	Strauss Water's offices for the purpose of liaising with the joint venture with Haier Group, as described in section 15.1 below	210 m^2	Renewable monthly rental from a third party

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

The Group has developed cutting-edge water purification technologies, consisting of a combination of innovative developments in engineering, chemistry and microbiology, which enable a wide variety of applications in the domestic drinking water sector. In addition, the Group continues to develop technologies for treating drinking water for household consumer goods solutions, which include cooling, heating, boiling and carbonated (soda) water. All these developments are supported by some 29 patents as well as additional patent applications filed in numerous countries.

Following are Strauss Water's substantial patents:

Patent Name	Description	Patent Rights	Priority Date	Application Date	Countries Where Approved
Spray nozzle and portable filter, including use inside spray nozzle Patent was divided into 5 separate patents: 181065, 181066, 181067, 181068, 187788	1. Upper manifold 2. Telescopic filter – water flows in and out at same level 3. Compact folding condenser, wall formation, cooling 4. Folding drip tray 5. UV replacement without risk of electrocution	Owned by Strauss Water	April 2, 2004	March 31, 2005	Israel, US, Europe, China, Hong Kong
Gravitational filter and liquid purification device	Method, product and process for filtering liquid flowing gravitationally from a source/reservoir above the filter into a purified liquid receptacle	Owned by Strauss Water	August 28, 2006	August 28, 2007	Israel, US, Europe, China, Hong Kong, Canada, South Korea
Premium filter	Model of the telescope shape	Owned by Strauss Water	April 16, 2009	April 16, 2009	Israel, US, Europe, China, India
Water filtering device	Device that filters running water from a pressurized water source containing two water treatment compartments, each comprising at least one water treatment element, between which the water flows horizontally.	Owned by Strauss Water	May 12, 2011	May 8, 2012	Israel, US, Mexico, China, Hong Kong
Beverage dispensing device with carbonation system	Beverage dispenser including a carbonation system, pouring system, pressure reducing system	Owned by Strauss Water	September 13, 2012	September 13, 2013	Israel, US, Europe, Canada, China, Russia
Container with an identification module and a machine with a receptacle for its utilization	Metal container with RFID tag	Owned by Strauss Water	December 13, 2011	December 13, 2011	Israel, China

h. **Human capital**

Following is information on the number of Strauss Water employees (including 153 and 215 employment agency workers), as at December 31, 2017 and December 31, 2016, respectively:

	Number of Employees as at	
	Dec. 31, 2017	Dec. 31, 2016
Management and administration	222	219
Sales and distribution	673	722
Procurement and logistics	10	9
Operations	75	83
Total	**980**	**1,033**

Following is information on the number of Strauss Water employees by country, as at December 31, 2017 and December 31, 2016:

	Number of Employees as at	
	Dec. 31, 2017	Dec. 31, 2016
Israel	937	993
UK	35	31
China (*)	8	9
Total (incl. employment agency workers)	**980**	**1,033**

(*) Figures do not include the employees of the joint venture in China, as described in section 15.k.

i. **Raw materials and suppliers:**

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

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

Purchase agreements with the main suppliers are subject to 180 days' advance notice in the event of termination.

j. **Material agreements**

Joint venture with Virgin Group Ltd.

In November 2011 Strauss Water contracted in an investment agreement (which was updated in August 2012) with a number of investment funds, members of Virgin Group, for the establishment of a joint venture, Virgin Strauss Water UK Ltd. (hereinafter:

"**VSW UK**"), which will be active in the marketing, sale and servicing of Strauss Water products in England. The parties also contracted in a series of accompanying agreements for the operation of the venture (including a licensing agreement, service agreements and a supply agreement). As at the date of this report, Strauss Water holds approximately 72% of the shares of VSW UK, and investment funds of the Virgin Group (indirectly) hold the remaining shares (approximately 28%). The Company's products are sold in the UK under the Virgin Pure brand.

<u>Licensing agreement</u>: According to the licensing agreement (and the addendum thereto of 2017) between Strauss Water, VSW UK and Virgin Group (through Virgin Enterprises Ltd., hereinafter: "**VEL**"), VSW UK will have the right to use the Virgin brand name in the territories defined in the agreement, and in consideration will pay VEL royalties at fixed percentages of its sales, as set forth in the agreement. Strauss Water has guaranteed payment of the royalties. The agreement is effective until December 31, 2024 (however, either party may inform the other of its termination on December 31, 2020 and may also annul the agreement on the occurrence of any of the causes enumerated in the agreement). On termination, VSW UK will be subject to various provisions, including the obligation to discontinue use of the name Virgin or similar names.

<u>Shareholders' agreement</u>: According to a shareholders' agreement of 2012 between Strauss Water, VSW UK and investment funds belonging to Virgin Group, five directors hold office in VSW UK, three appointed by the Group and two appointed by Virgin Group, and the Group has management control of VSW UK (it is noted that should Virgin Group's holding exceed 30%, the parties have agreed that VSW UK will be jointly managed). In addition, Strauss Water has undertaken not to compete with VSW UK in the territories where it is active. The agreement will remain in effect other than upon the occurrence of the causes for cancellation enumerated in the agreement.

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

In August 2017 Strauss Water exercised its right pursuant to the joint venture agreement to acquire an additional 15% stake in the joint venture in China, Qingdao HSW Health Water Appliance Co. Ltd., such that following the acquisition Strauss Water holds 49% of the shares of the joint venture, and the remaining 51% of its shares are held by Haier Group of China. For further information, see Note 12.6 to the Financial Statements of the Company as at December 31, 2017. The jointly owned company was established in 2015 following the restructuring of the joint venture with Haier Group, in which Strauss Water engaged in October 2010.

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

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

The Jointly Owned Company focuses on the home water market in China, and mainly offers devices based on reverse-osmosis or nanofiltration technology, as well as water purification products based on the Maze technology. Most of the Jointly Owned Company's business is carried out via (offline) retail sales channels, but in recent years increasingly more business has shifted to the digital arena.

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

Part IV – Matters Relating to Group's Overall Activity

16. Customers

16.1 Segmentation of sales to customers

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

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

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

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

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

For information on the Food Law and its impacts, see sections 17.j and 24 below.

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

In **Brazil**, sales by the Três Corações Joint Venture[30] are mainly made through direct distribution channels reaching around 63,000 retail customers. In addition, the company makes sales to AFH customers and to home and electrical appliance stores, where coffee machines are sold.

c. International Dips & Spreads customers – in the US, dips and spreads are sold and distributed to retail chains (national and regional), which account for 55% of the market; mass merchandisers (large department store chains such as Walmart), which account for 24% of the market; club chains (chains operating giant warehouses that specialize in sales of a limited selection of brands in large packages at discount prices), which account for 10% of the market; and convenience stores and the institutional market, which account for 11% of the market. In Australia and Mexico products are sold and distributed in the major chains, private chains and the institutional market. In Western Europe the Company's products under the Florentin brand are sold to food chains and stores specializing in organic products, with part of the sales made through local distributors, and sales of products under the Obela brand have begun at major chains and private chains.

d. For information on Strauss Water's customers, see section 15.d above.

e. Following is the distribution of the Group's total sales (in NIS millions) and their percentage of the Group's total income, by customer type, in 2017 and 2016, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above:

Customer Type	Sales Channels – 2017							
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	Other	Total Group	% of Total
Large customer market	1,018	369	275	1,324	555	--	3,541	41.7%
Private market	910	508	183	1,766	80	--	3,447	40.6%
AFH	123	70	120	150	57	28	548	6.4%
Other	17	116	126	156	--	541	956	11.3%
Total	2,068	1,063	704	3,396	692	569	8,492	100%

[30] The Três Corações Joint Venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

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

f. Geographical segmentation of customers – for a breakdown of sales turnover by geographical region, see Note 27.4 to the Financial Statements of the Company as at December 31, 2017.

16.2 Dependence on customers

In 2017 there were no customers in which respect income from sales accounted for more than 10% of Group's total income according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above, the loss of which would have a material impact on the Group's business results in the medium and long term.

17. Marketing and Distribution

17.1 In Israel (excluding Strauss Water)

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

b. Since 2015 the Company's distribution operations are executed from the distribution center in Shoham, which serves as a combined logistics center for all product categories. The move to the logistics center in Shoham has created an efficient, high quality and friendly work environment for employees and also serves as a platform for leveraging the Company's logistics and distribution capabilities, facilitating the Company's growth in its current categories, development into new categories and expansion of the distribution operation. The sales and logistics offices are also located at the Shoham site.

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

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

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

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

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

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

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

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

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

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

i. The Group has exclusive distribution agreements in Israel with an external distributor to the Israel Prison Service and the Israel Police, and with a distribution company that caters to army canteens, for the distribution of the Group's food products (excluding dairy products, milk beverages and salads). The Group also has a number of exclusive external distributors who buy the Group's products and sell them in the territories of the Palestinian Authority. With regard to distribution in the private market, in November 2017 the Company signed a collaboration agreement with Pixel Marketing & Distribution Ltd., which will distribute Strauss's dry goods to small customers in the private market on an exclusive basis.

j. According to the provisions of the Food Law, a large supplier or a party acting on its behalf is prohibited from engaging in the placement of products in the stores of a large retailer, as well as from dictating, recommending or intervening in any other manner in the placement of products. At the same time, however, the Food Law permits the Commissioner to grant an exemption in certain matters. Thus, since the Food Law entered into force, temporary provisions were determined with regard to the exemption of actions and arrangements relating to product placement in a large retailer's store. The last exemption of April 2, 2017 applies for a period of three years and allows suppliers to provide placement services to large retailers that satisfy the provisions enumerated in the exemption. The Company provides placement services to large retailers subject to the satisfaction of the required conditions. Additionally, the Company's commercial activity is performed in accordance with the requirements of the Food Law, trade activities and the resulting agreements. Thus, for example, the Company is prevented from activity in the selling space that is allocated to its products on the shelves in stores belonging to retailers that are subject to the law and is prevented from intervening in the sales prices of its products, etc. For further information, see section 24 below and section 2.7 in the Report of the Board of Directors of the Company as at December 31, 2017.

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

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

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

Brazil – the Três Corações Joint Venture's[31] sales and distribution system serves some 63,000 customers representing 300,000 points of sale in the presale method, and is operated primarily by employed distributors and a small number of independent distributors, with which the Group contracts as needed. The products are transported by trucks owned by the Três Corações Joint Venture and external suppliers' trucks, as needed. Delivery times range from 24 hours to 7 days, depending on the location of the point of sale (the long delivery times are relevant for points of sale located in remote rural regions).

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

Sabra and Obela – The sales and distribution system serves some 50,000 points of sale in the US and Canada. Products are distributed through independent logistics centers owned by a third

[31] The Três Corações Joint Venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%) (hereinafter: the "**Três Corações Joint Venture**").

party and through Sabra's or Obela's production warehouses, as the case may be. The products are sold in the presale method and distributed directly to the logistics centers of the retail chains or by means of independent wholesale distributors and transportation companies. Customers do not have shelf-stocking and placement systems. Deliveries are made within up to 14 days from the date the order was received and products are non-returnable.

18. Fixed Assets, Real Estate and Facilities

Following is a description of the Group's material fixed assets, in addition to the fixed assets that serve the segments of operations:

Nature and Location	Site Designation	Built-Up Area	Rights in and to the Site	Liens
Office building in Yanai Park, 49 Hasivim Street, Petach Tikva (Buildings 3 and 4)	The Group's Head Management offices	Ground floor plus nine floors above, basement space and parking places.	A right to be registered as the owner. A caveat is registered on the asset in favor of the Company, and encumbrances on the sellers' rights in and to the assets are also registered in favor of the Company. In the agreements, the sellers undertook to complete the registration of the rights in and to these assets in their name; however, as at December 31, 2017, said registration has not yet been completed. The agreements contain provisions intended to secure the Company's rights and the registration of the condominium.	--
Commercial space in Buildings 5 and 6 in Yanai Park, 49 Hasivim Street, Petach Tikva	As at the date of this report, said spaces are held for sale. For further information, see Note 16.3 to the Financial Statements of the Company as at December 31, 2017.	Commercial space in Buildings 5 and 6 in Yanai Park, 49 Hasivim Street, Petach Tikva		

For further information on the Group's real estate properties, which are not attributed to a specific segment, see Notes 16.2 and 25 to the Financial Statements of the Company as at December 31, 2017.

19. Research and Development

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

In 2017, the Group continued to develop innovative products with health benefits, improve and streamline manufacturing processes, develop alternative energy consumption and enhance energy efficiency, develop raw material sources, protect the environment and develop new packaging which will improve the preservation of product quality and freshness. The Company simultaneously worked on implementing smart manufacturing projects (Industry 4.0). The technological response to the Group's needs is provided by tech teams consisting of the development people in the business units and engineering and technology teams in the plants. In addition, a professional team was established, comprising the various disciplines, in Group management, with the aim of boosting the Group's technological leadership. The team works on building infrastructure for processes relating to management, professional promotion, accreditation programs, dedicated training programs, development tracks, performance measures and enhancement of the recruitment profile.

The Group strives to identify, develop and assimilate breakthrough technologies. To this end, the "Alpha Strauss FoodTech Community was established", which actively connects the Group to researchers, inventors, entrepreneurs, academic institutions, venture capital funds and government research institutions. The community was established in the understanding that connecting Israel's vast brain trust with the Group's knowhow and assets (brands, manufacturing sites, etc.) and its ability to turn technologies into products is of great value to all community participants. In 2017 numerous new technologies were examined and over 40 projects executed. The projects examined different technologies with value to the technological aspects of the Group's products, raw materials, manufacturing processes, unique ingredients, quality control and assurance processes, packaging, energy, wastewater and ingredients with health benefits. In 2017 the Group joined the European consortium EIT Food, which furthers technological innovation collaborations among 50 partners from leading businesses, research centers and universities throughout Europe.

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

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

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

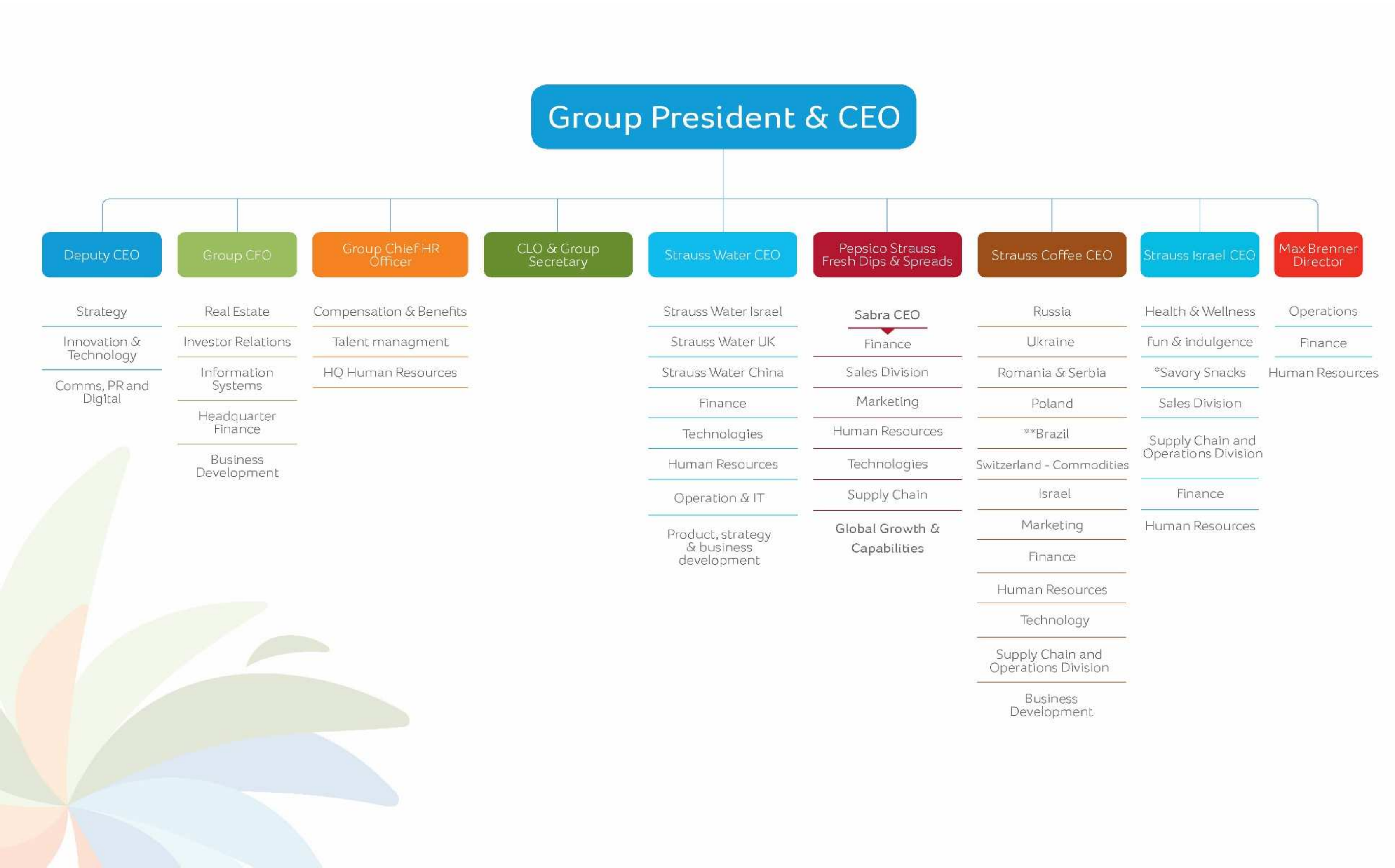
In the Company's opinion, total financial resources invested in 2017 in the development of new flavors and products, new packaging, efficiency enhancement of work processes, projects relating to breakthrough technologies, etc. according to the Company's Non-GAAP (Management) Reports as defined in section 5 above, amounted to approximately NIS 88 million, compared to NIS 82 million in 2016.

20. Human capital

20.1 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 headquarters and the Israel Operation, which manage core processes and supporting processes across the organization.

Following is a diagram of the Group's organizational structure proximate to the time the Periodic Report was published:



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

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

b. **Senior management** – the Group is led and managed by Group management. Group management outlines the overall strategy of the Group and its subsidiaries and follows up on the accomplishment of business results. Management members also serve as members of the boards of directors of the companies and the Group's main business units, which devise strategic directions in Group. Group management includes the Group President & CEO, the Deputy CEO, the Chief Legal Officer (CLO) and Group Secretary, the Group Chief Human Resources Officer and the Chief Financial Officer (CFO).

c. **Group headquarters** – assists Group management, with emphasis on the management of strategic aspects. HQ serves as a professional unit for strategic and planning purposes that provides professional support to Group management, controls the performance of the Group companies in relevant areas, and adds value by leading core aspects that support the "one group" concept. The functions included in Group HQ are: finance (accounting, economics & control, investor relations, treasury, real estate, insurance and risk management), IT; human resources, legal department & Company Secretary, CSR, communications & spokesmanship, strategy, technology, the Alpha Strauss Innovation Unit, the technological incubator, business development, and the Chairperson's and CEO's offices. For an itemization of the number of employees in Group headquarters in the years 2017 and 2016, see section 20.2.b below.

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

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

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

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

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

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

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

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

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

f. **The International Dips & Spreads operation -** the Group's International Dips & Spreads activity has a separate management. The management of Sabra consists of the CEO, CFO, HR Director, Supply Chain Manager, CTO, Sales Director, EVP

International and Growth & Capabilities and Marketing Director, and management is in charge of the management of Sabra in the US as well as in Canada. Australia and Mexico have country managers, CFOs and marketing managers, who receive professional direction from Sabra's management. Sabra's management is responsible for the complete management of the operation, for building its strategy and having it approved by the board of directors of Sabra and Obela. Sabra's management is responsible for implementing the strategy, accomplishing the goals derived from it, and also for developing the people and brands at Sabra and Obela. The management of Sabra and Obela is supervised by Sabra's board of directors, which consists of four directors - two on behalf of the Company and two (one of whom serves as chairman of the board) on behalf of PepsiCo; Obela's management is subject to the supervision of Obela's board of directors.

g. **Strauss Water** has a separate management headed by the CEO of Strauss Water. See section 20.1.a above.

20.2 Headcount

a. In total, the Group employed 15,180 and 14,830 employees as at December 31, 2017 and December 31, 2016, respectively (including 1,017 and 1,141 employment agency workers as at December 31, 2017 and December 31, 2016, respectively). Headcount includes all employees in the Group, including jointly controlled companies in which the Company holds 50%. For further information, see section 5 above.

b. Following is the number of employees in Group headquarters in Petach Tikva, including 5 and 0 employment agency workers as at December 31, 2017 and December 31, 2016, respectively.

	Number of Employees as at December 31, 2017	Number of Employees as at December 31, 2016
Group HQ employees	190	176

c. Following is the number of Group employees in the head offices of the Israel Operation, the sales division and the supply chain division, who serve the Group's entire activity in Israel, including 57 and 77 temporary employment agency workers, as at December 31, 2017 and December 31, 2016, respectively.

	Number of Employees as at December 31, 2017	Number of Employees as at December 31, 2016
Employees of the head offices of the Israel Operation, sales division and supply chain division(**)	1,397	1,347

d. The Group employs 11,198 employees, excluding half of the employees of proportionately consolidated companies, according to the Management (Non-GAAP) Reports of the Company, as defined in section 5 above (jointly, the companies in the

Group employ 15,180 employees (approximately 6,145 employees are employed in Israel) as mentioned in section 20.2.a above). The Group employs 7,216 employees in companies controlled by the Group (according to the GAAP financial statements).

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

20.3 <u>Social benefits and employment agreements</u>

<u>Israel</u>

Most of the Group's employees in Israel are employed under collective agreements. There are general collective agreements which apply to all employees of the Group by virtue of the Group companies' membership in the Manufacturers Association of Israel, which relate to wage conditions, contributions to pension insurance plans, convalescence pay, reimbursement of travel to and from work, and payment of a cost-of-living increment. Additionally, there are sectoral collective agreements, some of them updated from time to time, that apply to part of the Group's employees in Israel due to their professional attribution to the instant coffee industry or the chocolate and confectionery industry. Furthermore, there are certain terms and conditions in special collective agreements that were signed at the Group's various production plants and apply only to all or part of the workers employed by that respective plant, which are revised from time to time in negotiations between the workers' committees and the management of each plant. In 2015 a first collective agreement was signed in Strauss Water, applying to employees and team leads. The agreement is valid for four years and includes mechanisms for dismissal, salary updates and accompanying benefits. In 2016 three renewals of existing collective agreements were signed in three of the Group's plants in Israel. Additionally, in January and August, 2017 two more renewals of existing collective agreements were signed. The agreements include wage increases, seniority increments, and special welfare conditions unique to each site. In 2017 another three first collective agreements were signed, as follows: a collective agreement for employees of the logistics unit in the Group's Supply Chain and Operations Division at the Shoham, Acre and Haifa sites; a collective agreement for the employees of Coffee To Go Ltd.; and a collective agreement for employees of the sales unit in Strauss Frito-Lay Ltd. The agreements are valid for four years and include mechanisms applying to staffing, mobility, dismissal, salary updates and accompanying benefits.

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

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

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

Outside Israel

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

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

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

In the US, Russia, Ukraine, Poland, Romania, Germany and Serbia there is no general collective agreement that applies to the Company’s employees and the employees are not organized in trade unions. In Germany there are collective agreements with the employees of the plant, which cover a number of occupational subjects.

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

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

20.5 **Employee loans** – the Group enables employees (in some of its companies) to receive loans according to Company procedures, which take the employee’s salary and seniority into account. Loans to the Group’s employees in Israel are linked to the Consumer Price Index and bear interest according to the rates prescribed in the Income Tax Ordinance. In certain countries it is prohibited to charge employees interest. The repayment period of loans in the Group is up to five years. Loans of a certain amount and above are secured by promissory notes, signed by guarantors. The outstanding balance of employee loans as at December 31, 2017 is approximately NIS 7 million. In Brazil, there is an arrangement with banks for the grant of loans to employees through the banks.

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

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

20.7 **Officers and managers**

a. **Option plan** – for details on the senior officers' option plan of May 2003, see Note 23.1.1 to the Financial Statements of the Company as at December 31, 2017.

b. **Performance share units (PSUs) plan** – for details on a performance share units plan of July 2016, see Note 23.1.2 to the Financial Statements of the Company as at December 31, 2017.

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

d. **Benefits and employment agreements** – officers and employees of senior management of the Group are employed under personal employment contracts, which include, among other things, pension coverage in various schemes. Some of the officers and senior management employees are entitled to an adjustment period, compensation arrangements and other special personal arrangements, as set forth in regulation 21 in the "Additional Information on the Company" report as at December 31, 2017. For information on insurance, exemption and indemnification arrangements for officers of the Company, see regulation 29a in the "Additional Information on the Company" report as at December 31, 2017.

21. Financing

21.1 General

The Group finances its business activities from its own sources, loans from banks and financial institutions and non-bank credit. For details on bank and non-bank loans of the Company and its subsidiaries, including debentures issued by the Company, see Notes 20.2-20.5 to the Financial Statements of the Company as at December 31, 2017.

Following is the average interest rate and effective interest rate on bank and non-bank loans, which are not designated for special purposes by the Group, in effect during 2017, according to the Management (Non-GAAP) Reports of the Company, as defined in section 5 above:

	Short-Term Loans	**Long-Term Loans**	**Average Rate**
Group headquarters			
Bank loans	--	5.17%	5.17%
Non-bank sources (*)	--	4.03%	.403%
Israel			
Bank loans	--	2.90%	2.90%
Non-bank sources	--	1.81%	1.81%
International Coffee			
Bank loans	6.30%	6.95%	6.67%
Non-bank sources	--	2.87%	2.87%
International Dips & Spreads			
Bank loans	2.34%	2.63%	2.57%
Other			
Bank loans	2.71%	3.16%	3.09%
Non-bank sources	--	3.30%	3.30%
Average interest rate	**5.53%**	**4.08%**	**4.18%**

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

21.2 Reportable credit

For information on Debentures (Series B), Debentures (Series D) and Debentures (Series E) issued by the Company, see Notes 20.3, 20.4 and 20.6 to the Financial Statements of the Company as at December 31, 2017. For additional information on the Debentures (Series E) issued by the Company in July 2017, see also the Immediate Report of July 2, 2017 (reference no. 2017-01-056047). It is noted that on February 1, 2018 the Company made a final redemption of its Debentures (Series B). For further information, see the Immediate Report of February 1, 2018 (reference no. 2018-01-009636).

For information on a loan agreement of April 2017 between the subsidiary Strauss Coffee and an institutional body that is not a related party, see Note 20.5 to the Financial Statements of the Company as at December 31, 2017 and the Immediate Report of April 2, 2017 (reference no. 2017-029197).

For information on debt and financing expenses in its respect according to the Company's Management (Non-GAAP) Reports as defined in section 5 above, see section 3.1.4, "Financing expenses, net" in the Report of the Board of Directors of the Company as at December 31, 2017.

21.3 Limitations applying to the receipt of credit

For information on limitations applying to dividend distribution, see section 4 above.

The Company has undertaken towards banks and institutional investors, which extended loans to the Company, and also within the framework of debentures issued by the Company, not to create any charges on its assets in favor of any third party without receiving the consent of the banks and other lenders in accordance with the terms of the letters of undertaking (other than the possibility of providing specific collateral to secure certain loans). For further information, see Notes 20.5 and 24.2.3 to the Financial Statements of the Company as at December 31, 2017.

For information on financial covenants, see Note 20.6 to the Financial Statements of the Company as at December 31, 2017, and also the Immediate Report of April 2, 2017 (reference no. 2017-029197).

For information on causes for the immediate repayment of debentures issued by the Company, see Note 20.4 to the Financial Statements of the Company as at December 31, 2017.

As at the date of this report the Company is in compliance with all of its undertakings as described above.

21.4 Credit received between the date of the Financial Statements and proximate to the date of the Periodic Report

In the period between December 31, 2017 and proximate to the date of publication of the Periodic Report, credit in an amount of NIS 3.2 million was received, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 above.

21.5 **Floating-rate loans:** The following table presents the Group's floating-rate credit in 2017, according to the Management (Non-GAAP) Reports, as defined in section 5 above:

	Change Mechanism	Interest Range	Amount of Credit as at Dec. 31, 2017 (NIS Millions)	Interest Rate Proximate to the Date of Publication of the Report
International Coffee	**Real**	6.60%-13.10%	142	7.10%
International Coffee	**Dollar**	1.98%-2.65%	40	2.27%
International Coffee	**Ruble**	9%-11.95%	36	8.94%
International Coffee	**Hryvnia**	12%-13%	3	15.50%
International Dips & Spreads	**Dollar – LIBOR**	2.81%-3.19%	84	3.02%
Other	**NIS – Prime**	2.30%-3.55%	13	3.11%

21.7 **Credit rating**

On April 2, 2017 the Company announced the reaffirmation of **Standard & Poor's Maalot's ilAA+** rating with negative outlook. For further information, see the Company's Immediate Report dated April 2, 2017 (reference no. 2017-01-029593).

On April 3, 2017 the Company reported on a special report from Midroog Ltd. following the buyback of **TPG's** holding by Strauss Coffee, in which Midroog reaffirmed its Aa2 rating for the Company's outstanding Series B and Series D Debentures, with stable outlook. For further information, see the Company's Immediate Report dated April 3, 2017 (reference no. 2017-01-029839).

On April 27, 2017 the Company announced the reaffirmation of Midroog's **Aa2** rating for the Company's outstanding Series B and Series D Debentures, with stable outlook. For further information, see the Company's Immediate Report dated April 27, 2017 (reference no. 2017-01-035740).

On July 2, 2017 the Company reported that Midroog had assigned an **Aa2il** rating to debentures to be issued by the Company up to an amount of NIS 470 million. For information, see the Company's Immediate Report dated July 2, 2017 (reference no. 2017-01-055858). On July 2, 2017 the Company reported that Maalot had assigned an **ilAA+** rating to debentures to be issued by the Company up to a face value of NIS 470 million. For further information, see the Immediate Report dated July 2, 2017 (reference no. 2017-01-055771).

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

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

The information in this section that the Company and/or the companies in the Group may raise additional funds is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of various developments in market conditions and the Company's actual financing requirements, etc.

21.7 For liens and guarantees pertaining to finance agreements, see Notes 24.2 and 24.3 to the Financial Statements of the Company as at December 31, 2017.

22. Taxation

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

For information, see Notes 35.1 and 35.2 to the Financial Statements of the Company as at December 31, 2017.

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

For information, see Notes 35.4 and 35.7 to the Financial Statements of the Company as at December 31, 2017.

Disputed assessments in countries outside Israel – the Três Corações Joint Venture received assessments for tax years not yet subject to prescription, pursuant to which it is required to pay approximately BRL 217 million (100%) over and above the amount included in current tax payments for those years. The Três Corações Joint Venture rejects the tax authority's demand. In the Company's estimate, based on the opinion of the investee's legal counsel, the existing provisions in the investee's books of account are sufficient. For information on claims by the tax authorities in Brazil, see Note 24.1.3.5 to the Financial Statements of the Company as at December 31, 2017.

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

For information, see Notes 35.1 and 35.3 to the Financial Statements of the Company as at December 31, 2017.

Tax benefits in countries outside Israel where the Group operates: In respect of its activity in northeast Brazil, the Três Corações Joint Venture is entitled to tax benefits: (1) a reduced corporate tax rate on part of the taxable income, up to the maximum amount determined by law; (2) tax rebates on tax collected. The tax benefits received by the Três Corações Joint Venture in 2017 amounted to BRL 55 million (100%). The Três Corações Joint Venture's tax reports for part of the years in which the Três Corações Joint Venture filed for tax rebates are being reviewed by the tax authorities. For information on claims from the tax authorities in Brazil, see Note 24.1.3.5 to the Financial Statements of the Company as at December 31, 2017.

22.4 The primary tax rate compared to the Company's effective tax rate

For information on the tax rate, see Note 35.9 to the Financial Statements of the Company as at December 31, 2017.

22.5 Unused losses for tax purposes and unused tax credits

For deferred taxes in respect of losses, see Note 35.10 to the Financial Statements of the Company as at December 31, 2017. For losses in which respect no deferred taxes were recorded, see Note 35.5 to the Financial Statements of the Company as at December 31, 2017.

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

23. Environmental Issues

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

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

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

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

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

Wastewater treatment – considerable amounts of water and detergents are used in the Group's production sites that contain, among other things, organic substances, oils and sodium, which are liable to increase the pollutant concentration in wastewater and to cause odor and sanitary nuisances. This wastewater is required to be treated, *inter alia*, due to the policy of recycling wastewater for irrigation in Israel, which necessitates high-quality purification of wastewater to render it fit for use in irrigation. The Licensing of Businesses Regulations (Salt Concentration in Industrial Waste), 2003 determine permissible values for the concentration of polluting salts in wastewater transferred from a production site to a purification plant. The Water Regulations (Prevention of Water Pollution) (ph Values of Industrial Sewage), 2003, define the maximum permissible values that may be transferred to the sewage system. The Water and Sewerage Corporations Law, 2001 and the rules promulgated thereunder, including the Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System), 2014, regulate the manner of treatment and removal of plant wastewater, and the Rules of the Water and Sewerage Corporations (Tariffs of Water and Sewage Services and the Construction of Water or Sewage Systems), 2009, prescribe special tariffs for the violation of effluent quality standards.

In 2016 the Water and Sewerage Authority approved and published a number of amendments to the various Rules of the Water and Sewerage Corporations, some of which included revisions that are relevant to the Company's operations. For example, in March 2016 an amendment to the Effluent Quality Standards was published, in which several amendments were made to the provisions of the rules including the addition of section 16(D), which determines that a plant granted mitigations applying to the concentration of salts in wastewater may request of the Supervisor of Industrial Effluents in the Water Authority to instruct the Water and Sewerage Corporation not to charge the plant for discharging prohibited wastewater in which respect mitigation was granted by the Ministry of Environmental Protection. In February 2017, the Company, on behalf of two of its production sites, the Achihud dairy and the salad plant, submitted applications to the Supervisor of Industrial Effluents in the Water Authority under the abovementioned section 16(D), and in August 2017 a renewed application was submitted to the Supervisor of Industrial Effluents following the approval of an additional mitigation period for the concentration of salts in wastewater by the Ministry of Environmental Protection. The suspended fines in regard to which the Supervisor is required to decide are immaterial to the Company. Until the date of this report, a reply from the Supervisor of Industrial Effluents has not yet been received.

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

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

The Hazardous Substances Law, 1993 regulates the manner of handling poisons and harmful chemicals, and governs the grant of poison licenses to the plants. All of the Group's sites keeping hazardous materials that require a poison license are in possession of a valid poison license. Upon the renewal of the poison licenses, some sites receive additional requirements that were not included in previous license. On receipt of the license, the unit prepares for the implementation of these requirements in full.

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

The Energy Resources Regulations (Monitoring Energy Consumption Efficiency), 1993 and the Energy Resources Regulations (Combustion Efficiency Test for Liquid Fuel or Gas Heaters), 2004 define measures that are required to be applied for the furtherance of efficient consumption. A cross-organizational energy team in Strauss Israel works to improve energy efficiency in the company.

Israeli Standard SI 6464 – "Industrial fuel-consuming appliances – requirements for appliance application, workplace environment, approval and inspection" defines the requirements for connecting industrial factories to the natural gas supply system and the requirements for the use of natural gas in industry. The Strauss Frito-Lay production site in Sderot began receiving natural gas in January 2018, and the rest of the Company is making the necessary preparations to receive natural gas in its production sites in accordance with the national schedules of the natural gas distribution network.

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

23.2 The Group's environmental risk management policy

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

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

The Group invests resources in the management of its environmental aspects. This is reflected in investments in equipment and technology, in source reduction, in improved wastewater treatment and in means for enhancing energy efficiency. In 2017 the Group's investments in equipment and technology amounted to NIS 14.8 million.

In 2017 NIS 27.5 million were invested in day-to-day management, which includes the costs of waste and effluent treatment, payment to recycling corporations for treatment of the packaging of products dispatched to the market, and professional and legal consultation. It is not the Group's practice to separate the costs invested by the companies in the Group with respect to environmental issues, and these costs are immaterial. On the basis of information in the Company's possession as at the date of the report relating to its sites and to environmental requirements, the Group does not plan any material investments in 2018.

The information in this section regarding the intention not to make material investments in order to comply with environmental requirements in 2018 is forward-looking information, as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. In practice, there may be material deviations in the Group's production sites or regulatory requirements may change, which would require additional substantial investments.

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

24. Restrictions and Supervision of the Group's Activity

24.1 Legislation in the food and beverage industry and consumer legislation

In Israel – the Group's food and beverage products are subject to laws, regulations and orders relating, among other things, to the definition of quality standards; cleanliness and health in production processes; processing, trade and storage of food and beverages; the definition of standards and directives relating to the packaging, labeling and identification of the products and their ingredients, including their nutritional value and expiry dates; the definition of quality and health standards for food additives, etc. (such as the Public Health Ordinance (Food) [New Version], 1983; the Supervision of Prices on Services and Products Law, 1996 and the Standards Law, 1953). The Group has developed and acts in accordance with a manual for the uniform labeling of its products. Moreover, the Group's activities are subject to various consumer provisions, which deal, *inter alia*, with prohibitions regarding the misleading of consumers and the obligation to present them with complete information, and with the compensation of consumers in respect of bodily harm caused as a result of a product defect (such as the Consumer Protection Law, 1981 and the Defective Products Liability Law, 1980).

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

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

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

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

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

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

c. On January 15, 2015 the Promotion of Competition in the Food Industry Law, 2014 (above and below – the "**Food Law**") entered into force. The Food Law is intended to increase competitiveness in the food and consumer products industry, in order to reduce retail prices through the imposition of prohibitions and restrictions with respect to actions and arrangements between various entities operating in the market. For additional details, see section 17 above and section 2.7 in the Report of the Board of Directors of the Company as at December 31, 2017.

24.3 <u>Operating licenses</u>

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

24.4 <u>Antitrust</u>

a. **Declarations as a monopoly**

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

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

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

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

24.6 <u>Authorized Supplier to the Ministry of Defense</u> – the Company and part of its subsidiaries in Israel are an Authorized Supplier to the Ministry of Defense.

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

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

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

25. Material Agreements

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

25.1 **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**

The merger agreement of 2004 between the Company and Strauss Holdings (pursuant to which Strauss Holdings sold and transferred to the Company all of its shares in Strauss Health and in Strauss Fresh Foods, jointly: the "**Transferee Companies**") determined provisions relating to the use of the name and brand "Strauss", non-competition and an undertaking to indemnification, as described below.

The agreement determines, *inter alia*, that commencing on the closing date (March 22, 2004), the "**Strauss Family Members**" (Mr. Michael Strauss, Ms. Raya Ben Dror, Ms. Ofra Strauss, Mr. Adi Strauss, Ms. Irit Strauss, Ms. Nava Michael, Mr. Gil Midyan and Mr. Ran Midyan), Strauss Holdings and the companies it controls (excluding the Company and its subsidiaries and the Transferee Companies and their subsidiaries, as defined in the agreement) will not be entitled, directly or indirectly, to make use of the "Strauss" name, including its various inflections (the "**Strauss Name**"), as well as of all intellectual property (including trademarks and including the trademark owned by Strauss

Holdings) (the "**Strauss Brand**") for any purpose relating to import, production, marketing, sale, services or distribution in the food or beverage industries (including the dairy product category or assorted salads) (the "**Food Category**"). The obligation of each of the Strauss Family Members will expire in his/her respect after three years have elapsed from the later of the date on which he/she ceased to hold, directly or indirectly, shares of the Company or the date on which he/she ceased to serve as an officer of the Company or its subsidiaries (if he/she serves in such office) (the "**Termination Date**"), exclusively with respect to segments in the Food Category in which the Company (or any of its subsidiaries) did not engage on the closing date, whereas with respect to segments in the Food Category in which the Company (or any of its subsidiaries) engaged on the Termination Date, the abovementioned obligation will expire only after fifty years have passed since the closing date. After three years have elapsed from the closing date or after the end of the fifty-year period, as the case may be, the Strauss Family Members will be entitled to make use of the Strauss Name themselves and also to grant the right of use of the Strauss Name to corporations under their control on the date the right of use is granted. Strauss Holdings, as the owner of the Strauss Brand, granted the Company and its subsidiaries from the closing date, for no additional consideration, an irrevocable and exclusive right to make use of the Strauss Name and the Strauss Brand for any purpose relating to import, manufacture, marketing, sale, services or distribution in the Food Category. It is noted that in 2007 the Company received Strauss Holdings' consent to register the Company's new logo as its trademark. Strauss Holdings and the companies it controls and the Strauss Family Members are not prevented from making any use of the Strauss Name, including its various inflections, for any purpose relating to any category that is not included in the Food Category. However, it was agreed that in any such use, Strauss Holdings and/or any of the Strauss Family Members will not create a logo for the Strauss Name that resembles, to the point of being misleading, the Strauss Brand, in a manner that may cause a person to mistakenly think that an asset or service of Strauss Holdings or such that is related to any of the Strauss Family Members is an asset or service of the Company. The Company declared in the agreement that it is aware that notwithstanding the foregoing, in the framework of the Unilever agreement (of 1995 between the international Unilever corporation, Strauss Ice Cream and others), Strauss Holdings granted certain rights to the Strauss Brand to Strauss Ice Cream (including the registered trademarks, the numbers whereof are enumerated in the agreement) with respect to the manufacture, marketing and sale of ice cream, popsicles, frozen yogurt, "Krembo" and frozen desserts containing one or more of the above. The agreement clarifies that in any case of contradiction between the provisions of the agreement and those provisions of the Unilever agreement relating to the license granted to Strauss Ice Cream to use the Strauss Brand, the provisions of the Unilever agreement will prevail and the Company will be subject to their contents, including – whenever the provisions of the Unilever agreement contain a prohibition or limitation imposed on Strauss Holdings in granting a license to make any use of the name and registered trademarks of Strauss Holdings, the permission granted to the Company and its subsidiaries will be deemed subject to such prohibition or limitation and will be restricted accordingly.

In the agreement, Strauss Holdings undertook, subject to no statute of limitations, to indemnify the Company in respect of a claim or demand for indemnification arising from suits filed against the Company or the Transferee Companies and their subsidiaries by a third party, the cause whereof preceded the closing date; a claim or demand for indemnification arising from demands/claims received by any of the Transferee Companies and their subsidiaries from the various authorities (including the various tax authorities), the cause whereof preceded the closing date; a claim or cause relating to the breach of any of Strauss Holdings' enduring obligations pursuant to the agreement, i.e. Strauss Holdings' obligation to grant the Company an exclusive right to use the Strauss Name and/or the Strauss Brand; Strauss Holdings' obligation to transfer information to the Company relating to the Transferee Companies and their subsidiaries; Strauss Holdings' obligation relating to taxes and expenses; Strauss Holdings' obligation to confidentiality and non-use of information; and Strauss Holdings' non-compete obligation (all as provided in the agreement). Strauss Holdings' right to compensation under the agreement (if and to the extent that any such right is created) may be used only and solely to set off payments of compensation/indemnification that are owed to the Company under the agreement, and in any case (beyond the abovementioned right of setoff), the Company will not be required to pay any amounts to Strauss Holdings in respect of discrepancies in its representations.

The agreement further determines that for as long as any of the Strauss Family Members holds, directly or indirectly, shares of the Company or serves as an officer in the Company or its subsidiaries, that Strauss Family Member will refrain from competing with the Company.

25.2 **Trust deed and Debentures (Series B) and trust deed and Debentures (Series D) and trust deed and Debentures (Series E):** See section 21 above and Note 20 to the Financial Statements of the Company as at December 31, 2017.

26. Legal proceedings

For information on legal proceedings against the Company, see Notes 24.1.1 and 24.1.2 to the Financial Statements of the Company as at December 31, 2017.

27. Objectives and Business Strategy

It is the Group's practice to review its strategic plans from time to time and to revise its goals according to developments occurring among its consumers, changes in the competition map and in the retail environment, and macroeconomic influences. In light of the changes occurring in the food industry, the Company has a strategic process in place that aims to tailor the Group's activity to the changing markets, to empower and reinforce areas of strength that will create a competitive advantage for the Group.

In 2017 the Group continued to implement the process of focusing its operations on its core business and strengthening synergies between the companies with Strauss Coffee's buyback of the non-controlling interest in Strauss Coffee, the exercise of Strauss Water's right under the joint venture agreement to acquire an additional 15% holding in the joint venture in China, and the sale of the Max Brenner business. These transactions were executed further to the acquisition of the non-controlling interest in Strauss Water in December 2016.

The Group's strategy in the next few years includes continued focus and investment in the development of its international growth drivers: Strauss Coffee, with emphasis on the coffee market in Brazil, which is the second-largest coffee market in the world; Strauss Water, with emphasis on the Chinese water market, which is the world's largest POU market and is growing exponentially; and the international dips and spreads business in partnership with PepsiCo; while simultaneously working to enhance its competitive position in the Israeli food market in a variety of categories. In recent years the Company has built capabilities and platforms that will enable it to increase its innovation initiatives, and in the next few years the Company plans to augment innovation moves and improve its technological infrastructure to create new growth opportunities and boost the Group's competitive position.

The Company also aims to increase consumer value through a variety of tools: product innovation aligned with consumer trends, improvement of nutritional values, improvement of quality and performance in food safety, and by leveraging digital platforms. In parallel, the Group is working to improve its cost structure.

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

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

27.1 Strauss Israel

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

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

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

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

27.2 <u>Strauss Coffee</u>

In light of trends in the worldwide coffee market, as described in section 11.2 above, Strauss Coffee's strategy is growth-oriented, while improving its competitive status in markets where it is active, and while providing a response to long-term trends in the industry and promoting the global coffee culture in target markets.

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

27.3 Refrigerated dips and spreads – Sabra and Obela

The refrigerated dips and spreads market, particularly hummus, has high market potential. Moreover, the category is compatible with numerous consumer trends. This operation is one of the Group's main growth drivers.

The Group, through Sabra and Obela, has led the freshness revolution in this market (world leader in hummus dips and spreads) thanks to its knowhow and experience in fresh foods and the wealth of experience brought to the venture by both partners.

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

27.4 Strauss Water

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

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

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

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

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

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

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

28. Information on Geographical Regions

28.1 For information on the geographical regions where the Group operates, see Note 27.4 to the Financial Statements of the Company as at December 31, 2017.

28.2 For explanations on geographic developments, see the Company's explanations in the Report of the Board of Directors of the Company as at December 31, 2017.

28.3 Risk exposure due to operations outside Israel

Activities in the emerging markets in Central and Eastern European, China and Brazil are exposed to risks that are typical of these countries, including sensitivity of the regimes to political changes, which are liable to 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; high inflation and interest rates; exposure to large international competitors who are present or likely to enter the competition in these countries; and customer debts are denominated in the domestic currency, which is subject to the risk of fluctuations in exchange rates.

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

29. Discussion of Risk Factors

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

Macroeconomic Risk Factors

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

b. Customs duties in countries where the Group operates – in most countries 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. Conversely, when customs rates are high or rise in these countries the Company's import costs increase, thus adversely affecting its ability to compete with local or foreign manufacturers which are not subject to the same customs rates.

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

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

e. Tax liability and critical tax estimates – the multiplicity of geographical regions in which the Group operates leads to complex tax liability due to the large number of countries and the variance in tax structure between these countries. Any change in the tax liability following an increase in tax rates, the addition of new taxes, transfer prices, dividend distributions, deduction of financing expenses and the like is liable to increase tax expenses (and payment) and harm the Group's business results. Moreover, the use of tax estimates to estimate the tax obligation exposes the Company, in the short term, to the over- or under-recording of tax expenses (and payment) if these estimates are not consistent with the actual obligation as a result of changes in tax regulations and other regulatory changes made by the local tax authorities in the countries of operations, including a different interpretation of these regulations by the Group's employees. For information on the tax liability and critical tax estimates, see Note 35.

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

g. Exposure to interest and inflation – an increase in the interest rate and/or inflation after a lengthy period in which interest has been low exposes the Company and its subsidiaries to harm to their business results, since an increase in the CPI and interest rate are likely to lead, among other things, to an increase in the Company's financing expenses, an increase in the cost of new loans if taken, to economic difficulty among highly leveraged customers, and even to a change in consumption habits and consumer purchasing power.

Industry risk factors:

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

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

j. Safety and quality of products and services – the nature of activity in the food and beverage industry exposes the Company's business to harm in the case of a fault in the production process or a defect in the quality of the raw materials used in manufacturing its products, a defect in the quality of the products themselves, which are manufactured by or for the Group, or a defect in the quality of service directly provided to the Group's customers. These faults (whether or not they are beyond the Company's control), including damage originating in the end product after the production process has been completed, such as due to tap-water quality, raise concerns of illness, damage to health and other damages, and consequently expose the Company to lawsuits brought by consumers who are affected (if any). To reduce this exposure, the Group may be forced to recall defective products by removing them from the shelf or collecting them from consumers' homes, whether as a result of regulation or voluntarily, thus leading to an adverse impact on its business results as well as damage to its reputation. Additionally, publications regarding impaired quality of rival or supplementary products are also liable to adversely affect the scope of the Group's sales, regardless of the credibility of these publications.

k. 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.

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

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

n. Regulatory developments – the Group's activity is exposed to various regulatory limitations, including under the antitrust laws, laws relating to food safety, import laws, securities laws and corporate laws. Changes in legislation or standardization in Israel and other countries and the enforcement of stricter regulation in spheres related to the Company are liable to reduce and/or limit the Group's activity and to impact its business results. The changes referred to are such that relate to the market in general, including the spheres of food engineering, food safety, environmental quality, control and supervision, product labeling, etc. Tightening of the regulation in the regions where the Company is active is liable to have a negative impact on both the product offering and on the costs involved in manufacturing the products, and passing these costs on to consumers by raising prices is liable to be damaging to sales volumes and revenue.

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

p. Exposure to class actions – in view of the large number of consumers of the Group's products, the Group is exposed to class actions by consumers. For information on motions to certify claims against Group companies as class actions, see Note 24.1 to the Financial Statements of the Company as at December 31, 2017.

q. Operating in a competitive market – the food and beverage industry is highly competitive. Some of the Group's rivals in the markets where it is active are large multinational corporations that possess greater financial resources than the Group. The entry of additional competitors to certain categories, including the trend of consolidation among large multinational corporations, the growing trend of private labels and the lowering of barriers to entry to additional brands are liable to intensify the competition and harm the Company's business results. In order to compete effectively the Group is required to maintain an efficient cost structure, make growing investments in breakthrough technology, and invest continuous efforts in the sale and marketing of existing products and in the development of new products.

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

s. The Group's products may contain ingredients that could cause monetary and non-monetary damages to certain consumers – 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. Monetary and non-monetary damages are liable to lead to legal actions, damage to income, expenses due to product recalls, and damage to the Group's reputation. Additionally, it is possible that ingredients and products that are presently compliant with legal requirements will in the future be regarded as potentially harmful.

Unique Risk Factors

t. Dependence on branding – the Group has a broad range of branded food and beverage products that enjoy a longstanding reputation. Damage to this reputation by various publications or other means (e.g. the social media) could have a material impact on the Group's profitability, regardless of the accuracy of these publications. Additionally, a defect in a particular product could cause damage to the master brand under which it is marketed, as well as to the entire product family marketed under that brand. The Group takes care to protect its brands and reputation, among other things by being especially meticulous about the quality of the raw materials used in manufacturing the products, production processes, finished goods and advertising messages.

u. Dependence on customers and suppliers – the loss of a substantial customer could reduce the Group's income and damage its profitability. Furthermore, due to the fact that the Group has a small number of large customers, it is subject to possible pressure and bargaining by these customers with respect to the prices of its products, which will intensify as the chains continue to grow stronger. Additionally, the loss of a material supplier to the Company is liable to create an availability problem in some of the Group's products, and as a result, to be damaging to sales and profit.

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

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

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

x. Concentration of production and logistics at several sites – a considerable part of the Group's activity is concentrated at a limited number of sites, including sub-contractors' sites. Damage by natural hazards or any other damage that is caused to these sites could have a material impact on the Group's activity. Thus, for example, most of the

Company's production sites in Israel are located in areas that are exposed to missile attacks. In the past few years the salty snack plant in Sderot, the cut vegetables site in Sde Nitzan and the Strauss Yad Mordechai Apiary site in Kibbutz Yad Mordechai were exposed to the continuous firing of missiles from the Gaza Strip.

y. Change of control of the Company – in the event of a change of control in the Company such that the Strauss family ceases to be the controlling shareholder, the Company could be forced to sell its holdings to the partners in the Três Corações Joint Venture in Brazil and in Strauss Frito-Lay, pursuant to the provisions and mechanisms set forth in the shareholders' agreements with these partners. The combined sales turnover of these companies, after intercompany eliminations, in the years 2017 and 2016 was NIS 2,320 million and NIS 1,945 million, respectively (according to the Company's relative holding (50%)). In addition, some of the liabilities to financial institutions include an early redemption clause on the grounds of change of control in the Group.

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

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

ab. Substantial damage to computer and communication systems – substantial damage to the availability of computer and communication systems or to data reliability and integrity, malicious (cyber attack) or unintentional, is liable to cause the Group significant difficulties, including the exposure of trade secrets and the substantial disruption of various core processes. An incident of this kind that continues for a significant length of time will, due its complexity and the inability to identify its occurrence, impair the Company's ability to supply its products and services to customers and consumers and be damaging to its business results. This risk has increased in light of the growing use by the Group's employees and managers of a variety of digital end appliances and the continuing trend of automation.

ac. Protection of information – some of the recipes for the Group's products and other products manufactured by the Group, their manufacture and various processes relating to production such as business projects, are trade secrets. The Group relies on customer confidentiality, patent registration, non-competition and non-disclosure clauses in employment contracts with Group managers and other employees who take part in R&D.

However, under the law, the Group could be in a situation that prevents it from enforcing the non-competition clauses, in whole or in part, which will make it difficult to prevent the Group's competitors from benefiting from the expertise of former employees. Moreover, a third party could argue that certain information is not defined as a trade secret under the law. Additionally, the Group cannot ensure that these security measures are effective against unauthorized copying of product recipes and/or databases, their production or any other use thereof. Any infringement of the protection of title to trademarks and breach of confidential information could hurt the Group's businesses.

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

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

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

ag. Financial debt – the Group has debts to different financial institutions, which are partially backed by an undertaking to comply with financial covenants. 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 is liable to be affected by exogenic factors, such as an economic crisis, which will lead to a credit crunch, or by internal factors such as failure to comply with financial covenants or a credit rating downgrade, and as a result, the Group may be forced to divert resources that were intended for investment to service the debt.

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

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

	The risk factor's impact on the activity of the Group as a whole		
	Major impact	**Medium impact**	**Minor impact**
Macro risks			
a. Financial crisis and/or economic downturn in the world market	+		
b. Customs duties in countries where the Group operates		+	
c. Exposure to exchange rate risk	+		
d. Economic and political instability	+		
e. Tax liability			+
f. Security risk		+	
g. Exposure to interest and CPI		+	
Industry risks			
h. Fluctuations in raw material prices	+		
i. Customer credit		+	
j. Product safety and quality	+		
k. Kashrut			+
l. Price of raw milk		+	
m. Private labels		+	
n. Regulatory developments		+	
o. Changes in consumer trends and innovation	+		
p. Exposure to class actions	+		
q. Operating in a competitive market	+		
r. Downward pressure on profit margins in the food and beverage	+		

s. Exposure to legal action due to the presence of substances in products that could cause monetary or non-monetary damage to certain consumers	+		
<u>Risks unique to the Group</u>			
t. Dependence on branding	+		
u. Dependence on customers and suppliers	+		
v. Licenses and franchises	+		
w. Declaration as a monopoly		+	
x. Concentration of production and logistics at several sites	+		
y. Change of control of the Company			+
z. Successful assimilation of acquired businesses		+	
aa. Environmental quality		+	
ab. Substantial damage to computer and communication systems	+		
ac. Protection of information	+		
ad. Restrictions in agreements signed with strategic partners		+	
ae. Managerial complexity and multiplicity of partners	+		
af. Restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries		+	
ag. Financial debt		+	
ah. Recruiting, retaining and developing 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, 2017

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

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

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

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

2. CHANGES IN THE ECONOMIC ENVIRONMENT

2.1 Prices of raw materials and other production inputs – The commodities markets account for a substantive component of the raw materials used in manufacturing the products of Strauss Group and the companies it controls, including joint ventures (hereinafter: the "Group"). In 2017 the average market prices of some of the Company's raw materials rose, while the average market prices of other raw materials dropped compared to the corresponding period last year. On the one hand, the price of Robusta green coffee increased, as did the price of raw milk (the "target price") and the price of milk powder, whereas on the other, the price of Arabica green coffee dropped, as did coffee prices in Brazil and the prices of cocoa, tahini, sugar, hazelnuts and almonds. In the fourth quarter of 2017 the average price of raw milk (target price) rose, while the average prices of green coffee, cocoa, hazelnuts, almonds and sugar decreased compared to the corresponding quarter last year. At the beginning of the first quarter of 2018 the price of raw milk (target price) was revised upward by 0.3% for the months of January through March 2018, following an increase of around 7% in 2017.

The Group applies measures to reduce the impacts of commodity price volatility, including hedging, making changes in the raw materials mix in its products and operational efficiency enhancement. The Company's green coffee procurement center in Switzerland provides for all companies in the Group except for the company in Brazil. To manage exposure to market risks, the Company uses transactions in derivatives and in securities traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the COO of Strauss Coffee and convenes from time to time according to established procedures.

The procurement of green coffee in Brazil is carried out by the local management of the Três Corações joint venture[1] according to internal procedures determined by the Três Corações joint venture's board of directors, and is the responsibility of the procurement, export and financial managers of the Três Corações joint venture.

The Group also has a committee for the management of commodities exposure for its operation in Israel. The committee is managed by the EVP Finance, Israel.

Since the first quarter of 2017, profit or loss arising from the economic hedging of commodities is included in the income statement on the date of sale of the inventory to outside parties. Until and including the year 2016, the cost of raw materials to the Company (including green coffee) in the Group's Non-GAAP Reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities.

2.2 Energy prices – In 2017 and in the fourth quarter of 2017, the average price of oil rose by approximately 20% compared to the corresponding periods last year.

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

2.3 Exchange rate fluctuations –The impact of the devaluation of the Shekel against the average exchange rates of the Brazilian Real and the Russian Ruble, after setoff of the revaluation of the Shekel against the average exchange rates of the Group's other functional currencies, led to immaterial translation differences in the operating profit in the income statement for 2017. However, in the fourth quarter negative translation differences were caused by the appreciation of the average exchange rate of the Shekel against most of the Group's functional currencies, including the Real and the Ruble (excluding the Polish Zloty and Serbian Dinar). On a yearly basis and in the fourth quarter of 2017 (based on closing prices), the Shekel strengthened against the Real as well as against most other currencies. This revaluation contributed to a reduction in the Group's shareholders' equity in the year and in the fourth quarter. In the year and in the fourth quarter, the average exchange rates of the functional currencies in Strauss Coffee's countries of operations appreciated against the Dollar compared to the corresponding periods last year (excluding the Ukrainian Hryvnia).

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

Currency		**Average Exchange Rate for the Year**		**% Change**	**Average Exchange Rate in the Fourth Quarter**		**% Change**
		2017	**2016**		**2017**	**2016**	
United States Dollar	USD	3.599	3.839	*(6.2)*	3.510	3.829	*(8.3)*
Ukrainian Hryvnia	UAH	0.135	0.150	*(9.9)*	0.130	0.148	*(11.9)*
Russian Ruble	RUB	0.062	0.057	*7.4*	0.060	0.061	*(0.9)*
Serbian Dinar	RSD	0.033	0.035	*(3.1)*	0.035	0.034	*3.5*
Romanian Leu	RON	0.889	0.946	*(6.1)*	0.895	0.917	*(2.4)*
Polish Zloty	PLN	0.954	0.974	*(2.1)*	0.977	0.944	*3.4*
Brazilian Real	BRL	1.128	1.106	*2.0*	1.081	1.161	*(6.9)*
Chinese Renminbi	CNY	0.533	0.578	*(7.8)*	0.531	0.560	*(5.2)*
Canadian Dollar	CAD	2.774	2.898	*(4.3)*	2.764	2.868	*(3.7)*
Australian Dollar	AUD	2.759	2.855	*(3.4)*	2.698	2.872	*(6.0)*
Mexican Peso	MXN	0.191	0.206	*(7.5)*	0.185	0.193	*(4.2)*

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

Currency		**Average Exchange Rate for the Year**		**% Change**	**Average Exchange Rate in the Fourth Quarter**		**% Change**
		2017	**2016**		**2017**	**2016**	
New Israeli Shekel	ILS	0.278	0.261	*6.7*	0.285	0.261	*9.1*
Ukrainian Hryvnia	UAH	0.038	0.039	*(3.9)*	0.037	0.039	*(3.9)*
Russian Ruble	RUB	0.017	0.015	*14.4*	0.017	0.016	*8.1*
Serbian Dinar	RSD	0.009	0.009	*3.5*	0.010	0.009	*12.9*
Romanian Leu	RON	0.247	0.247	*0.2*	0.255	0.240	*6.4*
Polish Zloty	PLN	0.265	0.254	*4.6*	0.278	0.247	*12.8*
Brazilian Real	BRL	0.313	0.288	*8.6*	0.308	0.303	*1.5*
Chinese Renminbi	CNY	0.148	0.151	*(1.7)*	0.151	0.146	*3.4*

2.4 Inflation – In 2017 inflation in Israel was positive at 0.4%, as opposed to negative inflation in 2014 to 2016, of -0.2%, -1% and -0.2%, respectively. In Russia and Brazil the trend of decreasing inflation has continued. In Russia, the CPI rose by 2.5% in 2017 compared to an increase of 5.4% last year, and in Brazil the CPI rose by 3.0% compared to an increase of 6.3% last year. The volume of the Company's Index-linked liabilities in Shekels (Series B Debentures, bank loans and loans from institutional corporations) has decreased in recent years following the redemption of Series B Debentures in installments, and consequently, possible changes in the inflation rate on the basis of the known Index have a significant, but decreasing influence on the Company's financing expenses. The Company hedges against inflation at partial rates and for varying periods. For further information, see also Note 28.5 to the financial statements as at December 31, 2017.

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.

Hedging and investment activities are conducted by the Group's Financial Department in Group Headquarters and are the responsibility of Strauss Coffee's CFO in all aspects relating to the coffee business, of Strauss Water's CFO with respect to the water business, and of the Group EVP Finance in regard to the business of the Group as a whole.

2.5 Interest – The Bank of Israel interest rate has remained 0.1% since the last decrease in March 2015. In Brazil, interest dropped from 13.75% at the end of 2016 to 7% at the end of 2017 and to 6.75% on or about the date of publication of this report. In Russia, the interest rate dropped from 10% at the end of 2016 to 7.75% at the end of 2017 and to 7.5% on or about the date of publication of the report. In the Group's other major countries of operations interest was single-digit. In the course of 2017 the US Federal Reserve raised the interest rate on the Dollar by 1.75% from 0.75% at the end of 2016.The Group has floating interest loans, particularly in the Real and Dollar. The Group has Shekel and other short-term bank deposits, earmarked for current use.

It is noted that the above factors are likely to continue to have a positive or negative influence the Group's business operations and financial results in the future as well, depending on their trend. The extent of this influence, if any, depends, among other things, on the intensity of events, their scale and duration, and on the Group's ability to contend with them. For further information, see also Note 28.2 to the financial statements as at December 31, 2017.

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

In January 2015 the Minimum Wage Law (Increase in the Minimum Wage – Temporary Order), 2015 (the "Temporary Order") received legislative approval. Pursuant to the Temporary Order, the minimum monthly wage will be increased in three installments between the years 2015 and 2017. On January 1, 2017 the monthly minimum wage was raised to NIS 5,000. The Company estimates that the Temporary Order has no material impact on the Group. On March 30, 2015 another general collective agreement was signed with respect to the revision of the minimum wage, pursuant to which on December 1, 2017 the minimum wage will be raised to NIS 5,300. In accordance with this collective agreement in October 2017 an amendment to the Temporary Order was approved, pursuant to which the minimum wage was updated to NIS 5,300 commencing on December 1, 2017.

In March 2017 a general collective agreement was signed between the President of Business Organizations and the Histadrut General Federation of Labor in regard to shortening the work week from 43 hours to 42 hours with no reduction in salary. The collective agreement's entry into force is conditional on the issue of an expansion order relating to the provisions of the collective agreement such as to apply to the economy as a whole and on a number of legislative amendments. In June 2017 the Minister of Labor, Welfare and Social Services published a statement of intent regarding the issue of an expansion order, but the expansion order has not yet been issued. The Company is reviewing the matter and will examine the implications in its regard, in the event that the agreement takes effect.

In 2018, discussions regarding a new outline and a reform of the dairy sector continued. The principles of the reform include, among others, a reduction of customs rates and an increase in the minimum size of dairy farms in the framework of computing the target price. Some of the components of the reform are most likely expected to be implemented in 2018, and others will be applied gradually over a number of years. In light of the initial phases of the reform and the fact that no understanding has yet been reached between the cattle growers and the government ministries on the final outline, the Company is unable, at the date of this report, to assess the impacts of the reform on the Company, if any. The Company is reviewing the subject and will examine its implications, if any, on the Company.

2.7 Business regulation and changes in the food industry – Following the public, political and economic debate in the past few years regarding the cost of living in Israel, various government bodies and committees appointed on their behalf began to examine the subject and to formulate legislative recommendations and arrangements relating, among other things, to the food industry.

On January 15, 2015 the Promotion of Competition in the Food Sector Law, 2014 (the "Food Law") entered into force. The goal of the Food Law is to increase competition in the food and consumer goods industries in order to lower retail prices by imposing prohibitions and restrictions on actions and arrangements between various parties operating in the market. According to the provisions of the law, the Company is defined as a "large supplier" (i.e. a supplier whose sales turnover to retailers in the prior financial year was above NIS 296 million or a monopoly supplier) and as such, it is subject to certain provisions. The Company applies an internal enforcement program, and also provides training for managers and relevant employees.

On September 30, 2016 the Protection of Public Health (Food) Law, 2015 (the "Law") entered into force. The Law deals with the comprehensive regulation of the food industry in Israel and of all parties active in it (manufacturers, importers, marketers, exporters and transportation and storage companies). Among other things, the Law regulates the responsibility of a food manufacturer with regard to the food it manufactures, supervision over food production, the responsibility of a food importer and supervision over food imports. The law also regulates the responsibility of a food marketer and its obligations in each of the phases of food transportation, from the time it is manufactured through its import to the point of its direct sale to the consumer.

The Company applies work methods that are consistent with the requirements of the new Law as well as enforcement and control measures to ensure compliance with these requirements and with the legislation promulgated under the Law. As at the date of this report, the Company estimates that the Law will not have a material impact on its business results.

On October 30, 2017 the Antitrust Authority published a memorandum of law containing an amendment to the Restrictive Trade Practices Law, entitled "Strengthening Enforcement and Reducing the Regulatory Burden", which contains a number of significant amendments to the Restrictive Trade Practices Law, 1988. These amendments include a proposed amendment which broadens the definition of a "monopolist" such that the current definition, which is based exclusively on market share (more than half of the relevant market) will be accompanied by a definition that is based on holding significant market power, even if the entity's market share is less than 50% of the market; elimination of the cap on the amount of financial sanctions, and retaining the bar of 8% of sales turnover and raising the financial bar in mergers. On February 25, 2018 the amendment was approved by the Ministerial Committee for Legislation, but it has not yet been approved by the Knesset. On completion of the legislative process and after the final version of the law has been received, the Company will be able to review the implications in its regard, if any.

In December 2017 the Public Health Regulations (Food) (Nutritional Labeling), 2017 were published in the Official Gazette. The purpose of these regulations is to provide consumers with clear information on the nutritional value of prepackaged foods, including by means of symbols displaying that the food contains a large amount of sodium ,sugars or saturated fatty acids ,in order to enable consumers to make informed food choices for the benefit of their health .The Company has been working on improving the nutritional value of its products for some years ,and continues to do so ,through adaptation and product innovation. The Regulations are to take effect in January 2020 and the Company is making the optimum preparations for their implementation. As at the date of this report, the Company estimates that no material impact on its business results is expected after the Regulations enter into force.

In January 2018 a bill limiting licensed importers passed the first reading in the Knesset .The bill empowers the Antitrust Commissioner to direct a licensed importer on concrete steps to be applied to prevent significant damage to competition posed by parallel imports .Insofar as the bill passes the rest of the legislative process and should the Commissioner find that competition is significantly impaired, he will be entitled to impose directives on the Company in regard to products in which it has the status of an exclusive/licensed importer. In the Company's estimate, as at the date of this report, in light of the low percentage of sales of imported branded products, the subject is immaterial to the Company.

2.8 Price control – Some dairy products in Israel are subject to control under the Supervision of Essential Goods and Services Law, 1996 and orders issued jointly by the Minister of Agriculture and the Minister of Finance. A controlled product must be labeled according to the provisions of the law and adhere to maximum prices defined for the retailer and consumer, which are determined by the Price Committee according to a dedicated methodology that was defined, the Suari Report; however, in January 2017 the Price Committee in the Ministry of Finance announced that it was adopting a new methodology for determining the prices of various controlled products, which will gradually replace the Suari Report, and that this methodology will be applied in stages by the supervisors in the various government ministries with a discussion to be held with the supervised companies at the start of the process. The Company has studied the underlying theory of the new methodology, but since the aforesaid discussion has not yet been held and no instructions for implementation have yet been received from the Price Supervisor in the Ministry of Agriculture, at this point the implications of the new methodology, if any, on the Company, are unknown. The Group's dairy products which, as at the date of this report, are subject to control that sets a maximum price limit, are fresh milk 3% fat (regular) in a carton, sweet cream 38% fat and white cheese 5% fat. In addition, there are other dairy products which are subject to reporting requirements with regard to profit margins and prices.

On February 19, 2018, as part of government policy to lower import barriers, the Knesset plenum approved the Standards Bill (Amendment no. 13), 2018, an amendment to the Standards Law which is to take effect on April 1, 2018. Under the amendment, the Standard Institution will review the group of official standards which adopt international standards (which were in effect prior to August 2016) and will explain why certain sections were not adopted as formulated. Insofar as a standard contains a national change (a change that is not included in the relevant international standard) on the grounds of public health and/or food safety and/or environmental quality, then following a review of the public's comments, the Minister will announce the revocation of the official standing of the standard or section in question. As at the date of this report, the Company estimates that the revised Standards Law's entry into effect is not expected to have a material impact on its business results.

The information in this section with regard to the Company's estimates as to the impacts of business regulation on the Group is forward-looking information as this term is defined in the Securities Law, and is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, *inter alia* as a result of various developments in the Israeli economy and in legislation, etc.

2.9 Qualitative report on exposure to market risks and the means for their management – The Company operates in areas that are by nature basic and stable; however, there are several factors and trends that are liable to influence both the scope and profitability of the Company's business. For a description of the market risks to which the Group is exposed, see section 29 in the report on the Description of the Company's Business as at December 31, 2017 ("Discussion on Risk Factors").

3. ANALYSIS OF FINANCIAL RESULTS

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

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

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

The information contained in this report and its presentation were examined from Company Management's perspective in order to provide a comprehensive picture and fairly present the manner in which the Company runs its businesses, which, in the Company's opinion, is material for the purposes of this report.

In view of the fact that the Group's Non-GAAP Reports and the method in which Group Management measures the results of subsidiaries and jointly owned companies have remained unchanged, the Group has continued to present the activity segments in the same manner in which they were presented before IFRS 11 was applied, i.e. presentation of the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%) (hereinafter: the **"Management (Non-GAAP) Reports"** or the **"Non-GAAP Reports"**).

Presentation of the data in this manner is different to the manner of their presentation in the Financial Statements of the Company as described above.

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

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the years and quarters ended December 31, 2017 and 2016 (in NIS millions)*:

	Year			Fourth Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Sales	**8,492**	**7,943**	***6.9***	**2,157**	**2,034**	***6.0***
Organic growth excluding foreign currency effect	8.0%	6.2%		10.2%	4.2%	
Cost of sales	5,376	4,963	*8.3*	1,383	1,317	*5.0*
Gross profit – non-GAAP	**3,116**	**2,980**	***4.6***	**774**	**717**	***8.0***
% of sales	36.7%	37.5%		35.9%	35.3%	
Selling and marketing expenses	1,861	1,795	*3.7*	490	479	*2.6*
General and administrative expenses	495	449	*10.1*	142	106	*32.4*
Total expenses	**2,356**	**2,244**		**632**	**585**	
Company's share of profits of equity-accounted investees	20	8	*150.8*	7	3	*194.7*
Operating profit – non-GAAP	**780**	**744**	***4.8***	**149**	**135**	***10.4***
% of sales	9.2%	9.4%		6.9%	6.6%	
Financing expenses, net	(137)	(125)	*9.2*	(32)	(23)	*39.1*
Income before taxes on income	**643**	**619**	***4.0***	**117**	**112**	***4.9***
Taxes on income	(164)	(166)	*(1.0)*	(31)	(24)	*26.9*
Effective tax rate	25.5%	26.8%		27.2%	22.5%	
Income for the period – non-GAAP	**479**	**453**	***5.8***	**86**	**88**	***(1.5)***
Attributable to: The Company's shareholders	**415**	**335**	***23.7***	**77**	**58**	***34.0***
Non-controlling interests	64	118	*(45.6)*	9	30	*(70.6)*
EPS (NIS)	3.70	3.12	*18.8*	0.67	0.53	*26.0*

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the years and quarters ended December 31, 2017 and 2016 (in NIS millions)*:

	Year			Fourth Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Israel						
Net sales	3,131	2,963	*5.6*	768	689	*11.3*
Operating profit	328	314	*4.5*	69	66	*5.1*
Coffee						
Net sales	4,100	3,673	*11.6*	1,085	1,061	*2.3*
Operating profit	393	359	*9.4*	79	84	*(5.9)*
International Dips & Spreads						
Net sales	692	717	*(3.4)*	168	136	*24.1*
Operating profit	19	48	*(59.9)*	(4)	(14)	*74.4*
Other						
Net sales	569	590	*(3.5)*	136	148	*(8.4)*
Operating profit	40	23	*73.0*	5	(1)	*451.2*
Total						
Net sales	**8,492**	**7,943**	***6.9***	**2,157**	**2,034**	***6.0***
Operating profit	**780**	**744**	***4.8***	**149**	**135**	***10.4***

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

Following are the condensed financial accounting (GAAP) income statements for the years and quarters ended December 31, 2017 and 2016 (in NIS millions)*:

	Year			Fourth Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Sales	5,480	5,282	*3.7*	1,385	1,310	*5.7*
Cost of sales excluding impact of commodity hedges	3,323	3,179	*4.5*	850	792	*7.4*
Adjustments for commodity hedges**	31	-		13	28	
Cost of sales	3,354	3,179	*5.5*	863	820	*5.3*
Gross profit	**2,126**	**2,103**	***1.1***	**522**	**490**	***6.4***
% of sales	38.8%	39.8%		37.7%	37.4%	
Selling and marketing expenses	1,259	1,234	*2.0*	324	323	*0.1*
General and administrative expenses	388	367	*5.6*	113	98	*15.1*
Total expenses	**1,647**	**1,601**		**437**	**421**	
Share of profits of equity-accounted investees	162	178	*(8.9)*	42	24	*78.9*
Operating profit before other expenses	**641**	**680**	***(5.7)***	**127**	**93**	***37.4***
% of sales	11.7%	12.9%		9.2%	7.0%	
Other expenses, net	(9)	(49)		(2)	(6)	
Operating profit after other expenses	**632**	**631**	***0.3***	**125**	**87**	***45.3***
Financing expenses, net	(117)	(109)	*8.7*	(27)	(16)	*78.5*
Income before taxes on income	**515**	**522**	***(1.5)***	**98**	**71**	***38.1***
Taxes on income	(99)	(134)	*(27.1)*	(22)	(15)	*40.9*
Effective tax rate	19.1%	25.8%		22.1%	21.7%	
Income for the period	**416**	**388**	***7.4***	**76**	**56**	***37.3***
Attributable to: The Company's shareholders	**342**	**272**	***25.8***	**68**	**30**	***128.6***
Non-controlling interests	74	116	*(35.6)*	8	26	*(66.2)*

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

*** Reflects mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices. Commencing in the first quarter of 2017, reflects all adjustments necessary to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties.*

<u>Following are the adjustments to the Company's Non-GAAP Management Reports (NIS millions)*:</u>

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

	2017			2016			Fourth Quarter 2017			Fourth Quarter 2016		
	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)
Sales	5,480	3,012	8,492	5,282	2,661	7,943	1,385	772	2,157	1,310	724	2,034
Cost of sales excluding impact of commodity hedges	3,323	2,053	5,376	3,179	1,784	4,963	850	533	1,383	792	525	1,317
Adjustments for commodity hedges	31	-	31	-	-	-	13	-	13	28	-	28
Cost of sales	3,354	2,053	5,407	3,179	1,784	4,963	863	533	1,396	820	525	1,345
Gross profit	**2,126**	**959**	**3,085**	**2,103**	**877**	**2,980**	**522**	**239**	**761**	**490**	**199**	**689**
% of sales	38.8%		36.3%	39.8%		37.5%	37.7%		35.3%	37.4%		33.9%
Selling and marketing expenses	1,259	602	1,861	1,234	561	1,795	324	166	490	323	156	479
General and administrative expenses	388	124	512	367	97	464	113	33	146	98	13	111
Company's share of profits of equity-accounted investees	162	(142)	20	178	(170)	8	42	(35)	7	24	(21)	3
Operating profit before other expenses	**641**	**91**	**732**	**680**	**49**	**729**	**127**	**5**	**132**	**93**	**9**	**102**
% of sales	11.7%		8.6%	12.9%		9.2%	9.2%		6.1%	7.0%		5.0%
Other expenses, net	(9)	(43)	(52)	(49)	(1)	(50)	(2)	1	(1)	(6)	(1)	(7)
Operating profit after other expenses	**632**	**48**	**680**	**631**	**48**	**679**	**125**	**6**	**131**	**87**	**8**	**95**
Financing expenses, net	(117)	(20)	(137)	(109)	(16)	(125)	(27)	(5)	(32)	(16)	(7)	(23)
Income before taxes on income	**515**	**28**	**543**	**522**	**32**	**554**	**98**	**1**	**99**	**71**	**1**	**72**
Taxes on income	(99)	(28)	(127)	(134)	(32)	(166)	(22)	(1)	(23)	(15)	(1)	(16)
Effective tax rate	19.1%		23.4%	25.8%		30.0%	22.1%		23.0%	21.7%		24.2%
Income for the period	**416**	**-**	**416**	**388**	**-**	**388**	**76**	**-**	**76**	**56**	**-**	**56**
Attributable to: The Company's shareholders	**342**	**-**	**342**	**272**	**-**	**272**	**68**	**-**	**68**	**30**	**-**	**30**
Non-controlling interests	74	-	74	116	-	116	8	-	8	26	-	26

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

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

	Year			Fourth Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Operating profit (according to proportionate consolidation method) after other expenses	**680**	**679**	***0.1***	**131**	**95**	***36.2***
Share-based payment	17	15		4	5	
Adjustments for commodity hedges	31	-		13	28	
Other expenses, net	52	50		1	7	
Operating profit – non-GAAP	**780**	**744**	***4.8***	**149**	**135**	***10.4***
Financing expenses, net	(137)	(125)		(32)	(23)	
Taxes on income	(127)	(166)		(23)	(16)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(37)	-		(8)	(8)	
Income for the period – non-GAAP	**479**	**453**	***5.8***	**86**	**88**	***(1.5)***
Attributable to: The Company's shareholders	**415**	**335**	***23.7***	**77**	**58**	***34.0***
Non-controlling interests	**64**	**118**	***(45.6)***	**9**	**30**	***(70.6)***

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

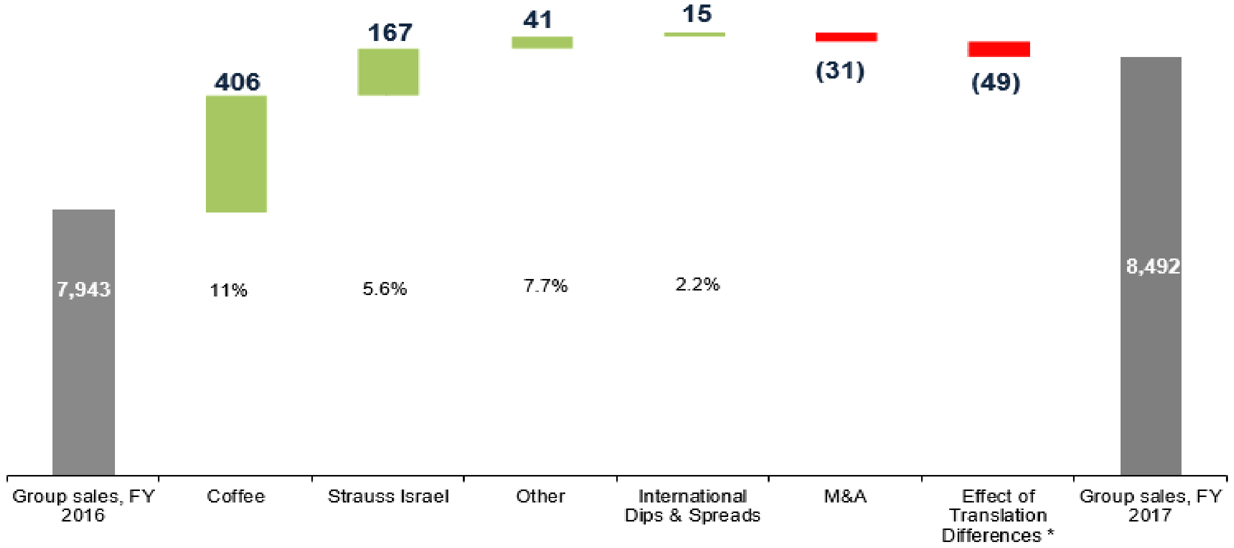
3.1 <u>Analysis of the business results of the Group</u>

3.1.1 Sales – non-GAAP

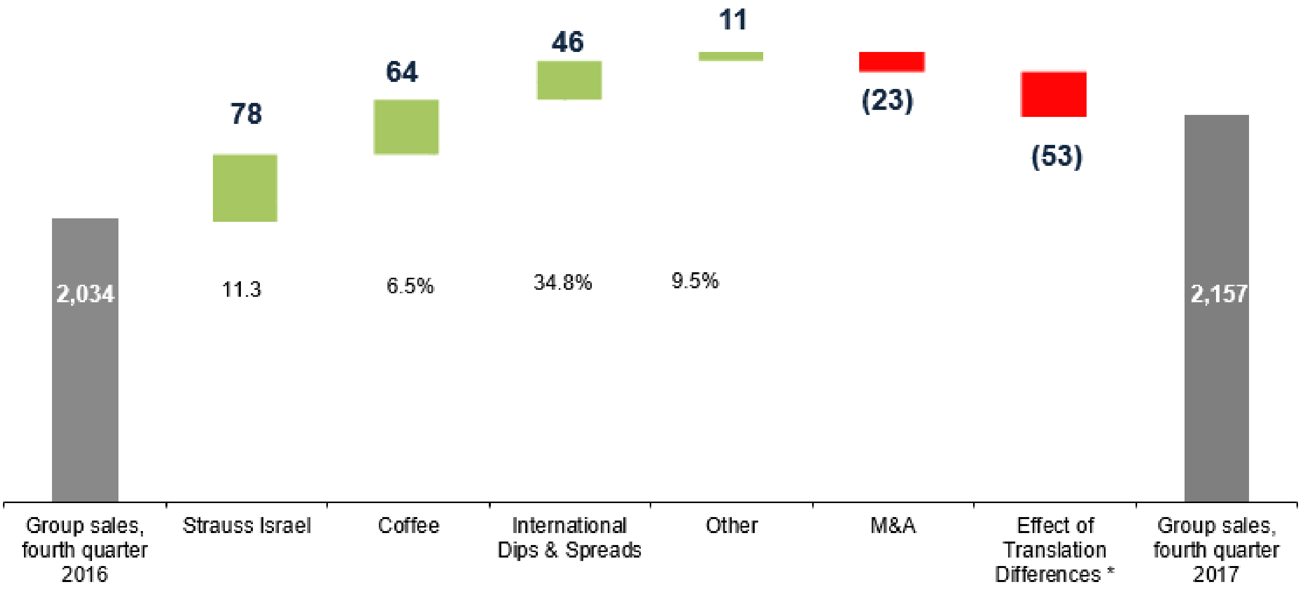
	Year		Fourth Quarter	
	2017	**2016**	**2017**	**2016**
Sales	8,492	7,943	2,157	2,034
Growth	6.9%	3.9%	6.0%	7.2%
Organic growth excluding foreign currency effect	8.0%	6.2%	10.2%	4.2%

Organic growth of the Group's sales in the year and fourth quarter of 2017, excluding the foreign currency effect, amounted to 8% and 10.2%, respectively, compared to the corresponding periods last year.

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



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



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

The Group's sales in 2017 were impacted by negative translation differences amounting to approximately NIS 49 million, of which NIS 45 million are due to the erosion of the average exchange rate of the US Dollar against the Shekel, as opposed to positive translation differences amounting to NIS 13 million arising from the appreciation of the average exchange rate of the Brazilian Real against the Shekel, compared to the corresponding period last year. The Group's sales in the fourth quarter of the year were influenced by negative translation differences of approximately NIS 53 million, of which NIS 37 million are the result of the weakening of the average exchange rate of the Brazilian Real against the Shekel, and NIS 10 million are the result of the weakening of the average exchange rate of the US Dollar against the Shekel compared to the corresponding quarter last year (see also the foreign exchange rate table in section 2.3 in this report).

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

- Inorganic growth in the Group's sales (in the 2017, a decrease of approximately NIS 31 million), primarily as a result of the sale of Max Brenner, which was offset by the acquisition of the Dutch company, Florentin B.V. (**"Florentin"**) and the acquisition of Cia Iguaçu by the Três Corações joint venture in Brazil[1]; and in the fourth quarter, a decrease of NIS 23 million, mainly due to the sale of Max Brenner at the end of the second quarter of the year.
- Organic growth in sales by the Other Operations segment (in 2017 and in the fourth quarter of the year, an increase of approximately NIS 41 million and NIS 11 million, respectively), mainly as a result of growth in Strauss Water's business in Israel.
- See section 3.2.1.1 below for further explanations on organic growth in sales by the Coffee segment.
- See section 3.2.2.1 below for further explanations on organic growth in sales by the Strauss Israel segment.
- See section 3.2.3 below for further explanations on organic growth in sales by the International Dips & Spreads segment.

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

3.1.2 Gross Profit – Non-GAAP

	Year				Fourth Quarter			
	2017	**2016**	**% Chg**	**% chg less translation differences effect**	**2017**	**2016**	**% Chg**	**% chg less translation differences effect**
Gross profit	3,116	2,980	*4.6*	*5.4*	774	717	*8.0*	*10.2*
Gross profit margin	36.7%	37.5%			35.9%	35.3%		

The Group's non-GAAP gross profit in 2017 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 25 million. Most of the translation differences were the result of the weakening of the average exchange rate of the US Dollar against the Shekel (approximately NIS 21 million) and were offset in part by positive translation differences originating in Strauss Coffee following the strengthening of the Brazilian Real against the Shekel (approximately NIS 3 million). In the fourth quarter, the gross profit was negatively impacted by translation differences into Shekels totaling approximately NIS 14 million. Most of the translation differences originated in Strauss Coffee as a result of the erosion of the Brazilian Real against the Shekel (approximately NIS 9 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in 2017 and the fourth quarter of the year rose by approximately NIS 136 million and NIS 57 million, respectively, compared to the corresponding periods last year:

- The aggregate gross profit of the International Dips & Spreads and Other Operations segments dropped by approximately NIS 41 million in the year and rose by approximately NIS 24 million in the fourth quarter compared to the corresponding periods last year. The decrease in gross profit in the cumulative period and the increase in the quarter is the result of the implications of the voluntary recall by Sabra in the fourth quarter last year and the sale of Max Brenner at the end of the second quarter of 2017,
- See section 3.2.1.2 below for further explanations on the change in the gross profit in the Coffee segment.
- See section 3.2.2.2 below for further explanations on the change in the gross profit in the Strauss Israel segment.

Further explanations on the Group's gross profit are included in section 3.2 below.

3.1.3 Operating Profit before Other Expenses – Non-GAAP

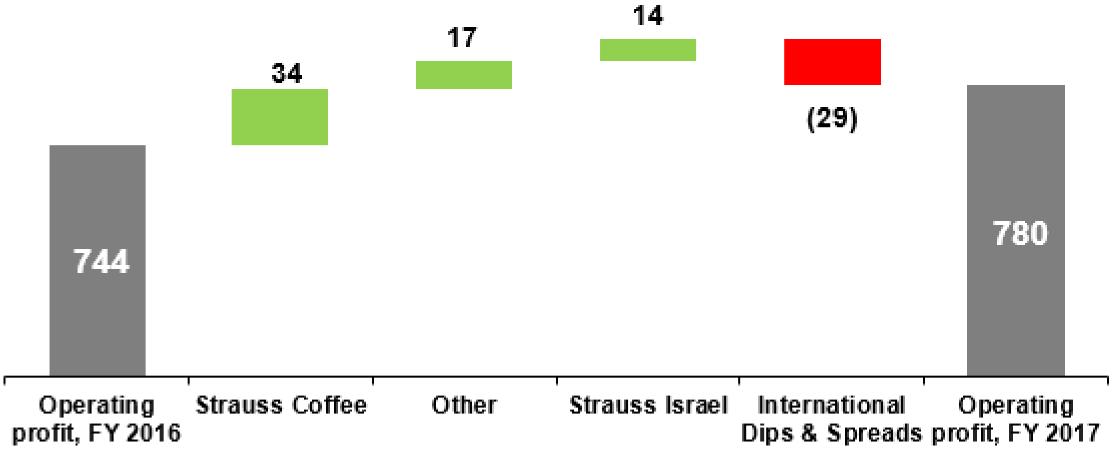
	Year				Fourth Quarter			
	2017	**2016**	**% Chg**	**% chg less translation differences effect**	**2017**	**2016**	**% Chg**	**% chg less translation differences effect**
Operating profit (EBIT)	780	744	*4.8*	*4.7*	149	135	*10.4*	*12.5*
Operating profit margin	9.2%	9.4%			6.9%	6.6%		

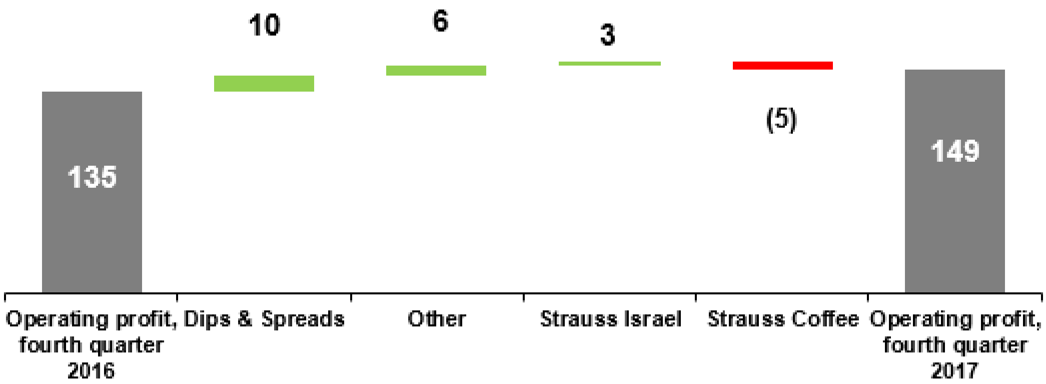
The Group's non-GAAP operating profit (EBIT) in 2017 was positively influenced by translation differences into Shekels, which amounted to approximately NIS 1 million (see also the exchange rate table in section 2.3 in this report).

In the fourth quarter, the operating profit was adversely affected by translation differences into Shekels, which amounted to NIS 2 million (see also the exchange rate table in section 2.3 in this report).

In 2017 and the fourth quarter of the year the non-GAAP operating profit grew by approximately NIS 36 million and NIS 14 million, respectively.

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





The change in the Group's EBIT in the year and fourth quarter of 2017 was the result of the following:

- An increase in the EBIT of the Other Operations segment – approximately NIS 17 million and NIS 6 million in the year and quarter, respectively – compared to the corresponding periods last year, primarily due to the growth in Strauss Water's profit as a result of sales growth and an improvement in the operating profit margin.
- See section 3.2.1.3 below for further explanations on the change in the operating profit in the Coffee segment.
- See section 3.2.2.3 below for further explanations on the change in the operating profit in the Strauss Israel segment.
- See section 3.2.3 below for further explanations on the change in the operating profit in the International Dips & Spreads segment.

3.1.4 Financing Expenses, Net – Non-GAAP

Net financing expenses in 2017 amounted to NIS 137 million compared to expenses of NIS 125 million in the corresponding period last year.

Net financing expenses in the fourth quarter of 2017 amounted to NIS 32 million compared to expenses of NIS 23 million in the corresponding period last year.

The increase in financing expenses in 2017 compared to the corresponding period last year is mainly the result of an increase in the gross debt and expenses recorded in respect of foreign currency derivatives due to the weakening of the Dollar against most of the currencies in 2017, compared to the appreciation of the Dollar against part of the currencies in 2016.

The increase in financing expenses in the fourth quarter of the year compared to the corresponding period last year is mainly the result of an increase in the gross debt and expenses recorded in respect of foreign currency derivatives due to the weakening of the Dollar against most of the currencies in the fourth quarter, as opposed to the appreciation of the Dollar in the corresponding quarter in 2016.

The net outstanding debt (according to the Non-GAAP Report) as at December 31, 2017 totaled NIS 2,080 million, compared to NIS 1,428 million on December 31, 2016. The gross outstanding debt as at December 31, 2017 was NIS 2,778 million, compared to NIS 2,314 million on December 31, 2016.

The net outstanding debt (according to the equity method) as at December 31, 2017 totaled NIS 1,897 million compared to NIS 1,120 million on December 31, 2016. The gross outstanding debt as at December 31, 2017 was NIS 2,469 million, compared to NIS 1,884 million on December 31, 2016.

3.1.5 Taxes on Income – Non-GAAP

In 2017 taxes on income (non-GAAP) amounted to NIS 164 million, reflecting an effective tax rate of 25.5%, whereas in the corresponding period last year income tax amounted to NIS 166 million and the effective tax rate was 26.8%.

In the fourth quarter of 2017 income tax (non-GAAP) amounted to NIS 31 million, reflecting an effective tax rate of 27.2%, whereas in the corresponding period last year income tax amounted to NIS 24 million and the effective tax rate was 22.5%.

The decrease in the effective tax rate in 2017 is the result of the profit mix for tax purposes between the companies in the various countries, a decrease in the Israeli and American corporate tax rate, and a decrease in Sabra's profits in the quarter.

The increase in the effective tax rate in the fourth quarter is due to the mix for tax purposes between the companies in the various countries and to an additional provision made by an investee company which is currently discussing its tax assessments for the years 2009 to 2013 with the local tax authorities. At this preliminary stage the investee has not yet received all information from the authorities regarding their position. The investee has made a provision according to its best estimates, based on the information in its possession as at the date of this report. Insofar as further clarifications are received from the tax authorities, it is possible that these estimates will change.

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

	Year			Fourth Quarter		
	2017	2016	% Chg	2017	2016	% Chg
Income attributable to the Company's shareholders	415	335	23.7	77	58	34.0
% of sales	4.9%	4.2%		3.6%	2.8%	

Non-GAAP income attributable to the Company's shareholders in 2017 and in the fourth quarter rose by approximately NIS 80 million and NIS 19 million, respectively, compared to the corresponding periods last year. The increase is mainly due to growth in the operating profit and an increase in the contribution of the coffee business's profits following the acquisition of the non-controlling interest in Strauss Coffee. For further information, see section 1.7 in the Description of the Company's Business report as at December 31, 2017.

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

In 2017 the GAAP comprehensive income amounted to approximately NIS 284 million, compared to comprehensive income of NIS 490 million in the corresponding period last year. In the reporting period losses in respect of translation differences, which are the main component of the other comprehensive income, amounted to approximately NIS 121 million compared to income of NIS 100 million from translation differences in the corresponding period last year.

The losses from translation differences in 2017 were primarily the result of Strauss Coffee's operations; of them, approximately NIS 69 million are due to the weakening of the Brazilian Real against the Shekel compared to their exchange rate at the end of 2016.

3.1.8 Liquidity, sources of finance and financial position (according to the GAAP report)

In the year 2017

Cash flows provided by operating activities amounted to a positive cash flow of approximately NIS 368 million, compared to a positive cash flow of NIS 610 million in the corresponding period last year. The change is mainly due to the change in working capital compared to the corresponding period, primarily as a result of a change in accounts receivable and trade payables compared to the corresponding period last year, which was offset mainly following a decrease in tax payments (in the corresponding period, a refund was paid to the Assessing Officer after income was received from the Assessing Officer at the end of 2015).

Cash flows provided by (used in) investing activities amounted to a negative cash flow of approximately NIS 386 million compared to a positive cash flow of NIS 67 million in the corresponding period last year. The change is primarily due to the acquisition of an operation by Strauss Coffee (for further information, see section 3.2.1 below regarding the exercise of an option to acquire a freeze-dried instant coffee manufacturing site in Germany), to an increased investment in an associate by Strauss Water (for further information, see section 3.2.4 below), and to dividends received from investee companies in the corresponding period last year. Conversely, during the year an investment in an available-for-sale financial asset was realized.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 297 million compared to a negative cash flow of NIS 519 million in the corresponding period last year. The change is mainly due to an issue of shares, an issue of debentures, and long-term loans taken. Conversely, the Company acquired the non-controlling interest in the coffee company and repaid long-term loans and debentures, compared to debt financing in a lower amount in the corresponding period in relation to uses made in that year.

In April 2017 the Company issued 4,074,752 shares of NIS 1 par value to institutional investors and the public, in consideration for approximately NIS 260 million. Additionally, in June 2017 the Company issued 2,727,274 shares of NIS 1 par value to institutional investors in consideration for approximately NIS 180 million. The costs of the issue amounted to NIS 4 million. For further information, see Note 26.1.2 to the Consolidated Financial Statements as at December 31, 2017.

On April 4, 2017 and on July 27, 2017 the subsidiary Strauss Coffee took a long-term loan of NIS 234 million and NIS 78 million, respectively, from an institutional body. For further information, see Note 20.5 to the Consolidated Financial Statements as at December 31, 2017.

On July 4, 2017 the Company issued Debentures (Series E), which were listed on the Tel Aviv Stock Exchange (TASE). The proceeds of the issue amounted to NIS 403 million, and the costs of the issue totaled NIS 4 million. For further information, see Note 20 to the Consolidated Financial Statements as at December 31, 2017.

Information on the Debenture Trustees:

	Debentures B	**Debentures D**	**Debentures D expansion**	**Debentures E**
Trust company	Hermetic Trust (1975) Ltd.	Reznik Paz Nevo Trusts Ltd.		
Name of manager in trust company	Ms. Merav Offer, Co-CEO and/or Mr. Dan Avnon, Co-CEO	Mr. Yossi Reznik		
Email	hermetic@hermetic.co.il	yossi@rpn.co.il		
Tel.	03-5544553	03-63892000		
Fax	03-5271451	03-63892222		
Address	Hermetic House, 113 Hayarkon Street, Tel Aviv	14 Yad Harutzim Street, Tel Aviv		

On August 1, 2017 the subsidiary Strauss Coffee repaid a short-term loan of approximately EUR 85 million (approximately NIS 355 million) it had received from TPG Capital on the acquisition date (see Note 6.4 to the Consolidated Financial Statements as at December 31, 2017).

On August 30, 2017 the subsidiary Strauss Water paid 150 million Yuan (approximately NIS 81 million) in consideration for an additional 15% holding in Qingdao HSW Health Water Appliance Co. Ltd., in such manner that after the closing, the holdings in the joint venture are 51% by companies of the Haier Group and 49% by Strauss Water (for further information, see section 3.2.4 below).

Following is information on average credit volumes:

	Year	
	2017	**2016**
Average volume of long-term credit according to the Non-GAAP Report	2,429	2,163
Average volume of short-term credit according to the Non-GAAP Report	426	168
Average volume of long-term credit according to the equity method	2,162	1,972
Average volume of short-term credit according to the equity method	295	41

The change is primarily the result of the buyback of TPG's holding (25.1%) in Strauss Coffee. For further information, see Note 6.4 to the Consolidated Financial Statements as at December 31, 2017.

Following is the change in net working capital:

	Year		Fourth Quarter	
	2017	**2016**	**2017**	**2016**
Change in net working capital according to the equity method	(98)	216	100	208
Change in net working capital according to the proportionate consolidation method	(82)	153	203	243

The Company's cash and cash equivalents as at December 31, 2017 totaled NIS 390 million compared to NIS 711 million on December 31, 2016. In accordance with Company policy, these assets are held mainly in liquid deposits.

The Company's liquidity ratio as at December 31, 2017 is 1.28 compared to 1.36 on December 31, 2016. On December 31, 2017 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,430 million compared to NIS 1,866 million on December 31, 2016. On December 31, 2017 short-term credit (excluding current maturities) totaled NIS 39 million compared to NIS 18 million on December 31, 2016. On December 31, 2017 supplier credit totaled NIS 715 million, compared to NIS 743 million on December 31, 2016.

Total assets in the Company's Consolidated Statement of Financial Position on December 31, 2017 amounted to NIS 6,183 million, compared to NIS 6,182 million on December 31, 2016.

Reportable credit – further to Note 20.6 to the Consolidated Financial Statements as at December 31, 2017 – Financial Covenants – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at December 31, 2017 is 29.4%, compared to 29.7% on December 31, 2016. The net financial debt-to-EBITDA ratio as at December 31, 2017 is 2.3, compared to 1.3 on December 31, 2016. Equity attributable to the Company's shareholders as at December 31, 2017 is NIS 1,817 million. As at the date of this report, the Company is in compliance with the required covenants.

On August 9, 2017 the Board of Directors approved a dividend to shareholders in the amount of NIS 160 million (approximately NIS 1.39 per share), which was paid to the shareholders on September 5, 2017. For information on the dividend distribution, see Note 26.3 to the Consolidated Financial Statements as at December 31, 2017.

Customer and supplier credit – from time to time, the Company executes non-recourse factoring transactions in accounts receivable, as well as reverse factoring transactions in supplier 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 Controller, the CFO and Controller of the Sales Division. In the coffee business credit committees convene periodically, and credit control is carried out by the CFOs and CEOs in the various countries and is their responsibility, under the master control of Strauss Coffee's CFO and the Group Treasurer, who sits on the credit committees of the coffee companies from time to time. In Brazil the risks are controlled by the management of the Três Corações joint venture[1] according to the policy approved by the Company's board of directors.

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

In April 2017 the Company announced the reaffirmation of Midroog's Aa2il rating for the Company's Series B and Series D Debentures in circulation, with stable outlook. In July 2017 the Company announced that Midroog had assigned a rating of Aa2il with stable outlook to debentures to be issued by the Company up to an amount of NIS 470 million.

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

	Year		**Fourth Quarter**	
	2017	**2016**	**2017**	**2016**
Cash flow from operating activities (according to the Non-GAAP Report)	622	762	328	360
Acquisition of fixed assets and investment in intangibles	268	239	79	76
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,080	1,428	2,080	1,428
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	238	231	65	59
Strauss Israel:				
Health & Wellness	55	58	14	15
Fun & Indulgence	36	35	11	8
Strauss Coffee:				
Israel Coffee	13	12	5	4
International Coffee	53	52	13	14
International Dips & Spreads	32	27	7	7
Other	49	47	15	11

The Group's EBITDA (non-GAAP) totaled approximately NIS 1,018 million in 2017 compared to NIS 975 million in the corresponding period in 2016, an increase of 4.4%. In the fourth quarter, the Group's EBITDA (non-GAAP) totaled approximately NIS 214 million compared to NIS 194 million in the corresponding period, an increase of 10.6%.

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

3.2 Analysis of the business results of the Group's major business units

3.2.1 Strauss Coffee

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reported segments for the years and quarters ended December 31, 2017 and 2016 (in NIS millions):

	Year			Fourth Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Israel Coffee						
Net sales	704	673	*4.5*	167	147	*13.9*
Operating profit	104	87	*19.0*	20	8	*132.7*
% operating profit	14.8%	13.0%		12.2%	6.0%	
International Coffee						
Net sales	3,396	3,000	*13.2*	918	914	*0.4*
Operating profit	289	272	*6.4*	59	76	*(21.8)*
% operating profit	8.5%	9.1%		6.4%	8.3%	
Total Strauss Coffee						
Net sales	**4,100**	**3,673**	***11.6***	**1,085**	**1,061**	***2.3***
Organic growth excluding foreign currency effect	**11.0%**	**11.4%**		**6.5%**	**13.9%**	
Gross profit	**1,314**	**1,182**	***11.2***	**333**	**320**	***4.1***
% gross profit	**32.1%**	**32.2%**		**30.7%**	**30.2%**	
Operating profit	**393**	**359**	***9.4***	**79**	**84**	***(5.8)***
% operating profit	**9.6%**	**9.8%**		**7.3%**	**8.0%**	

On March 27, 2017 the subsidiary Strauss Coffee (hereinafter: **"Strauss Coffee"**) made a buyback of TPG's entire holding (25.1%) in Strauss Coffee in consideration for €257 million. For further information, see Note 6.4 to the Consolidated Financial Statements as at December 31, 2017.

On March 23, 2017 Strauss Coffee exercised its call option for the acquisition of 100% of the shares of Norddeutsche Kaffeewerke GmbH (hereinafter: **"NDKW"**), which operates a freeze-dried coffee production plant in Germany. For further information, see Note 6.5 to the Consolidated Financial Statements as at December 31, 2017.

3.2.1.1 Sales

In the year and fourth quarter of 2017 organic growth of the coffee business, excluding the foreign currency effect, amounted to 11.0% and 6.5%, respectively, compared to the corresponding periods last year.

Growth in coffee sales in local currency in the fourth quarter mainly reflects volume growth in Brazil and Israel as well as the impact of price increases implemented in some countries earlier this year (in Russia prices were not raised and were even reduced), in light of the rising cost of green coffee. For further information, see the chapter "Strauss Coffee Sales by Major Geographical Regions".

In 2017 and the fourth quarter of the year Strauss Coffee's Shekel sales increased by approximately NIS 427 million and NIS 24 million, respectively, compared to the corresponding periods last year. Translation differences into Shekels in the year had a negative impact on sales by the coffee company and amounted to NIS 1 million, whereas a negative impact in the fourth quarter amounted to NIS 42 million, of which a positive impact of the change in the average exchange rate of the Brazilian Real against the Shekel amounted to approximately NIS 13 million in the cumulative period versus a negative impact of NIS 37 million in the fourth quarter. In addition, positive translation differences of NIS 27 million were recorded in 2017 as a result of the appreciation of the Russian Ruble against the Shekel compared to the corresponding period last year, versus a negative effect of NIS 1 million in the fourth quarter of the year.

For further explanations on sales by the coffee operation, see section 3.2.1.4 below.

3.2.1.2 Gross profit

In 2017 and the fourth quarter of the year the gross profit rose by approximately NIS 132 million and NIS 13 million, respectively, compared to the corresponding periods last year. The gross profit margin dropped by 0.1% in the year and amounted to 32.1%. In the fourth quarter the gross profit margin grew by 0.5% and amounted to 30.7%.

The drop in the gross profit margin during the year is explained by the rate of increase in green coffee prices exceeding the price increases introduced in most of the countries where the Company is active (in Romania the sales prices of some products were reduced), and in Russia, a drop in the price of coffee sold as a result of the strengthening of the Ruble against the US Dollar.

The increase in the gross profit margin in the fourth quarter is the result of a drop in green coffee prices.

3.2.1.3 Operating profit

In 2017 the operating profit of the coffee operation increased by approximately NIS 34 million compared to last year. The operating profit margin amounted to 9.6% in the year (a decrease of 0.2% compared to 2016).
In the fourth quarter of the year the operating profit dropped by NIS 5 million compared to the corresponding period last year. The operating profit margin in the fourth quarter was 7.3% (down 0.7% compared to the fourth quarter last year).

The change in Strauss Coffee's EBIT in the year and fourth quarter reflects:

- An increase in the operating profit of the Três Corações joint venture in Brazil[1] in 2017 and the fourth quarter as a result of an increase in sales prices until mid-2017 and a subsequent decrease, growth in R&G sales quantities and a drop in the cost of green coffee. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in the year and quarter by 26.6% and 2.9%, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

- A decrease in the operating profit in the CEE countries in 2017 and the fourth quarter, mainly as a result of a drop in sales in Romania and a negative foreign currency effect resulting from the gain in the average exchange rate of the Shekel against the relevant currencies.

- In Russia, the operating profit and operating profit margin rose in 2017 compared to the corresponding period last year as a result of growth in sales volumes and a decrease in the cost of sales as a result of the strengthening of the Ruble compared to 2016. In the fourth quarter the operating profit and operating profit margin in Russia dropped compared to the corresponding period following a reduction in sales volumes and an increase in marketing effort.

- An increase in the operating profit of Israel Coffee in 2017, mainly as a result of growth in sales quantities. In the fourth quarter sales volumes increased, as did the product mix, and marketing effort decreased.

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

3.2.1.4 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, 2017 and 2016 (in NIS millions):

	Year				Fourth Quarter			
Geographical region	**2017**	**2016**	**% Chg**	**% change in local currency***	**2017**	**2016**	**% Chg**	**% change in local currency***
Israel Coffee	**704**	**673**	***4.5***	***4.5***	**167**	**147**	***13.9***	***13.9***
International Coffee								
Brazil (Três Corações joint venture) (1) (2) - 50%	2,085	1,727	*20.7*	*19.8*	546	539	*1.4*	*8.9*
Russia and Ukraine	645	603	*6.9*	*5.1*	188	194	*(3.1)*	*0.6*
Poland	304	281	*8.3*	*10.5*	82	76	*8.0*	*4.9*
Romania	222	253	*(12.3)*	*(6.5)*	60	65	*(8.9)*	*(6.5)*
Serbia	140	136	*3.3*	*5.8*	42	40	*4.6*	*0.7*
Total International Coffee	**3,396**	**3,000**	***13.2***	***13.2***	**918**	**914**	***0.4***	***5.3***
Total Coffee	**4,100**	**3,673**	***11.6***	***11.6***	**1,085**	**1,061**	***2.3***	***6.5***

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

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

(2) Três Corações' sales – excluding intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee.

3.2.1.4.1 The Três Corações (3C) joint venture (Brazil) – A company jointly held by the Group (50%) and the São Miguel Group (50%); (Data reflect Strauss Coffee's share (50%))

In 2017 the Três Corações joint venture's average value market share in roast and ground (R&G) coffee amounted to approximately 25.7%, compared to 24.2% in the corresponding period last year (value market share reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures). In the GAAP report, the Group's share of the joint venture is accounted for in the equity method.

Despite the economic and political crisis in Brazil, in the year and fourth quarter of 2017 the Três Corações joint venture's sales in local currency grew by approximately 19.8% and 8.9%, respectively (19.9% and 8.6%, respectively, before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee). Most of the growth originates in R&G sales as a result of price increases and growth in sales volumes in this category. The growth in the Três Corações joint venture's local currency sales reflects growth in sales volumes of most of the joint venture's products, as well as price increases introduced in 2016 and the first half of 2017 in light of the rising cost of green coffee to Três Corações compared to the corresponding period last year. However, the increase in the cost of green coffee in Brazil tapered off somewhat and even dropped in the second half of 2017, as sales prices.

Growth in the Três Corações joint venture's Shekel sales in 2017 was favorably influenced by the appreciation of the Brazilian Real against the Shekel, which amounted to approximately NIS 13 million compared to the corresponding period last year. In the fourth quarter sales growth was negatively impacted by the weakening of the Brazilian Real against the Shekel, which amounted to approximately NIS 35 million compared to the corresponding quarter in 2016.

The Três Corações joint venture's gross profit in domestic currency rose by 22.7% and 15.9% in the year and fourth quarter, respectively, and amounted to approximately 501 million and 132 million BRL, respectively. In 2017 Três Corações' gross profit margin rose by 0.6% and amounted to 26.9%. In the fourth quarter the gross profit margin rose by 1.7%, amounting to 26.1%. The increase in the gross profit margin primarily reflects the increase in sales prices, which was offset in part due to a rise in the cost of green coffee to the Três Corações joint venture. EBIT (before other expenses) in BRL increased in 2017 by 26.6%, reflecting an increase in gross profit, which was partly offset by selling expenses. In the fourth quarter the operating profit (before other expenses) in BRL grew by 2.9% and primarily reflected growth in the gross profit as a result of volume growth and an increase in sales prices, which were offset by the rising cost of green coffee and selling and distribution expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

The overall impact of the TRES solution on Três Corações[1]' EBIT in 2017 and the fourth quarter of the year amounted to an operating loss of approximately NIS 7.6 million and NIS 2.9 million, respectively (approximately 6.8 million and 2.8 million BRL, respectively), compared to a loss of NIS 15.2 million and NIS 4.2 million, respectively (13.8 million and 3.6 million BRL, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)).

In April 2017 a manufacturing site for the production of coffee capsules designated for the domestic market began operating in Brazil. The plant is a joint venture between Três Corações and the Italian company, Caffitaly. The plant began manufacturing at full capacity during the second quarter.

3.2.1.4.2 Russia and Ukraine

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

The Company's sales in the region in local currency grew in 2017 and in the fourth quarter by approximately 5.1% and 0.6%, respectively, compared to the corresponding periods last year. The Company's sales in Russia in local currency mainly reflected growth in sales volumes. However, in the fourth quarter sales volumes in Russia and Ukraine decreased and prices in Russia dropped as a result of the challenging competition. During 2017, prices in Ukraine were raised to compensate for the increase in raw material prices as a result of the devaluation of the Ukrainian Hryvnia against the US Dollar.

The Company's Shekel sales in the region grew in 2017 by approximately NIS 42 million and dropped by NIS 6 million in the fourth quarter of the year, compared to the corresponding periods last year. Sales were affected by positive translation differences of the Russian Ruble and negative translation differences of the Ukrainian Hryvnia into Shekels, along with the increase in sales prices in local currency in Ukraine and volume growth.

3.2.1.4.3 Poland

The Company's sales in Poland in local currency increased by approximately 10.5% and 4.9% in the year and fourth quarter of 2017, respectively, compared to the corresponding periods in 2016. The growth in sales is the result of an improvement in the sales mix, growth in volumes and an increase in sales prices implemented during the year, which compensated for the increase in green coffee prices, compared to the corresponding periods last year.

The Company's Shekel sales in Poland grew by approximately NIS 23 million and NIS 6 million in the year and quarter, respectively, compared to the corresponding periods last year. Most of the increase in sales is due to growth in sales volumes and to price increases implemented during 2017, which compensated for the increase in green coffee prices. Sales growth in local currency covered the erosion of sales as a result of translation differences into Shekels. In the fourth quarter sales were positively affected by the appreciation of the Polish Zloty against the Shekel compared to the corresponding quarter in 2016 and in addition, the price increases covered a drop in sales volumes.

3.2.1.4.4 Romania

The Company's sales in Romania in local currency fell by approximately 6.5% and 6.5% in the year and fourth quarter of 2017, respectively, compared to the corresponding periods last year. The drop in sales in local currency is primarily due to growing competition, which led to a drop in quantities sold. In addition, due to a change in the local sale law, retailers reduced quantities ordered following the limitation of trade credit days.

Shekel sales in Romania decreased by approximately NIS 31 million and NIS 5 million in the year and fourth quarter, respectively, compared to the corresponding periods in 2016, and were affected by negative translation differences following the erosion of the Romanian Leu against the Shekel.

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

3.2.1.4.5 Serbia

The Company's sales in Serbia in local currency rose by 5.8% and 0.7% in 2017 and in the fourth quarter, respectively, compared to the corresponding periods last year. Sales were influenced by an increase in sales prices, particularly in the first quarter, despite a consumer trend of preferring cheaper coffee brands and price erosion due to the harshening competitive environment.

The Company's Shekel sales in Serbia rose by approximately NIS 4 million in the year and by NIS 2 million in the fourth quarter compared to the corresponding periods last year. In 2017 sales were influenced by negative translation differences of the Serbian Dinar against the Shekel, which were offset by the increase in sales prices in local currency, compared to the corresponding period. In the fourth quarter the Company's sales were influenced by an increase in sales prices and by positive translation differences of the Serbian Dinar, which were offset by a drop in quantities sold.

3.2.1.4.6 Israel

The Company's sales in Israel rose by approximately NIS 31 million in 2017 and by NIS 20 million in the fourth quarter compared to the corresponding periods last year. The increase in the year is due, among other things, to effective price erosion in the first quarter of 2016 as a result of marketing campaigns. The increase in the operating profit in 2017 is the result of sales growth as mentioned and of the erosion of raw material costs following gains by the Shekel against the US Dollar and other currencies, despite an increase in marketing expenses.

3.2.2 The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in 2017, according to StoreNext figures, held an 11.7% share of the total domestic retail food and beverage market in value terms (compared to 11.6% in the corresponding period last year), an increase of 0.1% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew by 5.6% in value terms, whereas according to StoreNext, in 2017 the Israeli food and beverage market increased by 1.7% in value terms. In 2017 the Company increased its income from new distribution agreements, which contributed considerably to growth in Strauss Israel's sales.

Sales by all operations of Strauss Group in Israel include sales by the Health & Wellness and Fun & Indulgence divisions, the coffee operation in Israel and Strauss Water Israel (Tami 4). Sales in 2017 include Max Brenner figures, until the sale of the business in May 2017. The Strauss Water business is not included in StoreNext's market share measurements.

In 2017 Strauss Group's sales in Israel totaled approximately NIS 4,347 million compared to NIS 4,129 million last year, an increase of 5.3%. In the fourth quarter of the year Strauss Group's Israel sales totaled approximately NIS 1,064 million versus NIS 960 million last year, an increase of 10.8%.

Organic growth, excluding the impact of the sale of Max Brenner, in the year and fourth quarter amounted to 5.8% and 11.3%, respectively, compared to the corresponding periods in 2016.

Strauss Israel

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments, for the years and quarters ended December 31, 2017 and 2016 (in NIS millions):

	Year			Fourth Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Health & Wellness segment						
Net sales	2,068	1,957	*5.7*	514	466	*10.2*
Operating profit	222	213	*4.2*	52	51	*1.3*
% operating profit	10.8%	10.9%		10.2%	11.1%	
Fun & Indulgence segment						
Net sales	1,063	1,006	*5.6*	254	223	*13.6*
Operating profit	106	101	*5.8*	17	15	*23.5*
% operating profit	10.0%	10.0%		6.9%	6.3%	
Total Strauss Israel						
Net sales	**3,131**	**2,963**	***5.6***	**768**	**689**	***11.3***
Gross profit	**1,233**	**1,188**	***3.8***	**301**	**281**	***6.9***
% gross profit	**39.4%**	**40.1%**		**39.2%**	**40.8%**	
Operating profit	**328**	**314**	***4.5***	**69**	**66**	***5.1***
% operating profit	**10.5%**	**10.6%**		**9.0%**	**9.6%**	

3.2.2.1 Sales

In 2017 Strauss Israel's sales increased by approximately 5.6% (NIS 168 million). In Health & Wellness the increase was approximately 5.7% (NIS 111 million), and in Fun & Indulgence sales growth amounted to 5.6% (NIS 57 million).

In the fourth quarter Strauss Israel's sales grew by approximately 11.3% (NIS 79 million); in Health & Wellness growth amounted to 10.2% (NIS 48 million), and in Fun & Indulgence sales increased by 13.6% (NIS 31 million), among other things as a result of the greater number of selling days compared to the corresponding period last year following the timing of the Jewish festivals.

The increase in sales in the year and fourth quarter reflects volume growth, which was the result of the launch of new products in the yogurt, dessert, chocolate tablet, salty snack, cookie and packaged salad categories, as well as new distribution agreements with companies whose products are distributed by Strauss, such as Prinir and Halav Ha'aretz.

3.2.2.2 Gross profit

In 2017 Strauss Israel's gross profit increased by approximately NIS 45 million with the gross profit margin dropping by 0.7%, compared to the corresponding period last year.

In the fourth quarter Strauss Israel's gross profit increased by approximately NIS 20 million, with a 1.6% drop in the gross profit margin compared to the corresponding period in 2016.

The erosion of the gross profit margin in the fourth quarter is the result of a rise in the prices of key raw materials (raw milk, milk powders and sugar). Additionally, an increase in production inputs such as the increase of the minimum wage during the year compared to the corresponding period last year. These increases were offset by sales volume growth, continued efficiency enhancing measures applied in manufacturing and packaging processes and the appreciation of the Shekel.

3.2.2.3 Operating profit

In 2017 Strauss Israel's EBIT increased by approximately NIS 14 million, and the operating profit margin dropped by 0.1% and amounted to 10.5% of sales.

In the fourth quarter Strauss Israel's EBIT increased by approximately NIS 3 million, with the operating profit margin dropping by 0.6% and amounting to 9.0% of sales.

The growth in the operating profit mainly reflects growth in sales volumes compared to the corresponding periods last year, which was partly offset by an increase in selling expenses (increase in the cost of wages following the increase of the minimum wage).

3.2.3 The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes refrigerated dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia and Western Europe. The operations of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). In the GAAP report, the Group's share of the operations of Sabra and Obela is accounted for in the equity method.

Sabra is the largest refrigerated flavored dips and spreads company in the US. According to IRI, Sabra's value market share of the total refrigerated dips and spreads category in the 52 weeks ended December 31, 2017 was 24.2% (Number 1 in the market), compared to 26.2% at the end of 2016. Sabra's value market share of the hummus category in 2017 was 56.5%, compared to 59.6% in the corresponding period last year.

In Australia, significant growth of approximately 28.2% and 19.4% was recorded in local currency sales in the year and fourth quarter of 2017, respectively, compared to the corresponding periods last year; these figures include the start of sales in New Zealand, which are immaterial. In Mexico and Holland, sales volumes are immaterial. Obela is leader of the hummus market in Australia and Mexico in terms of market share.

During the third quarter Obela began marketing refrigerated dips and spreads products in Germany through Florentin under the "Obela" brand.

3.2.3.1 Sabra

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

	Year		Fourth Quarter	
	2017	**2016**	**2017**	**2016**
Sales	1,244	1,328	294	233
Growth	(6.3%)	(6.6%)	25.9%	(32.2%)
Organic growth excluding foreign currency effect	0.2%	(5.1%)	37.3%	(31.0%)
Operating profit before other expenses	60	118	(3)	(26)
% operating profit	4.8%	8.9%	N/A	N/A

Sales by Sabra in 2017 dropped by approximately NIS 84 million and in the fourth quarter grew by NIS 61 million compared to the corresponding periods last year as a result of the voluntary recall by the company in November 2016.

On November 19, 2016 Sabra announced a voluntary recall in North America of some of its hummus products, manufactured and marketed in the US and Canada, due to concerns of possible Listeria contamination. The bacteria were detected in Sabra's production site in Virginia, but not in the end products. The company's sales were also adversely impacted by translation differences, which amounted to approximately NIS 83 million and NIS 23 million in the year and quarter, respectively (of which the Company's share amounts to NIS 41 million and NIS 11 million, respectively).

In 2017 Sabra focused on regaining its market share in the US and Canada prior to the voluntary recall in the fourth quarter of 2016, on continued growth, and on maintaining its market share in its other countries of operations.

In 2017 EBIT dropped by NIS 58 million compared to the corresponding period last year (of which the Company's share is NIS 29 million). The drop in EBIT is the result of the decrease in Sabra's sales following the voluntary recall in November 2016. The recall also adversely impacted the Company's operating profit due to indirect expenses including, among others, damage to the Company's trade agreements and the costs of an additional improvement made to the strict quality controls in place in the hummus factory in Virginia. Sabra has a certain amount of insurance coverage for the damages caused by the recall. In 2017, insurance coverage of approximately NIS 11 million was recognized.

The operating loss in the fourth quarter decreased by approximately NIS 23 million compared to the corresponding period in 2016 (of which the Company's share is NIS 11 million).

In the reporting period the Company amortized intangible assets in respect of the impairment of the salsa operation in the amount of approximately NIS 39 million (the Group's share). The assets were amortized to a recoverable amount supported by the assessment of the Company's external consultants. The sum of NIS 6 million was included in operating expenses, and the sum of NIS 33 million was included in the other expenses item. In addition, income from tax of approximately NIS 17 million was recorded in respect of the amortization, and was included in the "taxes on income" item.

3.2.3.2 Obela

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

Sales by Obela in 2017 totaled approximately NIS 141 million, compared to NIS 106 million in the corresponding period last year (32.8% growth). Excluding the foreign currency effect, sales growth in the period amounted to 38.4% compared to the corresponding period in 2016. Organic growth of Obela's sales in the year amounted to 23.9% compared to the corresponding period last year.

Obela's sales in the fourth quarter totaled approximately NIS 43 million, compared to NIS 38 million last year (13% growth). Excluding the foreign currency effect, growth in the period amount to 20.1% compared to the corresponding period in 2016.

The operating loss in the year amounted to NIS 21 million, compared to NIS 23 million in the corresponding period last year. In the fourth quarter, the operating loss amounted to NIS 4 million compared to NIS 3 million last year.

3.2.4 Other Operations

The Group has activities which are included in the Financial Statements as the "Other Operations" segment. As at the reporting date, the main operation in this segment is Strauss Water.

3.2.4.1 Strauss Water

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

Commencing in the third quarter of 2015 the Group's Non-GAAP Reports have reflected the restructuring of the operation in China implemented that year, following which Strauss Water held 34% of the Haier Strauss Water joint venture (HSW) in China.

On 28 May, 2017, Strauss Water Ltd. exercised the right reserved to it in accordance with the joint venture agreement to purchase an additional 15% of Qingdao HSW Health Water Appliance Co. Ltd. (the **"Joint Venture"** and the **"Acquisition"**); following the Acquisition the Joint Venture will be owned 51% by companies of the Haier Group and 49% by Strauss Water. On August 30, 2017 (the **"Acquisition Date"**), Strauss Water paid 150 million Yuan (approximately NIS 81 million) (hereinafter: the **"Consideration"**). On the Acquisition Date ownership of the additional shares acquired was transferred. The Consideration was determined according to a valuation based on the Joint Venture's financial results for the 2016 fiscal year, as determined in the Joint Venture agreement. The Consideration was financed by a shareholder loan extended by the Company to Strauss Water.

Sales by Strauss Water in 2017 amounted to NIS 541 million compared to NIS 496 million in the corresponding period last year, an increase of 9.1% mainly originating in the business in Israel.

In the fourth quarter, Strauss Water's sales amounted to NIS 136 million compared to NIS 125 million in the corresponding quarter in 2016, an increase of 9.3% mainly originating in the business in Israel.

Sales by the Haier Strauss Water Joint Venture in China, which is not included in the Non-GAAP Report, in 2017 totaled NIS 505 million compared to NIS 351 million in the corresponding period last year, an increase of 43.8%. Sales growth in the year, excluding the foreign currency effect, amounted to an increase of 55.2% compared to the corresponding period last year (unaudited, reflecting 100%).

In the fourth quarter of the year, sales amounted to NIS 129 million compared to NIS 104 million last year, an increase of 24%. Sales growth in the quarter, excluding the foreign currency effect, amounted to 30.9% compared to the corresponding period (unaudited, reflecting 100%).

The net profit of the Joint Venture in 2017 amounted to approximately NIS 56 million compared to NIS 29 million in the corresponding period last year, an increase of 95.3% (unaudited, reflecting 100%).
In the fourth quarter of the year, the net profit totaled approximately NIS 17 million compared to NIS 9 million in the corresponding period in 2016, an increase of 100.7% (unaudited, reflecting 100%).

Strauss Water has posted an improvement in operating profit and cash flow in the year and in the fourth quarter of 2017 compared to the corresponding periods last year.

3.2.4.2 Max Brenner

On May 23, 2017 an agreement was signed for the sale of the Max Brenner business in consideration for approximately NIS 18 million. The said amount includes prepaid rental fees amounting to NIS 3.5 million for Max Brenner's production facility in Beit Shemesh for a five-year period. Pursuant to the decision to realize the operation, the Company recognized a loss of approximately NIS 10 million in the first quarter as a result of the business's valuation according to the lower of its carrying value and fair value less costs to sell. Following the actual divestment in the second quarter, the Company recognized a net loss of NIS 11 million (NIS 7 million in respect of the realization of the translation reserve and the remainder in respect of transaction costs and severance pay to employees), which was classified to the other expenses item in the income statement. As at the date of publication of the report, the entire consideration for the sale has been received.

4. ASPECTS OF CORPORATE GOVERNANCE

4.1 The Board of Directors and its 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 10 members who possess different backgrounds and areas of expertise, including two external directors and an independent director appointed by the Board of Directors on March 13, 2018(1). For further information, see section 4.6 below. The directors do not fill other positions in the Company and are not employed by the Company with the exception of Ms. Ofra Strauss, who actively serves as Chairperson of the Board. The Board has three standing committees which are active on a regular basis: the Audit Committee, the Financial Statements Review Committee and the Remuneration Committee. Additionally, there are two *ad hoc* committees: the Strategy, Finance and Investment Committee and the Human Resources, Nominating and Corporate Governance Committee, which convene as necessary.

(1) In June 2017 the term of office of the external directors Ms. Dafna Schwartz and Mr. Michael Anghel expired, as did the term of office of the independent directors Mr. Akiva Mozes and Ms. Dalya Lev,

4.2 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 Headquarters, 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 .The Company is working on plans designed to mitigate the new risks identified and continues to address the risks identified in prior years according to multiyear work plans. The Audit Committee (which also serves as a Risk Management Committee) receives periodic reports for the purpose of supervising and assessing issues relating to risk management in the Group. For information on risk factors, see section 29 in the chapter "Description of the Company's Business" as at December 31, 201.7

4.3 Sustainability ,Corporate Responsibility ,Social Investment and Donations

In 2017 the Group's sustainability efforts and activities to maintain its "Social License to Operate" focused on the following areas:

(a) Continued implementation of the Social License to Operate (SLTO) concept across the Group among all relevant elements and development of a business strategy in alignment with this concept, based on measurable goals to improve business aspects influencing the Group's Social License to Operate.

(b) Continued development and implementation of a health strategy which will serve as a guideline for product improvement efforts in terms of ingredients while adhering to the highest of standards, with the aim of providing consumers with products that enable them to lead healthier lifestyles.

(c) Continued activities and achievements in various spheres to improve the Company's impact on its employees, suppliers, the community and the environment, and its other stakeholders.

(d) Continued social investment, focusing on the promotion of healthy lifestyles and informed food choices and the advancement and economic empowerment of women, as well as volunteering activities at the various sites and food rescue of the Company's products to help feed those in need.

Following is additional information on the areas of sustainability and corporate responsibility:

(a) Continued implementation of the SLTO concept

In 2017 the Company focused on the continued implementation of the overall "Social License to Operate" management concept in the understanding that the Company is given a license to operate, every hour and every day, by all its stakeholders and not only by the competent authorities. The goal of the SLTO concept is to impart a management concept in the Group, which is based on ongoing relationships with the various stakeholder groups (employees, customers, consumers, suppliers, communities, etc.) that are grounded in an understanding of their needs, and on connecting to risks and opportunities. As part of this concept, for the third time the Company carried out an in-depth barometer survey among its various stakeholders to gain an understanding of their perceptions of Strauss Group and of the compatibility of the Group's products with their needs. The Company also formulated objectives that provide a response to stakeholders' main needs, and the integration of social and business objectives was placed at the center of the Group's strategic plans and its work plans.

(b) Continued development and implementation of our health strategy

Based on an understanding of key trends in Israel and worldwide and of the consumer's desire to lead a healthy lifestyle, Strauss has developed a Group-wide health strategy that includes improvement of its products and the reduction of their sugar, fat and salt content, as well as the development of new offerings that meet various health needs. The strategy strongly emphasizes product quality and safety. The Company also redesigned the labeling of many of its products to enable consumers to make informed food choices.

(c) Continued activities and achievements in various spheres to improve the Company's impact on its stakeholders

In 2017 Strauss continued to invest efforts to improve its impact on stakeholders in a number of spheres:

- In Israel, the Company continued to expand the "For a Better Society" program, which grants employees who earn less than the average wage in Israel wage increments and dedicated compensation and welfare benefits. The program is in direct continuation of steps taken in the context of social programs by as early as 2012. In 2017 Strauss invested approximately NIS 8.5 million in Israel in continued support of its social program (supplementation of the minimum wage and contribution to daycare for employees' children). The Company also invested approximately NIS 13.3 million in employee welfare activities.

- The Company continued to conduct its business activities from an environmental perspective, working to reduce its impacts in terms of energy consumption, greenhouse gas emissions, water consumption and waste production. In each of these spheres strategic goals were set, and the Company is working year by year to improve its performance. In 2017 the Group continued to accomplish significant improvements, including the reduction of greenhouse gas emissions by using natural gas instead of electricity from the national grid, and a reduction in the use of water through the modification of processes in the coffee manufacturing site in Germany.

- In 2017 a number of processes were applied to extend the Company's responsibility to include its suppliers in order to increase the Company's influence and lead increasingly more business organizations to operate while keeping stakeholders' needs and expectations in mind. To this end, steps were taken to include key suppliers of Strauss Israel in the Maala CSR Index, in which context they are required to satisfy numerous criteria attesting to the existence of management processes that are executed from a CSR perspective.

- In 2017 Strauss Coffee persevered in its program in support of women working in coffee farms in developing countries around the world. During the year collaborations were formed with six women-owned coffee farms, which the Company supports through equipment and manpower. Sourcing coffee in this way allows for the supply of quality coffee to Strauss Group, while investing in women in developing countries to benefit their economic independence and enable them to earn a decent living in the long term. The program includes training and various forms of support for the women to help them succeed.

(d) Continued targeted social investment

In 2017 the Company continued to deepen its social investment activities, focusing on promoting healthy lifestyles and a balanced diet and on the advancement and economic empowerment of women. Additionally, as a leading food company in Israel, the Company considers it its duty to donate quality food products and contribute to increasing nutrition security among the needy in Israel on a regular basis all year round. Strauss donates food products through the two largest food banks in Israel, which provide food to dozens of not-for-profits and to people in need throughout the country, Leket Israel and Latet.

In addition, in the context of its community relations activities and employee volunteering program, Strauss supports over fifty significant social organizations by donating volunteer hours and other contributions.

Besides Strauss's primary social investment activity, the Group continues to support a variety of social causes in and outside Israel, in markets where we are active.

In 2017 Strauss Group invested approximately NIS 11.6 million in cash and in kind (food), and approximately NIS 2.5 million in the development of CSR, community activity and the value of employee volunteer hours.

The following table enumerates the Group's contributions in excess of NIS 50,000, where a relationship exists between the recipient of the donation and the Company, a director, general manager, controlling shareholder of the Company or a controlling shareholder's relative:

Recipient	Value of contribution (NIS)	Nature of the relationship between the recipient and the Company, a director, general manager, controlling shareholder or controlling shareholder's relative
The National Philanthropic Foundation	250,000	• Gadi Lesin, CEO, serves as Chairman of the Philanthropic Foundation
Maala – Business for Social Responsibility	75,000	• Giora Bar Dea, Deputy CEO, is a member of the executive board of the NGO.
Jasmine	103,000	• Ms. Ofra Strauss, Chairperson of the Board of Directors and controlling shareholder of the Company, is President of the NGO
Aharai! Follow Me!	73,180	• Meir Shanie, a director of the Company, is active in the NGO • Ms. Raya Ben Dror, Michael Strauss's sister, holds a position in the NGO

4.4 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. Furthermore, the framework of the work plan includes the activity of Group Headquarters and the 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 the 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 Strauss Group's procedures.

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 2017:

- In the Company itself and in investee companies in Israel – 6,120 hours.
- In investee companies abroad - 2,660 hours.

Total: 8,780 hours (compared to 8,230 hours in 2016).

An additional 16,000 hours were spent on internal audits in investee companies overseas. These internal audits were reviewed by the Auditor.

Performing the audit: The internal audit is performed according to the accepted professional standards in Israel for internal audits and professional guidelines and briefings, as approved and published by the international Institute of Internal Auditors (IIA). According to these guidelines, the Auditor performs quality control in order to review the audit work processes applied by the team of internal audit employees, and also executes a quality assurance plan devised by the Internal Audit unit in Strauss Group.

In the Board of Directors' view, based on the Auditor's report, the internal audit work was performed in accordance with accepted professional standards for internal audits.

Access to information: The Internal Auditor has free, continuous and direct access to the information systems of the Company, including financial and other data, in Israel and abroad. The internal auditing work applying to the business units abroad is performed by the Auditor and his team of employees overseas, as well as by employees who are directly employed by the foreign investees.

Auditor's report: The Auditor's reports are submitted in writing on a regular basis throughout the year. In 2017 thirty-six reports were submitted. The reports are submitted to the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, the CEO of the Israeli or international business according to the circumstances, the management of Group Headquarters, and to the units under audit. In 2017 ten meetings of the Audit Committee were held Group-wide (including the Strauss Coffee, Strauss Water and Strauss North America-Sabra Audit Committees). The meetings take place on a regular basis throughout the year. Furthermore, the Auditor holds regular and periodic meetings with the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, and senior Group Management.

The Board of Directors' evaluation of the Internal Auditor's activity: In the opinion of the Board of Directors, the scope of the internal auditing work, its continuous performance and the Auditor's work plan are satisfactory and sufficient in order to accomplish the purposes of internal audits in the Group. The Audit Committee, in conjunction with Group Management and the Auditor, examines the adequate 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 2017 the Auditor was paid an amount of approximately NIS 1,840 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.

4.5 Directors with accounting and financial skills

In the opinion of Board of Directors, the directors Professor Arie Ovadia, Ronit Haimovitch, Meir Shanie ,Galia Maor ,Dalia Narkys and Samer Haj-Yehia possess accounting and financial skills. For further information, see section 4.6 below.

The Board of Directors of the Company has determined that the minimum number of directors with accounting and financial skills required by the Company is three. This assertion was made taking into consideration, among other things, the size of the Company, the scope 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 adequate minimum number determined as aforesaid will enable the Board of Directors to perform its duties according to the law and the Company's incorporation documents, particularly with respect to its responsibility for examining the financial position of the Company and for the preparation and approval of the Financial Statements. The names of the directors and the particulars for which they are considered directors possessing accounting and financial skills are set forth in the chapter "Additional Information on the Company" in Regulation 26.

4.6 Independent directors

The Company has not adopted a provision regarding the percentage of independent directors in its Articles of Association.

As at the date of this report, two external directors serve on the Board of Directors. In addition, on March 13, 2018 the Board of Directors appointed Professor Joshua (Shuki) Shemer as an independent director of the Company. For further information, see Regulation 26 in the chapter "Additional Information on the Company" as at December 31, 2017 and the Company's Corporate Governance report in Chapter E below.

4.7 Auditor's fee

Following is information on the fees paid to the auditors of the material companies in the Group:

		For the year ended December 31, 2017					
		Audit services, audit-related services and tax services		Other services		Total	
Company	Auditor	NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies[(1)]	KPMG (Israel)	3,883	17,562	-	-	3,883	17,562
Sabra Dipping Company LLC (100%)	KPMG USA	1,746	2,456	-	-	1,746	2,456
Três Corações Alimentos S.A (100%)[(2)]	KPMG Brazil	486	2,100	83	260	569	2,360
Strauss Coffee B.V.	Mazars & KPMG (Israel, Meijburg)	2,349	5,440	24	58	2,373	5,498
Strauss Russia LLC	KPMG Russia	518	4,125	-	-	518	4,125
Norddeutsche Kaffeewerke GmbH	KPMG Germany	556	1,020	-	-	556	1,020

		For the year ended December 31, 2016					
		Audit services, audit-related services and tax services		Other services		Total	
Company	Auditor	NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies[(1)]	KPMG (Israel)	3,872	17,490	-	-	3,872	17,490
Sabra Dipping Company LLC (100%)	KPMG USA	1,669	1,992	-	-	1,669	1,992
PepsiCo Strauss Fresh Dips & Spreads (100%)	KPMG Switzerland, Mexico, Australia, Netherlands	507	802	-	-	507	802
Três Corações Alimentos S.A (100%)[(2)]	KPMG Brazil	501	2,366	47	168	548	2,534
Strauss Coffee B.V.	Mazars & KPMG (Israel, Meijburg)	2,355	6,148	-	-	2,355	6,148
Strauss Russia LLC	KPMG Russia	550	3,722	11	24	561	3,746

(1) The Company receives audit services together with other investee companies, the main ones being Yad Mordechai Strauss Apiary Ltd., Strauss Frito-Lay Ltd. (100%), Strauss Water Israel Ltd., and also including the Strauss Health & Wellness group, including Yotvata Dairies.

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

The mechanism for determining the Company Auditor's fees is defined according to the nature of the services rendered: Fees for auditing and review services are determined as a fixed amount. Fees for services accompanying the audit (special approvals, prospectuses, discussions, etc.) are based on the number of hours invested.

The mechanism for determining the Auditor's fees was approved by the Board of Directors of the Company. In regard to the investee companies, the mechanism for determining the Auditor's fees was approved by the local managements of these companies.

5. <u>GENERAL</u>

See the attached report for information on the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 9b.

6. <u>STATUS OF LIABILITIES REPORT ACCORDING TO PAYMENT DATES</u>

See Form T-126, published simultaneously with the Financial Statements.

7. <u>POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS</u>

For a review of events occurring after the statement of financial position date, see Note 38 to the Consolidated Financial Statements as at December 31, 2017.

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

Ofra Strauss	Gadi Lesin
Chairperson of the Board	Chief Executive Officer

March 13, 2018

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2017

Unofficial Translation from Hebrew
Strauss Group Ltd.

Consolidated Financial Statements as at December 31, 2017

Contents	**Page**

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

An Unofficial translation of the Hebrew version, the binding version is the Hebrew one.

Auditors' Report to the Shareholders of Strauss Group Ltd.

We have audited the accompanying consolidated statements of financial position of Strauss Group Ltd. (hereinafter "the Company") as of December 31, 2017 and 2016, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 59 million and NIS 23 million as of December 31, 2017 and 2016, respectively, and the Group's share in their profits amounted to approximately NIS 22 million, NIS 9 million and NIS 4 million for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based 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 (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2017 and 2016, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of 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 "An Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2017, and our report dated March 13, 2018 included an unqualified opinion on the effective maintenance of those components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 13, 2018

Unofficial Translation from Hebrew
Strauss Group Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2017	December 31 2016
		NIS millions	
Current assets			
Cash and cash equivalents	7	390	711
Securities and deposits	8	182	53
Trade receivables	9	955	881
Income tax		34	38
Other receivables and debit balances	10	92	156
Inventory	11	543	537
Assets held for sale	16.3	22	32
Total current assets		2,218	2,408
Investments and non-current assets			
Investment in equity-accounted investees	12	1,200	1,119
Other investments and long-term debit balances	13	82	163
Fixed assets	14	1,710	1,581
Intangible assets	15	944	857
Deferred expenses	6.5	-	28
Investment property	16	11	8
Deferred tax assets	35	18	18
Total investments and non-current assets		3,965	3,774
Total assets		6,183	6,182

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

Date of approval of the financial statements: March 13, 2018

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

Consolidated Statements of Financial Position (cont'd)

	Note	December 31 2017	December 31 2016
		NIS millions	
Current liabilities			
Current maturities of debentures	20	206	196
Short-term credit and current maturities of long-term loans and other liabilities	20	104	147
Trade payables	17	715	743
Income tax		33	11
Other payables and credit balances	18	639	642
Provisions	19	32	31
Total current liabilities		1,729	1,770
Non-current liabilities			
Debentures	20	826	635
Long-term loans and credit	20	1,333	906
Long-term payables and credit balances	21	76	60
Employee benefits, net	22	46	47
Deferred tax liabilities	35	218	221
Total non-current liabilities		2,499	1,869
Equity and reserves	26		
Share capital		252	244
Share premium		1,051	622
Reserves		(1,621)	(975)
Retained earnings		2,135	1,944
Total equity attributable to the Company's shareholders		1,817	1,835
Non-controlling interests		138	708
Total equity		1,955	2,543
Total liabilities and equity		6,183	6,182

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

Unofficial Translation from Hebrew
Strauss Group Ltd.

Consolidated Statements of Income

		For the year ended December 31		
		2017	2016	2015
	Note		NIS millions	
Sales	29	5,480	5,282	5,183
Cost of sales	30	3,354	3,179	3,228
Gross profit		2,126	2,103	1,955
Selling and marketing expenses	31	1,259	1,234	1,198
General and administrative expenses	32	388	367	329
		1,647	1,601	1,527
Share of profit of equity-accounted investees	12	162	178	198
Operating profit before other income (expenses)		641	680	626
Other income		27	6	16
Other expenses		(36)	(55)	(57)
Other expenses, net	33	(9)	(49)	(41)
Operating profit		632	631	585
Financing income		6	7	21
Financing expenses		(123)	(116)	(122)
Financing expenses, net	34	(117)	(109)	(101)
Income before taxes on income		515	522	484
Taxes on income	35	(99)	(134)	(139)
Income for the year		416	388	345
Attributable to:				
The Company's shareholders		342	272	257
Non-controlling interests		74	116	88
Income for the year		416	388	345
Earnings per share	36			
Basic earnings per share (in NIS)		3.05	2.53	2.40
Diluted earnings per share (in NIS)		3.04	2.52	2.39

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

Consolidated Statements of Comprehensive Income

	Note	2017	2016	2015
		For the year ended December 31		
		NIS millions		
Income for the year		416	388	345
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:				
Foreign currency translation differences	26.5	(13)	17	(168)
Reclassification of translation reserve in respect of realization of an operation to profit or loss	6.6	7	-	-
Changes in fair value of available-for-sale financial assets, net		3	2	3
Reclassification of capital reserve in respect of available-for-sale securities to profit or loss	33	(21)	-	-
Other comprehensive income (loss) from equity-accounted investees	26.5	(108)	83	(219)
Total other comprehensive income (loss) items that will be classified to profit or loss in subsequent periods, net		(132)	102	(384)
Comprehensive income (loss) for the year		284	490	(39)
Attributable to:				
The Company's shareholders		231	343	(32)
Non-controlling interests		53	147	(7)
Comprehensive income (loss) for the year		284	490	(39)

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2017	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543
Changes in 2017:										
Total comprehensive income (loss) for the year										
Income for the year	-	-	-	-	-	-	342	342	74	416
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(6)	-	-	(6)	(7)	(13)
Other comprehensive income from equity-accounted investees	-	-	-	-	(105)	-	-	(105)	(3)	(108)
Reclassification of translation reserve in respect of realization of an operation to profit or loss	-	-	-	-	7	-	-	7	-	7
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Reclassification of capital reserve in respect of available-for-sale securities to profit or loss	-	-	-	-	-	(8)	-	(8)	(13)	(21)
Other comprehensive loss for the year, net	-	-	-	-	(104)	(7)	-	(111)	(21)	(132)
Total comprehensive income (loss) for the year	-	-	-	-	(104)	(7)	342	231	53	284
Issue of share capital, net of issuance costs	7	429	-	-	-	-	-	436	-	436
Exercise of options granted to employees	1	-	-	-	-	-	-	1	-	1
Acquisition of non-controlling interest (see Note 6.4)	-	-	-	(311)	(224)	-	-	(535)	(554)	(1,089)
Share-based payment (see Note 23)	-	-	-	-	-	-	9	9	-	9
De-recognition of non-controlling interests due to loss of control in subsidiaries	-	-	-	-	-	-	-	-	(1)	(1)
Dividend	-	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(68)	(68)
Balance as at December 31, 2017	252	1,051	(20)	(392)	(1,209)	-	2,135	1,817	138	1,955

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

Consolidated Statements of Changes in Equity (cont'd)

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

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

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2015	244	622	(20)	(4)	(661)	5	1,637	1,823	717	2,540
Changes in 2015:										
Total comprehensive income (loss) for the year										
Income for the year	-	-	-	-	-	-	257	257	88	345
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(126)	-	-	(126)	(42)	(168)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(164)	-	-	(164)	(55)	(219)
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Other comprehensive income (loss) for the year, net	-	-	-	-	(290)	1	-	(289)	(95)	(384)
Total comprehensive income (loss) for the year	-	-	-	-	(290)	1	257	(32)	(7)	(39)
Share-based payment	-	-	-	-	-	-	14	14	-	14
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	-	1	1
Dividend	-	-	-		-	-	(100)	(100)	-	(100)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(108)	(108)
Balance as at December 31, 2015	244	622	(20)	(4)\	(951)	6	1,808	1,705	603	2,308

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

Consolidated Statements of Cash Flows

	Note	2017	2016	2015
		For the year ended December 31		
		NIS millions		
Cash flows from operating activities				
Income for the year		416	388	345
Adjustments:				
Depreciation		139	137	132
Amortization of intangible assets and deferred expenses		42	44	51
Impairment loss of fixed assets, intangible assets and investment property, net	14.1, 15.1	10	10	29
Other expenses (income), net		(14)	22	(14)
Expenses in respect of share-based payment		17	14	15
Financing expenses, net		117	109	101
Income tax expense		99	134	139
Share of profit of equity-accounted investees		(162)	(178)	(198)
Change in inventory		(7)	47	62
Change in trade and other receivables		(81)	83	(56)
Change in long-term receivables		(1)	5	9
Change in trade and other payables		(7)	84	(204)
Change in employee benefits		(2)	(3)	(3)
Interest paid		(102)	(101)	(99)
Interest received		4	15	26
Income tax received (paid), net		(100)	(200)	14
Net cash flows from operating activities		368	610	349
Cash flows from investing activities				
Sale (purchase) of marketable securities and deposits, net		(127)	5	61
Proceeds from sale of fixed assets, intangible assets and investment property		16	31	24
Investment in fixed assets and investment property		(141)	(132)	(182)
Investment in intangible assets		(43)	(30)	(30)
Proceeds from sale of operations, net cash sold	6.6	12	-	-
Proceeds from acquisition of operations, net cash acquired	6.5	(119)	-	(4)
Available-for-sale financial assets realization		31	-	-
Repayment of deposits and loans granted		32	49	50
Loan granted		(17)	(15)	(21)
Taxes received due to the sale of investment property		-	-	5
Dividends from investee companies	12.4	70	196	48
Investment in investee companies	12.6	(100)	(37)	(32)
Net cash flows from (used in) investing activities		(386)	67	(81)

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 2017	2016	2015
		NIS millions		
Cash flows from financing activities				
Proceeds from issue of share capital, net of issuance costs	26.1	436	-	-
Acquisition of non-controlling interests in a subsidiary	6.4	(1,094)	(52)	-
Short-term bank credit, net		24	(30)	43
Proceeds from issuance of debentures, net of issuance costs	20.4	399	-	-
Receipt of long-term loans		536	115	38
Repayment of long-term loans and debentures		(371)	(339)	(329)
Proceeds from exercise of share options		1	-	-
Dividends paid	26.3	(160)	(150)	(100)
Dividend paid to non-controlling interests in a subsidiary		(68)	(63)	(108)
Net cash flows used in financing activities		(297)	(519)	(456)
Net increase (decrease) in cash and cash equivalents		(315)	158	(188)
Cash and cash equivalents as at January 1		711	560	767
Effect of exchange rate fluctuations on cash balances		(6)	(7)	(19)
Cash and cash equivalents as at December 31		390	711	560

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

Note 1 - General

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

The Company and its investee companies (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active mainly in the development, manufacture, marketing and sale of a broad variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration and purification products for home and office.

The Company's controlling shareholders are Mr. Michael Strauss (indirectly) through his holdings in Strauss Holdings Ltd. (hereinafter: the "Parent Company" or "Strauss Holdings") and a direct holding in the Company, 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, 2017 comprise those of the Company and its subsidiaries, as well as the Group's rights in joint arrangements and associates. The financial statements were approved for publication by the Company's board of directors on March 13, 2018.

Note 2 - Basis of Preparation

2.1 Statement of compliance with International Financial Reporting Standards

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were prepared in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

2.2 Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the following items:

- Derivative financial instruments and securities held for trading, which are measured at fair value through profit or loss
- Inventory, measured at the lower of cost or net realizable value
- Available-for-sale financial assets
- Provisions
- Assets and liabilities in respect of employee benefits
- Deferred tax assets and liabilities
- Investments in associates and joint ventures
- Non-current assets held for sale

For information on the method in which these items are measured, see Note 3, Significant Accounting Policies.

Note 2 - Basis of Preparation (cont'd)

2.3 Functional and presentation currency

The consolidated financial statements are presented in NIS, which is the functional currency of the Company. The financial information is presented in NIS millions and has been rounded to the nearest million. The NIS is the currency that represents the principal economic environment in which the Group operates.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. The estimates and their relevant assumptions are based on past experience and on other factors, including expectations relating to future events, which management considers reasonable under the circumstances. Actual results may differ from the estimates made. Additionally, these estimates and underlying assumptions are reviewed on an ongoing basis. The judgments made by management when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating cycle

The Group's operating cycle is one year. As a result, current assets and current liabilities include items designated and expected to be realized within one year.

The accounting policy described below was consistently applied in all periods presented in these consolidated financial statements. The accounting policy was consistently applied by all entities in the Group. Policy representing the choice of an accounting alternative is presented in bold print.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently in all periods presented in the consolidated financial statements. The accounting policies have been applied consistently by all Group companies. Policies that represent a choice in accounting treatment are presented in this Note in bold print.

3.1 Basis of consolidation

3.1.1 Business combinations

The Group applies the acquisition method to all business combinations.

The acquisition date is the date whereon the acquirer obtains control over the acquiree. Control exists when the Group is exposed to, or the rights owner of, varying returns as a result of its involvement in the acquiree and has the ability to influence these returns through its influence in the acquiree. In reviewing control, tangible rights held by the Group and others are taken into account.The Group recognizes goodwill on acquisition according to the fair value of the Consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree less the net amount of the identifiable assets acquired and the liabilities assumed.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.1 Business combinations (cont'd)

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

Furthermore, goodwill is not adjusted in respect of the utilization of carryforward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, liabilities incurred by the acquirer from the previous owners of the acquire and equity instruments that were issued by the Group. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as valuation and professional or consulting fees, other than those associated with an issuance of debt or equity instruments related to the business combination, are expensed in the period wherein the services are received. **The Group recognizes costs related to business combinations as other expenses.**

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are adjusted to align them with the policies adopted by the Group.

3.1.3 Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

<u>Measurement of non-controlling interests on the date of the business combination</u>
Non-controlling interests, which are instruments granting a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.3 Non-controlling interests (cont'd)

Allocation of other comprehensive income or loss among shareholders
Profit or loss and any components of other comprehensive income are attributed to the owners of the Company and the non-controlling interests. The total profit or loss and other comprehensive income are attributed as mentioned even when the result is a negative balance of the non-controlling interests.

Transactions with non-controlling interests while retaining control
Transactions with non-controlling interests while retaining control are accounted for as capital transactions. **Any variance between the consideration paid or received and the change in non-controlling interests is classified to the reserve from transactions with non-controlling interests.**
The amount of the adjustment to non-controlling interests is calculated as follows:

For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.

For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate in the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

3.1.4 Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Subsequently, the retained interest is accounted for according to the level of influence retained by the Group in the relevant company. **The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances, is recognized in profit or loss under other income or expenses.**

3.1.5 Investment in associates and joint ventures

Associate companies are entities in which the Group has a significant influence over financial and operating policies, but not control or joint control, generally expressed in the holding of 20% to 50% of the voting rights. Joint arrangements in which the Company has rights to the net assets of the joint arrangement are classified as joint ventures. Investments in associates and joint ventures are accounted for in the equity method, and the investment is initially recognized at cost, including transaction costs. The consolidated financial statements include the Group's share of profit or loss and of other comprehensive income of equity-accounted investees, Following adjustments, to the extent required, to align accounting policies to those adopted by the Group, from the date on which the significant influence or joint control occurs, until the date whereon such influence and control no longer exist.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.5 Investment in associates and joint ventures (cont'd)

The joint ventures' operations constitute an integral part of the Group's operations, and accordingly, the Group's share in their results is included in the operating profit in the statement of income.

In the event of a decrease in the holding rate of an equity-accounted investee while retaining significant influence or joint control, the Group detracts a relative portion from its investment, and **recognizes a profit or loss from the sale, under the other income or expenses item in the statement of income.**

3.1.6 Transactions eliminated on consolidation

Intra-group balances and any unrealized income and expenses arising from intra-group transactions were eliminated in preparing the consolidated financial statements. **Unrealized gains arising from transactions with equity-accounted investees were eliminated against the investment according to the Group's interest in these investments.**

Unrealized losses were eliminated in the same way as unrealized gains, provided, however, that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currency of the Group companies according to the exchange rate in effect on the transaction date. **Exchange differences arising on the settlement of monetary items or on reporting monetary items at exchange rates different from those at which they were initially recorded during the period or reported in previous financial statements are charged to specific income or expense items according to the nature of the monetary item (exchange differences in respect of trade receivables are recognized in income, exchange differences in respect of trade payables are recognized in the cost of sales, and exchange differences in respect of foreign currency loans are recognized in financing costs).**

3.2.1 Foreign currency transactions

Monetary items are translated using the exchange rate at the date of the statement of financial position. Nonmonetary items denominated in foreign currency and measured at historical cost are translated using the exchange rate at the date of the transaction.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS according to the exchange rates in effect as at the reporting date. The income and expenses of foreign operations were translated into NIS using the exchange rates in effect at the transaction dates.

Note 3 - Significant Accounting Policies (cont'd)

3.2 Foreign currency (cont'd)

3.2.2 Foreign operations (cont'd)

Exchange differences in respect of translation were recognized directly in other comprehensive income as a separate item of equity, translation reserve. When the foreign operation is a non-wholly-owned subsidiary of the Group, the relevant proportionate share of the foreign operation translation differences is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control, is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit and loss as a part of the gain or loss on disposal. In addition, when the Group's interest in a subsidiary that includes a foreign operation changes while control of the subsidiary is retained, a proportionate part of the cumulative amount of translation differences that was recognized in other comprehensive income is reattributed to non-controlling interests.

As a rule, exchange differentials in respect of loans received or granted to a foreign operation, including foreign operations which are subsidiaries, are recognized in income statements in the consolidated reports. When the settlement of loans received or granted to a foreign operation is neither planned nor likely in the foreseeable future, gains and losses from exchange differentials arising from these monetary items are included as part of the net investment in the foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

3.3 Financial instruments

3.3.1 Non-Derivative Financial Instruments

Non-derivative financial instruments include investments in cash and cash equivalents, securities, deposits, short and long-term trade and other receivables, loans and credit received, debentures issued, and trade and other payables.

Non-derivative financial instruments are initially recognized at fair value plus any directly attributable transaction costs. A financial instrument is recognized when the Group assumes the contractual conditions of the instrument. Financial instruments are derecognized when the contractual rights of the Group to the cash flows deriving from the financial assets expire, or when the Group transfers the financial assets to others without retaining control over the asset, or in practice transfers all the risks and rewards arising from the asset. Purchases and sales of financial assets made in the usual way are recognized on the transaction date, i.e. on the date the Group undertook to purchase or sell the asset. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is settled or cancelled.

<u>Loans and receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value plus any attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized costs using the effective interest method, less losses from securities.
Loans and receivables include cash and cash equivalents, trade receivables, deposits, other receivables and long-term debit balances.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-Derivative Financial Instruments (cont'd)

Cash and cash equivalents – Cash and cash equivalents include cash, short-term deposits with banks and other highly liquid short-term investments, the term of which at the time of deposit is no more than three months.

Available-for-sale financial assets
The Group's investments in available-for-sale financial assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3.10.3), are recognized directly in other comprehensive income and presented in equity. When an investment is sold, the cumulative gains or losses accrued in equity are recognized in the statement of income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the Group's right to receive payments is established.

Financial assets at fair value through profit or loss
The Group's financial assets, which include securities held to support the Group's short-term liquidity requirements, are classified as held for trading and measured at fair value through profit or loss. Attributable transaction costs are recognized in the statement of income when incurred.

Non-derivative financial liabilities
Non-derivative financial liabilities include debentures and loans received, and short and long-term trade and other payables. Financial liabilities are initially recognized at fair value plus any attributable transaction costs. After initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Transaction costs directly attributed to the expected issuance of an instrument that will be classified as a financial liability are recognized as deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon first recognition, or are deducted as financing expenses in the statement of income when the issue is no longer expected to take place.
Financial liabilities are derecognized when the Group's obligation has expired, has been discharged or has been cancelled.

3.3.2 Derivative financial instruments

Offset of financial instruments
Financial assets and liabilities are offset and the net amounts presented in the statement of financial position when there is an immediate legal right to offset the amounts recognized, which is legally enforceable in all of the following circumstances: in the ordinary course of business, in the event of failure of credit and in the event of insolvency or bankruptcy of the entity and all counterparties, and there is an intention either to settle the financial assets and financial liabilities on a net basis, or to realize the asset and settle the liability simultaneously.

Derivatives
The Group holds derivative financial instruments mainly to economically hedge against risks relating to commodity prices, index and foreign currency risks arising from its operating,

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.2 Derivative financial instruments (cont'd)

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. These derivatives, which are not considered accounting hedges, are initially recognized and measured at fair value at each cutoff date, with changes in fair value recognized in the statement of income. Costs that can be specifically allocated to a transaction are recognized in profit or loss when incurred. **Gains and losses on commodity forwards are presented under cost of sales whereas other gains and losses are presented under financing expenses (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
Ordinary shares are classified as equity. Incremental costs directly attributed to the issuance of ordinary shares and share options net of tax effect are recognized as a deduction from equity.

Treasury shares
When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, plus directly attributable costs, is recognized as a deduction from equity**. Repurchased shares are classified as treasury shares.**

3.3.5 Redeemable preferred shares held by non-controlling interest holders

Preferred shares which are redeemable at the holders' option are classified as liabilities. Dividends on such shares are presented as a reduction of liabilities, while the interest in their respect is recorded as financing expenses when the dividends are declared.

3.4 Fixed assets

3.4.1 Recognition and measurement

Fixed asset items are measured at cost (including advance payments in respect of trade payables) less investment grants, accumulated depreciation and accumulated impairment losses (see Note 3.10.1). The cost of self-constructed assets includes the costs of materials and direct labor, and any other costs directly attributable to bringing the assets to the location and condition required for their intended use. The Group capitalizes borrowing costs to specific and non-specific credit in respect of fixed assets that require a considerable period of time to 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.

Note 3 - Significant Accounting Policies (cont'd)

3.4 Fixed assets (cont'd)

3.4.1 Recognition and measurement (cont'd)

Gain or loss on the disposal of a fixed asset item is determined by comparing the net proceeds from disposal with the carrying amount of the asset, and is recognized net within "other income" or "other expenses", as relevant, in the income statement.

3.4.2 Spare parts and tools

Spare parts and tools are presented as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise classified as inventory.

3.4.3 Subsequent costs

Improvement and enhancement costs are added to the cost of the fixed asset if it is expected that the future economic benefits embodied in the improvement will flow to the Group and their costs can be measured reliably. The costs of day-to-day maintenance are recognized in the statement of income as incurred.

3.4.4 Leasehold improvements

The costs of leasehold improvements are presented as fixed assets and amortized over the shorter of the lease period or the estimated useful life of the improvements, on a straight-line basis.

3.4.5 Depreciation

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item as presented below, other than land, which is not depreciated.

The principal depreciation rates for the years 2015-2017 are as follows:

	%	
Buildings and leased lands	2-5	(mainly 2.5)
Machinery, equipment	4-30	(mainly 4-20)
Motor vehicles	15-20	
Furniture and other equipment	3-33	
Leasehold improvements	2-33	

Residual values and useful lives of the assets, and the depreciation method, are reviewed and revised as necessary at least once a year.

3.5 Intangible assets

3.5.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. In subsequent periods goodwill is measured at cost less accumulated impairment losses. For information on measurement of goodwill at initial recognition, see Note 3.1.1.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.2 Development of software for own use

Costs that are directly related to the development of unique identified software products that are controlled by the Group and satisfy the conditions for recognition as intangible assets, as described in paragraph 3.5.3 below, are recognized as intangible assets.

Capitalized costs include direct labor costs and other direct costs accumulated until the date whereon the software is available for use.

3.5.3 Research and development

Expenditure on research activities is recognized in the statement of income when incurred. Costs incurred during development are recognized as an intangible asset if it is possible to demonstrate the technological feasibility of completing the intangible asset so that it will be available for use or sale; the intention of the Group to complete the intangible asset and to use or sell the asset; the ability to use the intangible asset or sell it; the manner in which the intangible asset will create future economic benefits; the existence of sufficient resources, technical and other, to complete the intangible asset and the ability to reliably measure the expense required for its development.

The asset is tested for impairment once a year during the development period, and also during the period in which the asset is not available for use. Subsequent to initial recognition the asset is measured at cost less accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when development has been completed and the asset is available for use.

3.5.4 Other intangible assets

Other intangible assets include brands, customer relationships and non-competition agreements that were acquired.

3.5.5 Subsequent expenses

Subsequent expenses are costs that were incurred after the recognition of the intangible asset for the purpose of adding to the asset, replacing part of it or for its maintenance. Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenses, including expenses related to internally generated goodwill and brands, are recognized in the statement of income when incurred.

3.5.6 Amortization

Intangible assets having a finite useful life are measured at cost net of accumulated amortization and impairment losses.

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.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.6 Amortization (cont'd)

The annual rates of amortization for the years 2015-2017 are as follows:

	%	
Brands	10-20	
Computer software	10-33	(mainly 25)
Other*	10-20	

* Customer relationships are amortized using the undiscounted cash flow method.

Goodwill and assets having an indefinite useful life are not amortized systematically, but rather will be tested annually for impairment. Intangible assets that are not amortized include certain brands and trademarks.
Amortization methods, useful lives and residual values are reviewed at the end of each reporting period at minimum and adjusted if appropriate. The Group evaluates the useful life of an intangible asset that is not being amortized at least once annually to determine whether events and circumstances continue to support an indefinite useful life.

3.6 Deferred expenses

Mainly includes prepaid expenses in respect of operating leases, which are amortized over the lease period on a straight-line basis.

3.7 Investment property

Investment property is property (land or buildings – or part of a building – or both) held (as owner or as lessee under a finance lease) either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Investment property is initially measured at cost including capitalized borrowing costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Transaction costs are included in this initial measurement. **Subsequent to initial recognition the Group measures its investment property at historical cost less accumulated depreciation and impairment.** The cost is depreciated in the straight line method over the useful life of the property. The cost of self-constructed investment property includes the costs of materials and direct labor, and any other costs directly attributable to bringing the property to the condition required for it to operate as intended by management.

Note 3 - Significant Accounting Policies (cont'd)

3.7 Investment property (cont'd)

The principal depreciation rates are as follows:

	%	
Buildings	2.5	
Leased land	2	Or over the lease period (including options likely to be exercised) if longer
Owned land	-	

Fixed assets which are no longer intended for use by the Group but will be held for the purpose of producing rental revenues or to increase their capital
Value will be classified as investment property from such date onward and will be treated as described above.

Any gain or loss on disposal of an investment property is determined by comparing the proceeds from disposal and the carrying amount of the item, and is recognized under other income or expenses, as the case may be, in the statement of income.

3.8 Leased assets

Leases, including land leases from the Israel Lands Administration, in which the Group has assumed substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are recorded and a liability recognized in an amount equal to the lower of fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future renewal dates of the lease agreement.

Other leases are classified as operating leases and the leased assets are not recognized on the Group's statement of financial position.

When a lease includes both a land component and a buildings component, each component is considered separately for the purpose of classifying the lease, with the principal consideration in classifying the land component being the fact that land normally has an indefinite useful life.

<u>Operating lease payments</u>
Minimum lease payments made under operating leases, excluding conditional lease payments, are recognized in the statement of income on a straight-line basis over the term of the lease. Prepayments to the Israel Lands Administration in respect of leased lands classified as operating leases are presented as deferred expenses and recognized in the statement of income over the lease period (see Note 3.6).

Note 3 - Significant Accounting Policies (cont'd)

3.8 Leased assets (cont'd)

Finance lease payments

Minimum lease payments made under finance leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.9 Inventory

Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory cost is determined using the moving average method, as follows:

Raw materials and packaging materials	–	At cost.
Goods in process and finished goods	–	At calculated cost.
Goods purchased	–	At calculated cost.

3.10 Impairment

3.10.1 Non-financial assets

For impairment testing purposes, goodwill acquired in a business combination is allocated to cash-generating units, including those existing in the Group prior to the business combination, which are expected to benefit from the synergies arising from the combination. In testing for impairment assets are allocated to the lowest levels that generate separate identifiable cash flows (cash-generating units).

Assets with an indefinite useful life such as goodwill and intangible assets not yet available for use are not amortized and are tested for impairment once a year. Other non-financial assets (excluding inventory, deferred tax assets and employee benefits assets – see accounting policy 3.9, 3.17 and 3.12, respectively) are tested for impairment if there have been any occurrences or changes in circumstances indicating that their carrying amount will not be recoverable. Impaired non-financial assets, excluding goodwill, are tested at each statement of financial position date to identify the possible reversal of the impairment that was recognized in their respect.

The impairment loss recognized is equal to the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less selling expenses and its value-in-use.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. **Impairment losses for goodwill and other indefinite-lived intangible assets are classified as other expenses in the statement of income.**

For goodwill impairment testing purposes, when the non-controlling interests were initially measured according to their relative share of the acquiree's net assets the carrying amount of

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.1 Non-financial assets (cont'd)

the goodwill is adjusted according to the Company's holding percentage in the cash-generating unit to which the goodwill is allocated.

3.10.2 Trade and other receivables

The Group tests trade and other receivables, which are measured at amortized cost, for impairment when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

In management's opinion, the provisions for doubtful debts adequately reflect the loss embodied in those debts, which collection is doubtful. Management's determination of the adequacy of the provision is based, *inter alia*, on an evaluation of the risk by considering the available information on the financial position of the debtors, the volume of their business and
An evaluation of the collateral received from them. Doubtful debts, which Company management considers unlikely to be collected, are written off the Company's books.

Significant trade receivable balances are tested for impairment on an individual basis. The remaining trade receivables are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of the trade and other receivables' balance is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, **and is recognized as selling and marketing expenses in the statement of income.**

An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized, and is recognized in the statement of income.

3.10.3 Available-for-sale financial assets

An impairment loss in respect of an available-for-sale financial asset is calculated on the basis of its fair value. **According to Group policy, impairment of an investment in an equity instrument of over 20% below the original cost of the asset, or impairment to below the original cost lasting more than nine months, is considered material or prolonged impairment, respectively**, of the fair value of the equity instrument and is objective evidence of impairment. An impairment loss on an available-for-sale financial asset is recognized by reclassifying the cumulative loss, which is recognized in the capital reserve, to the income statement.

An impairment loss on available-for-sale financial assets is recognized as other expenses in accordance with the Group's accounting policy (see Note 3.3.1).

Note 3 - Significant Accounting Policies (cont'd)

3.10 Impairment (cont'd)

3.10.4 Investments in associates and joint ventures accounted for in the equity method

An investment in an associate or joint venture accounted for in the equity method is tested for impairment when there is objective evidence of impairment.

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value-in-use and its net selling price. In estimating value-in-use of an investment in an equity-accounted investee, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the investee, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and is recognized as other expenses in the statement of income. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the equity-accounted investee.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized. The investment's carrying amount, after the reversal of the impairment loss, shall not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

3.11 Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction and not through continuing use.

Before classification as held for sale, the assets are measured in accordance with the Group's accounting policies. In subsequent periods the assets are measured at the lower of their carrying amount and fair value less cost to sell. Depreciable assets classified as held for sale are not depreciated periodically.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the statement of income. Gains are not recognized in excess of any cumulative impairment loss recorded in the past.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Employee benefits

3.12.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group's obligations to make contributions to defined contribution plans in respect of post-retirement benefits are recognized as an expense in the statement of income in the periods in which the employees rendered related services.

3.12.2 Defined benefit plans

The Group's net obligation in respect of defined benefit post-retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).

The discount rate is the yield on the date of the statement of financial position on high yield linked corporate debentures, the maturity dates and currencies of which are similar to the terms of the Group's obligations. The net obligations of the Group also include unrecognized actuarial gains and losses (see below). The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (insofar as relevant, excluding interest). **Remeasurements are recognized immediately, directly in retained earnings, through other comprehensive income**.

The Group offsets the assets of one benefit plan from the liability in another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of another plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in another.

Net interest that was recognized in the statement of income is presented under wage expenses.

3.12.3 Paid vacation and employee convalescence allowance

Employee benefits are classified, for measurement purposes, as short-term benefits or as long-term benefits depending on when the Company expects the benefits to be wholly settled. Employee benefits are classified according to the date whereon the liability falls due.

The Group recognizes the liability and the expense of the payment of leave and convalescence allowance as short-term, according to the entitlement of each employee on a non-discounted basis.

Note 3 - Significant Accounting Policies (cont'd)

3.12.4 Share-based payment transactions

The Company recognizes the benefit created upon granting option warrants to employees as a wage expense, with a corresponding increase in retained earnings, in accordance with the grant date fair value of the option warrants on the basis of the Black & Scholes model.

The benefit is recognized over the vesting period of the option warrants based on the Company's estimates regarding the number of warrants that are expected to vest.

3.12.5 Termination benefits

Employee termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

3.13 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the liability, without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted each period to reflect the time that has passed.

When an outflow of economic benefits is not expected to be required or when the amount cannot be reliably estimated, disclosure of a contingent liability is made, other than when the probability of an outflow of economic benefits is remote.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and restructuring either has commenced or has been announced publicly. The provision includes direct expenditures caused by and essential for the restructuring, and which are not associated with the continuing operations of the Group.

A provision for onerous contracts is recognized when the expected benefits that will be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of upholding the contract.

Provisions for legal actions were created as a result of legal processes occurring in the ordinary course of the Group's business. A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the obligation can 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

Note 3 - Significant Accounting Policies (cont'd)

3.13 Provisions (cont'd)

legal proceedings are uncertain, as it depends on their outcome. Therefore, the provisions are not presented at their current value (the impact of the discount is immaterial).

3.14 Revenue

3.14.1 Sale of products

3.14.1.1 Sale of goods

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. The Group recognizes revenue when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Sales on long-term credit are recorded at the present value of the consideration. Interest income deriving from these transactions is recorded as financing income over the excess credit period.

When it is possible to identify the separate components of a transaction, such as sale of a product and service, revenue is measured in respect of each separate component, and the consideration is allocated on the basis of the fair value of each component, separately.

3.14.1.2 Sale of water appliances for installment payments

Revenue from the sale of water appliances for installment payments, in which framework the Group supplies additional goods and services throughout the term of the contract, is split between the components of the transaction, in such manner that the income from the sale of appliances is recognized at the transaction date, and the income from the additional goods and services is deferred and recognized over the term of the contract. Interest income/expenses deriving from these transactions are recognized in financing income/expenses.

3.14.2 Coffee machine leasing

Revenue from the leasing of coffee machines under a lease classified as an operating lease is recognized over the term of the contract.

3.14.3 Revenue from services

Revenue from services rendered is recognized in the statement of income pro rata to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on the percentage of the service already rendered.

Note 3 - Significant Accounting Policies (cont'd)

3.14 Revenue (cont'd)

3.14.4 Customer discounts

Customer discounts are deducted from revenue on a cumulative basis when the terms and conditions entitling the customer to a discount are created, on the basis of the total annual volume of orders or sales campaigns held by the Group.

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.

Note 3 - Significant Accounting Policies (cont'd)

3.17 Income tax expense

Income tax comprises current and deferred tax. Current and deferred taxes are recognized in the statement of income unless they relate to a business combination or are recognized directly in equity or in other comprehensive income if they relate to items recognized directly in equity or in other comprehensive income. In these cases, the income tax expense is recognized in equity or in other comprehensive income.

Current tax
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and also includes any adjustments to taxes in respect of prior years and any incremental tax arising from dividends.

Offset of current tax assets and liabilities
The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Deferred tax
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred tax for temporary differences on the initial recognition of goodwill as well as differences relating to investments in subsidiaries and joint ventures if the Group controls the timing of reversal of the difference and if it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized when it is probable that future taxable profits will be available against which temporary differences can be utilized or in the absence of forecasts for taxable income. Deferred tax assets are recognized up to the amount of taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 current tax assets and liabilities and they relate to the same tax authority in the sameassesse company or different companies, which intend to settle current 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

Note 3 - Significant Accounting Policies (cont'd)

3.17 Income tax expense (cont'd)

expected to distribute a dividend deriving from profits that involves the imposition of additional tax on the Company, the Company creates a tax reserve in respect of the additional tax for which the Company may be liable as a result of distribution of the dividend.
Additional income tax in respect of the distribution of dividends is recognized in the income statement on the date when the liability to pay the corresponding dividend is recognized.

3.18 Supplier discounts

Discounts received from suppliers in which respect the Group is not obligated to meet certain targets are included in the financial statements upon making the proportionate part of the purchases entitling the Group to the said discounts.

3.19 Advertising expenses

Advertising expenses are recognized in the statement of income as incurred.

3.20 Contribution to joint venture expenses

Revenues from contributions to expenses by related and other companies are recorded on an accrual basis according to specific agreements with the companies, and are included in the relevant expense items.

3.21 Earnings per share

The Group presents basic and diluted EPS with respect to its ordinary share capital. The basic earnings per share are calculated by dividing the income or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, after adjustment for treasury shares. Diluted EPS are calculated by adjusting the income or loss attributable to the ordinary shareholders of the Company and adjusting the weighted average of ordinary shares outstanding, after adjustment for treasury shares and for the impact of all potentially dilutive ordinary shares, which include option warrants granted to employees.

3.22 New standards and interpretations not yet adopted

3.22.1 IFRS 9 (2014), Financial Instruments

IFRS 9 (2014) replaces IAS 39: *Financial Instruments: Recognition and Measurement*. IFRS 9 (2014) contains revised guidance for the classification and measurement of financial instruments, a new expected credit loss model for most debt instruments, requiring more timely recognition of expected credit losses, and new hedge accounting requirements.

The Group intends to apply the standard commencing on January 1, 2018 without providing comparative information, adjusting retained earning balances and other equity components as at January 1, 2018 (the date of initial application of the standard) if there is any such impact.

Note 3 - Significant Accounting Policies (cont'd)

3.22 New standards and interpretations not yet adopted (cont'd)

3.22.1 IFRS 9 (2014), Financial Instrument (cont'd)

The Group has reviewed the implications of applying the standard, and estimates that its application is not expected to have a material impact on the financial statements of the Group.

3.22.2 Amendment to IFRS 9, *Financial Instruments*, with respect to modifications of financial liabilities

On October 9, 2017 the IASB published an amendment to IFRS 9, which clarifies the accounting treatment of an immaterial change in the contractual terms of a financial liability. When the change in terms or exchange of a financial liability is immaterial, the change in contractual cash flows will be discounted at the original effective interest rate, and the difference between the present value of the liability under the new contractual terms and the original value will immediately recognized in profit or loss.

3.22.3 IFRS 15, Revenue from Contracts with Customers

The standard replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. The standard provides two approaches for recognizing revenue: at a single point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. The standard also defines new and more extensive disclosure requirements than those that exist at present.

The Group intends to apply the standard commencing on January 1, 2018 in the aggregate effect method, adjusting retained earning balances as at January 1, 2018, only for contracts that are not completed as at the transition date. The Group appointed a team to review the anticipated impacts of the application of IFRS 15 on its financial statements and has reviewed these impacts. In the Group's estimation, implementation of the standard is not expected to have a material impact on its financial statements.

3.22.4 IFRS 16, Leases

The standard replaces IAS 17, *Leases*, and related interpretations. The provisions of the standard revoke the current requirement that lessees classify leases as either operating leases or finance leases, and instead, introduce a single lessee accounting model. In applying the model, the lessee is required to recognize the asset and liability in respect of the lease in its financial statements. The standard further determines new disclosure requirements that are broader in scope than those that exist today.

IFRS 16 will be applied for annual periods beginning on January 1, 2019 in the aggregate effect method, adjusting retained earning balances as at January 1 2019.

The Group intends to choose the transition option of recognizing a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application, and simultaneously a right of use asset at the

Note 3 - Significant Accounting Policies (cont'd)

3.22 New standards and interpretations not yet adopted (cont'd)

3.22.4 IFRS 16, Leases (cont'd)

carrying amount, as if the standard had been applied from the beginning of the lease term, but discounted using the identical rate applying to the liability.

The Group is reviewing the implications of IFRS 16 on its financial statements and does not plan on its early adoption.

3.22.5 Amendment to IAS 28, *Investments in Associates and Joint Ventures*: Long-term Interests in Associates and Joint Ventures

The amendment clarifies that for long-term interests that, in substance, form part of the entity's net investment in the associate or joint venture, the entity will first apply the requirements of IFRS 9 and will then apply the requirements of IAS 28 to the remainder of those interests, such that long-term interests will be governed by both IFRS 9 and IAS 28. The amendment will be applied retrospectively for annual periods beginning on January 1, 2019. The Group is reviewing the implications of the amendment on its financial statements and does not plan on early application.

3.22.6 Interpretation of IFRIC 23, Uncertainty over Income Tax Treatments

The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. According to the interpretation, in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity must consider whether it is probable that the tax authority will accept an uncertain tax treatment. If the entity concludes that it is probable that the tax authority will accept the tax treatment applied by the entity, the entity will recognize the tax implications on its financial statements consistently with the tax treatment. However, if the entity concludes that it is not probable that the tax treatment will be accepted, it will be required to reflect the effect of uncertainty in determining taxable profit (loss) by applying one of the following methods: the most likely amount method or the expected value method. The interpretation clarifies that when considering whether it is probable or not that the tax authority will accept the tax treatment applied, an entity should assume that the tax authority will examine amounts it has a right to examine and that it has full knowledge of all relevant information when making this examination. Additionally, according to the interpretation an entity should reassess any judgments and estimates made if the facts and circumstances change or new information becomes available. The interpretation also clarifies the need for disclosures regarding the entity's judgments and assumptions made in regard to uncertain tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019, with early application permitted. The interpretation provides two options for transition: it may be applied retrospectively or prospectively commencing in the first reporting period in which the entity first applied the interpretation. The Group is reviewing the implications of the interpretation's application on its financial statements and does not plan on early application.

Note 4 - Critical Accounting Policies and Management's Judgments

The judgments of management and its estimates are reviewed on an ongoing basis and are based on past experience and various factors, including expectations regarding future events.

The Group makes estimates and assumptions regarding the future. The accounting estimates deriving from these assumptions may, by nature, differ from actual results. The estimates and assumptions that in the next fiscal year may result in significant adjustment to the carrying amount of assets and liabilities are discussed below.

Impairment of assets
In accordance with IAS 36, on every reporting date the Group examines the existence of any events or circumstances that may indicate impairment in the value of non-financial assets included in its scope, including investments in joint ventures, accounted for using the equity method. When there are signs indicating impairment, the Group examines whether the carrying amount of the asset exceeds its recoverable amount.

Once a year on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash-generating unit that contains goodwill or intangible assets that have indefinite useful lives or are unavailable for use. If necessary, the Group writes down the asset to its recoverable amount and recognizes an impairment loss. The assumptions regarding future cash flows are based on past experience with the specific asset or similar assets, and on the expectations of the Group regarding the economic conditions that will exist over the remaining useful life of the asset. The Group uses estimates of appraisers when determining the net sales price of assets. With respect to real estate, the estimates take into account market conditions for real estate in a similar location. See also Note 15.3 regarding assumptions and risk factors relating to goodwill impairment.

Valuation of intangible assets and goodwill
The Group is required to allocate the acquisition cost of investee companies to assets acquired and to liabilities assumed on the basis of their estimated fair value. In major acquisitions, the Group engages independent appraisers who assist it in determining the fair value of these assets and liabilities. These valuations require management to apply significant estimates and assumptions. The principal intangible assets recognized in recent years include customer relationships, trademarks and brands. Critical estimates used in estimating the useful life of these intangible assets include, *inter alia*, an estimate of the period of customer relationships, the period of use of a brand and anticipated market developments. Critical estimates used to estimate certain intangible assets include, *inter alia*, anticipated cash flows from customer contracts and replacement costs of brands. The estimates of management regarding fair value and useful life are based on assumptions considered reasonable by management but are uncertain, and consequently, actual results may differ. See also Note 15.2 regarding Intangible assets with indefinite useful lives.

Contingent liabilities
The Company has a procedure in place for examining and determining the amounts of provisions recorded in respect of legal claims pending against the Company and its investee companies. Legal opinions are received each quarter from legal counsel handling the claims on the behalf of the Company, who, in an opinion presented to the Company, assess the chances of the claims' success and indicate whether it is probable (above 50%) or improbable (50% or less) that the claim will be accepted. When a claim is unlikely to be accepted no provision is recorded on the Company's books, but disclosure is provided in the framework of Note 24 to the financial

Note 4 - Critical Accounting Policies and Management's Judgments (cont'd)

statements if the claim is significant. When acceptance of the claim is probable, the Company estimates the amount of the exposure based on the assessment of its legal counsel, the experience accumulated by the Company and the specific circumstances of the case, and recognizes a provision in the financial statements on the basis of this assessment. The legal Proceedings will ultimately be decided by the courts and consequently their results may differ from these estimates. In the course of the process of approving the Company's annual financial statements, the board of directors' balance sheet committee performs control processes also with respect to the claims pending against the Company, and these claims, including their amounts, the Company's legal counsel's assessment of the extent of exposure and their chances of success, as well as the amount of the provisions made in their respect in the financial statements, are presented to the committee.

Provision for doubtful debts
The Group applies the guidance provided in IAS 39 to determine whether there has been impairment of the trade receivables balance. This decision requires that significant judgment be applied. When applying this judgment the Group takes into account, *inter alia*, the accounts receivable age analysis, bad debt history, debt collection patterns, financial strength and a short-term analysis of customer businesses and industry trends. See also Note 9 and Note 28.1 regarding exposure to credit risk related to accounts receivable.

Deferred tax assets
Recognition of a deferred tax asset in respect of tax losses – Company management estimates whether taxable profits are expected in the foreseeable future, against which losses can be utilized, and accordingly, recognizes (or does not recognize) a deferred tax asset. The possible implication of this estimate is the recognition or of a deferred tax asset in profit or loss. For further information on losses in which respect a deferred tax asset was recognized, see Note 35 regarding taxes on income.

Uncertain tax positions
The Group is assessed for tax purposes in numerous jurisdictions, and accordingly, Group management is required to apply significant judgment in determining provisions and tax reserves according to local and international tax laws. The Group has transactions and tax positions in which respect the final tax liability is uncertain in the ordinary course of business. The Group recognizes provisions in respect of amounts expected to apply to it following tax audits, based on its estimates as to the possibility that additional taxes will be imposed. If the final tax liability is different from the liability recorded on the books, the differences will affect the provisions for income taxes in the period in which the final assessment is determined by the tax authorities. For further information on uncertain tax positions, see also Note 35.7 on tax assessments.

Note 5 - Determination of Fair Value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 16.3, on assets held for sale;
- Note 20.2, on loans and other long term liabilities;
- Note 23, on share-based payments;
- Note 28, on financial instruments; and

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

Note 6 - Subsidiaries

6.1 Information on primary subsidiaries

	Percentage of equity and control (%) December 31			Country of incorporation and main location of company operations
	2017	2016	2015	
Strauss Health Ltd.	80	80	80	Israel
Yad Mordechai Strauss Apiary Ltd.	51	51	51	Israel
Uri Horazo Yotvata Dairies Ltd. (1)	50	50	50	Israel
Strauss Water Ltd.	100	100	88	Israel
S.E. USA, Inc.	100	100	100	USA
Strauss Coffee B.V. (2)	100	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 D.o.o (3)	100	100	100	Serbia
Strauss Russia LLC (3)	100	100	100	Russia
Norddeustsche Kaffeewerke GmbH (3)(4)	100	-	-	Germany

(1) Held by Strauss Health Ltd. (see also Note 6.2.2 below).
(2) See Note 6.4 with regard to the acquisition of a non-controlling interest in Strauss Coffee B.V.
(3) Held by Strauss Coffee B.V.
(4) See Note 6.5 with regard to business combinations.

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

Note 6 – Subsidiaries (cont'd)

percentage of Strauss Health's consolidated annual turnover set forth in the agreement. In the Company's estimation, the said actions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Strauss Health. In light of the circumstances described above, the Group concludes that Strauss Health is controlled by Strauss Group, and as such is consolidated in the Group's financial statements.

6.2.2 Investment in Yotvata

Strauss Health holds 50% of Yotvata's share capital and a casting share on the board of directors. Kibbutz Yotvata holds the remaining 50% of the share capital. Strauss Health acquired the following via a share allotment:

(a) 50% of Yotvata's issued and paid-up ordinary shares, conferring the rights generally conferred on shareholders in a limited company, except for the right to appoint or dismiss executives. The remaining ordinary shares continue to be held by the Kibbutz;

(b) Two management shares, each conferring the right to appoint or dismiss a director of Yotvata. Three additional management shares are held by the Kibbutz;

(c) One casting share, conferring the right to appoint or dismiss one director of Yotvata, who is also the chairman of the board and chairman of the general meeting and has a casting vote on the board of directors and the meeting of shareholders in the event of a tie.

In general, the agreement with Yotvata defines the agreements regarding the management of Yotvata, which include the stipulation that Yotvata's chief executive officer is appointed by Yotvata's board of directors at the Kibbutz's recommendation. The directors appointed by Strauss Health have the right to veto the appointment of a CEO. The chairman of the board is appointed by Strauss Health. The directors appointed by the Kibbutz have the right to oppose the appointment of a chairman who does not possess the necessary qualifications for the position. Yotvata's chief financial officer is appointed by Strauss Health. The directors representing Yotvata have the right to veto this appointment, but shall not be permitted to exercise this right other than on reasonable grounds. In the Company's estimation, these actions grant the non-controlling interests the ability to influence transactions or events that are outside the ordinary course of business, and consequently protect the minority interests which do not prevent the Company's continued control of Yotvata. In light of the circumstances described above, the Group concludes that Yotvata is controlled by Strauss Group (through Strauss Health), and as such is consolidated in the Group's financial statements.

6.3 Significant limitations on the transfer of resources between entities in the Group

As part of the subsidiary Strauss Coffee's financing agreements, various limitations were set with regard to dividend distributions, as defined in the financing agreements.

6.4 Transactions with non-controlling interests

Acquisition of the non-controlling interest in the subsidiary Strauss Coffee

On March 27 the subsidiary Strauss Coffee (hereinafter: "Strauss Coffee") effectuated a buyback of TPG Capital's entire holding (25.1%) in Strauss Coffee (hereinafter: the "Acquisition") in

Note 6 – Subsidiaries (cont'd)

6.4 Transactions with non-controlling interests (cont'd)

consideration for €257 million (hereinafter: the "Consideration"), thus increasing the Company's holding from 74.9% to 100%. Of the Consideration, €172 million (approximately NIS 676 million) were paid in cash on the Acquisition date and the sum of €85 million (approximately NIS 355 million), which was granted by TPG to Strauss Coffee as a nonrecourse loan, was paid on August 1, 2017. In addition, Strauss Coffee redeemed share options allotted to managers in Strauss Coffee at a cost of €16 million (of which €13 million were paid until the date of publication of this report) and the allotment of Strauss Group options valued at €1 million was approved (see also Note 23.4). Transaction costs of approximately €3 million were incurred in respect of the Acquisition. As a result of the Acquisition the Company recognized a decrease of approximately NIS 554 million in non-controlling interests, a decrease of NIS 311 million in the non-controlling interest reserve, and a decrease of NIS 224 million in the translation reserve.

6.5 Business combination in the current period

On March 23, 2017 the subsidiary Strauss Coffee exercised a call option for the acquisition of 100% of the shares of Norddeutsche Kaffeewerke GmbH (hereinafter: "NDKW"), which operates a freeze-dried coffee production site in Germany. The consideration for the acquisition amounted to €56 million (approximately NIS 220 million) (approximately €32 million in cash and €24 million in respect of the elimination of mutual balances).

<u>Indentified assets and liabilities acquired</u>
The subsidiary Strauss Coffee has completed the acquisition cost allocation to identified assets and liabilities acquired, and mainly recognized fixed assets at an amount of €35 million and goodwill at an amount of €22 million.

6.6 Sale of a business operation

On May 23, 2017 an agreement for the sale of Max Brenner was signed, in consideration for approximately NIS 18 million. Said amount includes NIS 3.5 million in prepaid rent for five years for the Max Brenner production site in Bet Shemesh. Following the decision to realize the operation the Company recognized a loss of NIS 10 million as result of the valuation of the operation at the lower of its carrying amount and fair value, less selling costs, and an additional loss of NIS 11 million (NIS 7 million in respect of realization of the translation reserve and the remainder in respect of transaction costs and employee compensation), which was classified to the 'other expenses' item in the income statement.

Note 7 - Cash and Cash Equivalents

	December 31	
	2017	2016
	NIS millions	
Cash and balances in banks	211	189
Deposits	179	522
	390	711

Note 8 - Securities and Deposits

	December 31 2017		December 31 2016	
	NIS millions	Interest rate	NIS millions	Interest rate
Deposits and non-marketable securities-				
Shekel deposit	151	0.35%	7	0.35%-1.49%
Marketable securities-				
Government debentures	16		27	
Corporate debentures	15		19	
	31		46	
	182		53	

Note 9 - Trade Receivables

9.1 Composition

	December 31 2017	December 31 2016
	NIS millions	
Open debts	983	911
Less provision for doubtful debts	(28)	(30)
	955	881

9.2 Analysis of customer aging:

	December 31, 2017		December 31, 2016	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	912	(4)	835	(4)
1-30 days past due	29	-	38	-
31-60 days past due	10	-	7	-
61-90 days past due	6	-	2	-
91-120 days past due	2	-	2	(2)
120+ days past due	24	(24)	27	(24)
	983	(28)	911	(30)

Note 9 - Trade Receivables (cont'd)

9.3 Changes in the provision for doubtful debts during the period:

	2017	2016
	NIS millions	
Balance as at January 1	30	24
Impairment loss (Reversal of impairment loss) recognized during the period	(2)	7
Doubtful debts becoming bad debts	(1)	-
Foreign currency effect	1	(1)
Balance as at December 31	28	30

9.4 Maximum exposure to credit risk in respect of trade receivables as at the reporting date by customer type:

	December 31	
	2017	2016
	NIS millions	
Large customer market	482	473
Private market	195	151
Away-from-home	174	165
Other	104	92
Total	955	881

Note 10 - Receivables and Debit Balances

	December 31	
	2017	2016
	NIS millions	
Advances to trade payables	12	17
Government institutions	13	6
Loans granted, including current maturities of long-term loans	9	9
Accrued income	16	15
Derivatives (1)	12	21
Equity-accounted investees	-	10
Prepaid expenses	20	47
Other receivables (2)	10	31
Total	92	156

(1) Including deposits encumbered to secure derivatives at the amount of NIS 6 million and NIS 8 million as at December 31, 2017 and 2016, respectively.

(2) Including insurance and VAT refund receivables amounting to approximately NIS 16 million in respect of a debt owed by Mega Retail Ltd as at December 31, 2016.

Note 11 - Inventory

	December 31	
	2017	2016
	NIS millions	
Raw materials	227	240
Packaging materials	58	59
Unfinished goods	21	22
Finished goods (including purchased products)	221	205
Spare parts and auxiliary equipment	16	11
	543	537

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
	2017	2016	2015	
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 São Miguel, which develops, processes, sells, markets, and distributes a variety of branded coffee products, corn products, coffee machines, paper filters for filter coffee, instant coffee, cappuccino, liquid cappuccino, chocolate beverages, and powdered juice, and also sells green coffee, primarily to customers outside Brazil.

(2) An equity-accounted investee held by the Group and PepsiCo, which develops, manufactures, sells, markets, and distributes refrigerated dips and spreads throughout the USA and Canada.

Note 12 - Equity-Accounted Investees (cont'd)

12.2 Concise information on material equity-accounted investees

	Sabra Dipping Company		Três Corações Alimentos S.A.	
	December 31		December 31	
	2017	2016	2017	2016
	NIS millions			
Current assets	269	324	1,073	1,091
Of which:				
Cash and cash equivalents	67	115	118	102
Non-current assets	551	696	647	653
Total assets	820	1,020	1,720	1,744
Current liabilities	318	*428	675	779
Of which:				
Financial liabilities excluding trade payables, other payables and provisions (1)	168	*294	234	352
Non-current liabilities	7	*4	189	195
Of which:				
Financial liabilities excluding trade payables, other payables and provisions (1)	-	*-	158	158
Total liabilities	325	432	864	974
Total net assets 100%	495	588	856	770
Company's share of net assets	247	294	428	385
Other adjustments	98	108	165	190
Carrying amount of investment	345	402	593	575

* Reclassified

(1) The outstanding balance of the loan as at December 31, 2017 and December 31, 2016 was reclassified from long-term to short-term due to non-compliance with a financial covenant. As at the date of publication of this report, Sabra Dipping Company is in compliance with the financial covenant.

Note 12 - Equity-Accounted Investees (cont'd)

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

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	For the year ended December 31			For the year ended December 31		
	2017	2016	2015	2017	2016	2015
	NIS millions					
Income	1,244	1,328	1,422	4,179	3,459	2,982
Profit (loss) for the year	(19)	63	102	285	212	202
Other comprehensive income (loss)	(61)	(14)	2	(89)	120	(293)
Total comprehensive income (loss) (100%)	(80)	49	104	196	332	(91)
Of which:						
Depreciation and amortization (1)	122	50	42	39	34	31
Interest income	-	-	-	13	12	10
Interest expenses	7	7	9	41	35	25
Taxes on income	**15	**(49)	**(76)	(42)	(50)	(18)
Other adjustments	(11)	(2)	-	(23)	34	(69)
Company's share of comprehensive income (loss) presented on the books	(51)	22	52	75	200	(114)

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

(1) In the reporting period Sabra Dipping Company amortized intangible assets in respect of impairment of the salsa operation at an amount of NIS 78 million (the Company's share, net of tax, is NIS 22 million).

12.3 Concise aggregate information on equity-accounted investees that are not inherently material

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Carrying amount of investments	262	142	103
Group's share of profit	35	16	8
Group's share of other comprehensive income (loss)	1	(2)	(5)
Group's share of total comprehensive income	36	14	3

Note 12 - Equity-Accounted Investees (cont'd)

12.4 Information on dividends distributed by equity-accounted investees

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Três Corações Alimentos S.A. (1)	57	60	2
Sabra Dipping Company	-	123	13
Strauss Frito-Lay Ltd.	17	13	33
	74	196	48

(1) Figures represent gross amounts before withholding tax. The Company's share of the retained earnings of Três Corações Alimentos S.A. as at December 31, 2017, December 31, 2016 and December 31, 2015 is approximately NIS 333 million, NIS 283 million and NIS 180 million, respectively, of which NIS 28 million, NIS 25 million and NIS 16 million, respectively, are held as a legal reserve that may serve only for the purpose of a capital increase or to absorb legal losses, and NIS 130 million, NIS 115 million and NIS 78 million, respectively, are included in a tax incentive reserve, which according to a decision by Company management cannot be distributed as a dividend. Should Três Corações Alimentos S.A. distribute the tax incentive reserve in the future, additional tax will be paid in respect of the amount distributed.

12.5 Attachment of financial statements

The Group is attaching the consolidated financial statements of Três Corações Alimentos S.A. to these consolidated financial statements. The investee's reports are presented in Brazilian Reals.

Following are the closing and average exchange rates and rates of change in the exchange rates of the Brazilian Real in the reporting period:

	Real to Shekel Exchange Rate		
	Closing exchange rate for the period	Average exchange rate for the period	% change
For the year ended:			
December 31, 2017	1.05	1.13	(11.3)
December 31, 2016	1.18	1.11	19.7

Note 12 - Equity-Accounted Investees (cont'd)

12.6 Additional information on the Group's equity-accounted investees

On May 28, 2017 the subsidiary Strauss Water Ltd. exercised the right reserved to it under the joint venture agreement to acquire an additional 15% holding in the joint venture Qingdao HSW Health Water Appliance Co. Ltd. (hereinafter the "Joint Venture" and the "Acquisition"), such that following the closing the holdings in the Joint Venture are 51% by companies of Haier Group and 49% by Strauss Group. On August 30, 2017 (hereinafter: the "Acquisition Date"), the subsidiary Strauss Water paid CNY 150 million (approximately NIS 81 million) (hereinafter: the "Consideration"). The Consideration was determined according to a valuation based on the Joint Venture's financial results for the 2016 fiscal year, as determined in the Joint Venture agreement.

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Note 13 - Other Investments and Long-Term Debit Balances

13.1 Segmentation according to classification of investment

	December 31	
	2017	2016
	NIS millions	
Deposits and other long-term receivables	8	9
Investment in an available-for-sale financial asset	-	28
Non-current trade receivables (1)	27	23
Less current maturities	(4)	(4)
Less provision for doubtful debts	(8)	(4)
	15	15
Non-current loans to others (see 13.2 and 13.3 below)	68	133
Less current maturities	(9)	(22)
	59	111
	82	163

(1) Mainly includes the long-term balance of trade receivables in respect of Mega Retail Ltd. and the balance in respect of the leasing of coffee machines for installment payments. These balances are discounted at an interest rate of 0.4%-3.0%, similar to 2016.

13.2 Information on long-term loans and their terms:

	December 31			
	2017	2016		
	NIS millions		Interest rate as at December 31, 2017	Linkage bases
Loans to employees	6	6	3.41%	NIS Unlinked
Loans to suppliers and others	14	17	2.6%-5%	NIS Unlinked
Loan to an equity-accounted investee	48	67		
Loan under an operating lease (1)	-	43		
	68	133		

(1) The loan was cleared within the framework of the acquisition of NDKW on March 23, 2017. For additional information, see also Note 6.5.

Note 13 - Other Investments and Long-Term Debit Balances (cont'd)

13.3 Repayment schedule of long-term loans:

	December 31	
	2017	2016
	NIS millions	
First year	9	22
Second year	5	6
Third year	3	3
Forth year	2	46
Fifth year and thereafter	49	56
	68	133

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, 2017	1,169	2,092	32	283	147	3,723
Acquisitions through business combination	27	182	-	3	-	212
Additions	21	95	3	12	5	136
Discontinuance of consolidation	-	(5)	-	(2)	(34)	(41)
Reclassification to investment property	(11)	-	-	-	-	(11)
Disposals	(1)	(21)	(2)	(1)	(1)	(26)
Classification from inventory	-	5	-	-	-	5
Foreign currency effect	5	18	-	1	(3)	21
Balance as at December 31, 2017	1,210	2,366	33	296	114	4,019
Depreciation and impairment losses						
Balance as at January 1, 2017	419	1,396	24	246	104	2,189
Acquisitions through business combination	7	67	-	2	-	76
Impairment	-	-	-	-	6	6
Depreciation for the year	26	91	2	11	9	139
Discontinuance of consolidation	-	(3)	-	(1)	(30)	(34)
Reclassification to investment property	(7)	-	-	-	-	(7)
Disposals	-	(15)	(2)	(1)	(1)	(19)
Foreign currency effect	2	11	-	-	(2)	11
Balance as at December 31, 2017	447	1,547	24	257	86	2,361
Spare parts						52
Balance as at December 31, 2017	**763**	**819**	**9**	**39**	**28**	**1,710**

Note 14 - Fixed Assets (cont'd)

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as at January 1, 2016	1,156	2,063	34	285	156	3,694
Additions	15	81	4	7	6	113
Disposals	(2)	(53)	(6)	(9)	(14)	(84)
Classification from inventory	-	8	-	-	-	8
Foreign currency effect	-	(7)	-	-	(1)	(8)
Balance as at December 31, 2016	1,169	2,092	32	283	147	3,723
Depreciation and impairment losses						
Balance as at January 1, 2016	* 392	1,367	27	242	* 100	2,128
Impairment	-	1	-	-	-	1
Depreciation for the year	29	82	3	12	11	137
Disposals	(1)	(46)	(6)	(7)	(7)	(67)
Foreign currency effect	(1)	(8)	-	(1)	-	(10)
Balance as at December 31, 2016	* 419	1,396	24	246	* 104	2,189
Spare parts						47
Balance as at December 31, 2016	*** 750**	**696**	**8**	**37**	*** 43**	**1,581**

***** Reclassified

14.2 Fixed assets purchased on credit

Fixed assets in the amount of NIS 31 million were purchased on credit as at December 31, 2017 (2016: NIS 30 million, 2015: NIS 47 million).

14.3 For details regarding liens – see Note 24.2.

Note 15 - Intangible Assets

15.1 Changes in intangible assets

	Brands	Computer software	Goodwill	Research and development	Other	Total
			NIS millions			
Cost						
Balance as at January 1, 2017	326	326	585	60	104	1,401
Additions	-	21	-	14	-	35
Acquisitions through business combination	-	-	87	-	-	87
Additions – own development	-	5	-	-	-	5
Disposals	(3)	(1)	-	(4)	-	(8)
Discontinuance of consolidation	-	(2)	-	-	(4)	(6)
Foreign currency effect	3	1	11	-	1	16
Balance as at December 31, 2017	326	350	683	70	101	1,530
Accumulated amortization						
Balance as at January 1, 2017	60	255	119	31	79	544
Amortization for the year	1	26	-	7	6	40
Impairment	-	-	-	-	2	2
Disposals	(3)	(1)	-	(2)	-	(6)
Discontinuance of consolidation	-	(1)	-	-	(2)	(3)
Foreign currency effect	2	1	5	-	1	9
Balance as at December 31, 2017	60	280	124	36	86	586
Balance as at December 31, 2017	**266**	**70**	**559**	**34**	**15**	**944**

	Brands	Computer software	Goodwill	Research and development	Other	Total
			NIS millions			
Cost						
Balance as at January 1, 2016	326	312	580	54	110	1,382
Additions	-	17	-	7	-	24
Additions – own development	-	7	-	4	-	11
Disposals	(7)	(10)	-	(5)	(3)	(25)
Foreign currency effect	7	-	5	-	(3)	9
Balance as at December 31, 2016	326	326	585	60	104	1,401
Accumulated amortization						
Balance as at January 1, 2016	58	243	124	27	77	529
Amortization for the year	2	23	-	4	6	35
Impairment	9	-	-	-	-	9
Disposals	(7)	(10)	-	-	(2)	(19)
Foreign currency effect	(2)	(1)	(5)	-	(2)	(10)
Balance as at December 31, 2016	60	255	119	31	79	544
Balance as at December 31, 2016	**266**	**71**	**466**	**29**	**25**	**857**

Note 15 - Intangible Assets (cont'd)

15.2 Intangible assets with indefinite useful lives

As at December 31, 2017 intangible assets include an amount of NIS 263 million attributable to brands and trademarks having an indefinite useful life (2016: NIS 261 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	
	2017	2016	2017	2016
	NIS millions		NIS millions	
Israel	76	76	-	-
Water	154	154	102	102
Poland	63	58	61	55
Russia	107	112	84	88
Romania	66	66	16	16
Germany	93	-	-	-
	559	466	263	261

The recoverable amount of the cash-generating units is based on its value-in-use. Value-in-use is calculated using the most up-to-date projected future cash flows for periods of up to 5 years, based on the strategic operating plan (SOP) of the relevant unit. The projected cash flows for remaining periods are calculated using the relevant growth rate, which takes into consideration the expected growth rate of the category, the industry, the country and the population. Cash flows are discounted at rates that reflect the risks specific to the cash-generating units in each relevant year.

Note 15 - Intangible Assets (cont'd)

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives (cont'd)

The main assumptions according to operating segments are as follows:

	December 31, 2017		December 31, 2016	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
Israel				
Fun & Indulgence	2.0%	12.0%	2.0%	13.0%
Health & Wellness	2.0%	12.02%-12.59%	2.0%	11.8%-13.6%
International Coffee	0%	7.3%-11.3%	0%-0.1%	9.2%-16.8%
Other	2.0%	13.2%	2.0%	14.3%

Note 16 - Investment Property

16.1 Changes in investment property

	2017	2016
	NIS millions	
Balance as at January 1	8	7
Additions	-	1
Annual depreciation	(1)	-
Reassignment from fixed assets to investment property	4	-
Balance as at December 31	11	8

16.2 Real estate rights

The investment properties include a production plant in Bet Shemesh and land in Givatayim and abroad owned by subsidiaries in the amount of approximately NIS 4 million, NIS 6 million and NIS 1 million, respectively, as at December 31, 2017 (production plant in land in Givatayim and abroad owned by subsidiaries in the amount of approximately NIS 6 million and NIS 2 million, respectively as at December 31, 2016). The Company also owns land in Safed, the carrying amount of which is negligible.

16.3 Assets held for sale

As at the reporting date, the fair value of assets held for sale is proximate to their carrying amount.

16.4 For information on liens, see Note 24.2.

Note 17 - Trade Payables

	December 31	
	2017	2016
	NIS millions	
Open debts	710	742
Notes payable	5	1
	715	743

* For information regarding related parties and interested parties, see Note 37.

Note 18 - Other Payables and Credit Balances

	December 31	
	2017	2016
	NIS millions	
Employees and other payroll related liabilities	245	185
Institutions	17	30
Joint ventures	13	28
Derivatives	26	38
Accrued expenses	167	188
Deposits and guarantees from customers and distributors	92	86
Deferred income	63	54
Advances from customers	7	10
Other payables	9	23
	639	642

Note 19 - Provisions

19.1 Changes during the period

	Restructuring	Legal claims	Warranty	Total
	NIS millions			
Balance as at January 1, 2017	2	8	21	31
Provisions created during the period	3	2	19	24
Provisions used during the period	(2)	(2)	(18)	(22)
Provisions reversed during the period	-	(1)	-	(1)
Balance as at December 31, 2017	3	7	22	32

19.2 Provisions in respect of legal claims- See Notes 3.13 and 24.1.

Note 20 - Loans and Credit

20.1 Short-term credit and current maturities of long-term loans and other liabilities

	December 31	
	2017	2016
	NIS millions	
Current maturities of debentures	206	196
Short-term bank loans	39	18
Current maturities of long-term loans	65	129
	310	343

20.2 Composition of non-current liabilities

	December 31	
	2017	2016
	NIS millions	
Debentures	1,032	831
Loans from others (*)	1,052	691
Bank loans (*)	340	338
Finance lease liability	6	6
	2,430	1,866
Less current maturities	(271)	(325)
	2,159	1,541

* As at December 31, 2017 the fair value of non-current loans exceeded their carrying amount by approximately NIS 87 million (2016: approximately NIS 83 million). The fair value of the loans is measured on the basis of the present value of future cash flows in respect of principal and interest discounted at the interest rate on Israel government bonds of similar average duration, plus the necessary adjustments for Strauss's risk premium and the discount for lack of marketability as at the date of the financial statements (Level 2).

Note 20 - Loans and Credit (cont'd)

20.3 Information on material loans

Borrower's identity	Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal interest (%)	Redemption year	December 31, 2017 Face value NIS millions	Book value
The Company	Debentures Series B (see 20.4)	February 2007	770	NIS	CPI	4.1	2018	149	178
The Company	Debentures Series D (see 20.4)	January 2013/June 2014	465	NIS	Unlinked	4.5	2018-2023	446	455
The Company	Debentures Series E (see 20.4)	July 2017	403	NIS	Unlinked	2.61	2020-2027	403	399
The Company	Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
The Company	Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
The Company	Loans from others	January 2011	300	NIS	Unlinked	5.82	2018-2022	228	228
The Company	Loans from others	April 2012	372	NIS	CPI	3.55	2018-2022	354	361
Subsidiary	Loans from others	March 2016	100	NIS	Unlinked	1.69	2018-2021	67	67
Subsidiary	Loans from others	January 2017	100	NIS	Unlinked	2	2018-2022	83	83
Subsidiary	Loans from others	April and July 2017	312	NIS	Unlinked	2-3.5	2018-2027	312	312
Subsidiary	Loans from banks	August 2017	125	Euro	Unlinked	1.5-2.5	2023	125	124

Note 20 - Loans and Credit (cont'd)

20.3 Information on material loans (cont'd)

Borrower's identity	Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal interest (%)	Redemption year	December 31, 2016 Face value NIS millions	December 31, 2016 Book value NIS millions
The Company	Debentures Series B (see 20.4)	February 2007	770	NIS	CPI	4.1	2017-2018	297	355
The Company	Debentures Series D (see 20.4)	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	476
The Company	Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
The Company	Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Subsidiary	Loans from banks	December 2013	185	NIS	Unlinked	2.9	2017	46	46
The Company	Loans from others	January 2011	300	NIS	Unlinked	5.82	2017-2022	239	239
The Company	Loans from others	April 2012	372	NIS	CPI	3.55	2017-2022	357	364
Subsidiary	Loans from others	March 2016	100	NIS	Unlinked	1.69	2017-2021	83	83

Note 20 - Loans and Credit (cont'd)

20.4 Information on the Company's debentures series in circulation

	Series B	Series D	Series D Expansion	Series E
Date issued	February 25, 2007	January 23, 2013	June 11, 2014	July 4, 2017
Listed for trading	May 21, 2007	January 27, 2013	June 12, 2014	July 5, 2017
Type of interest	Fixed	Fixed	Fixed	Fixed
Annual interest rate	4.1% (until listing for trading, the interest rate was 4.7%)	4.5%	4.5%	2.61%
Effective interest rate on listing date, taking issuance costs into account	4.2%	4.7%	3.0%	2.78%
Face value on issuance date	NIS 770 million	NIS 249 million	NIS 216 million	NIS 403 million
Nominal face value as at December 31, 2017	NIS 149 million	NIS 239 million	NIS 207 million	NIS 403 million
Index-linked face value as at December 31, 2017	NIS 178 million	N/A	N/A	N/A
Carrying value of debentures as at December 31, 2017	NIS 178 million	NIS 237 million	NIS 218 million	NIS 399 million
Carrying value of interest payable as at December 31, 2017	NIS 3 million	NIS 3 million	NIS 2 million	-
Market value as at December 31, 2017	NIS 182 million	NIS 272 million	NIS 236 million	NIS 423 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	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%.	8 yearly payments on June 30 of each year from 2020 to 2027. First four payments 5% each and four additional payments 20% each.
Interest payment dates	Half-yearly interest on February 1 and August 1, from 2007 to 2018	Half-yearly interest on March 31 and September 30, from September 30, 2013 until March 31, 2023	Half-yearly interest on March 31 and September 30, from September 30, 2014 until March 31, 2023	Half-yearly interest on December 31 and June 30, from December 31, 2017 until June 30, 2027
Collateral or liens	None	None	None	None
Name of rating company	Midroog, Maalot	Midroog, Maalot	Midroog, Maalot	Midroog, Maalot
Rating at issue date	ilAA+; Aa1il	ilAA+; Aa1il	ilAA+; Aa1il	ilAA+; Aa2il
Rating at reporting date	ilAA+; Aa2il	ilAA+; Aa2il	ilAA+; Aa2il	ilAA+; Aa2il

The terms and conditions of the Company's Series D and Series E debentures include customary causes for calling for immediate repayment, including the following: a transfer of control of the Company, as a result of which debenture rating is downgraded (Series D – to below ilA+ on Standard & Poor's Maalot's rating scale or ilA1 on Midroog's rating scale; and Series E – to below ilAA on Maalot's rating scale or ilAa3 on Midroog's rating scale) (according to the terms and conditions of the relevant debentures, with certain transfers of control being excluded); a material change in the Company's business according to the terms and conditions of the relevant debentures; a call for immediate repayment of a different debenture series publicly issued by the

Note 20 - Loans and Credit (cont'd)

20.4 Information on the Company's debentures series in circulation (cont'd)

Company and listed for trading on TASE (for Series D, the condition is that the outstanding unredeemed balance is more than NIS 100 million); and violation of the financial covenants, as described in Note 20.6. In addition, for Series E – a call for the immediate repayment of the Company's debts to financial institutions (not including non-recourse loans) of an amount that is not less than NIS 200 million.

Furthermore, if the rating of the Series D debentures is downgraded to below ilBB- (or corresponding rating), then 45 days after the date on which the downgrade is announced and provided that there has been no upgrade, Series D debenture holders will have cause for immediate repayment. In addition, if the Series E debentures are downgraded to below ilBBB- (or corresponding rating), then 45 days after the date on which the downgrade is announced and provided that there has been no upgrade, Series E debenture holders will have cause for immediate repayment.

For information on financial covenants relating to the Series D and E debentures, see Note 20.6.

For information on liens and guarantees, see Notes 24.2 and 24.3.

20.5 On April 4, 2017 the subsidiary Strauss Coffee took a loan of NIS 234 million from an institutional body, as well as a line of credit of NIS 78 million which was used on July 27, 2017 (see below). The loan in unlinked and bears annual interest of 2.5%-3.5%, which is to be paid half-yearly on the outstanding balance of the loan. The principal of the loan will be repaid in ten yearly installments, as follows: two annual installments of approximately 2% of the loan, four annual installments of 14%-15% of the loan, and four annual installments of 8%-10% of the loan. On July 27, 2017 the subsidiary Strauss Coffee Company took an additional loan of NIS 78 million from the institutional body, bearing 2%-3% interest, which will be paid half-yearly on the outstanding balance of the loan; the loan will be repaid in the identical manner to the loan of April 2017. Strauss Coffee undertook not to create a general floating charge on its assets in favor of any third party without the lender's consent (negative charge). In addition, the terms and conditions of the loans include customary causes for calling for immediate repayment, including in a case where a third-party lender has called for the immediate repayment of the Company's debts to such lender of an amount that is more than the sum determined, and in the case of a change of control of the subsidiary Strauss Coffee and/or of the Company.

For information on financial covenants relating to these loans, see Note 20.6

20.6 Covenants

Debentures

The Company has committed that for as long as the Series D and Series E debentures have not been redeemed in full, the Company's net debt to annual EBITDA ratio as defined in the deeds will not exceed 7 for a period of two consecutive annual financial statements for Series D debentures, or four or more consecutive calendar quarters for Series E debentures. Failure to comply with said covenant shall serve as cause for immediate repayment. Should the net debt to annual EBITDA ratio exceed 4 for at least two consecutive calendar quarters, Series D and Series E debenture holders will be credited for additional interest, as stated in the debenture certificate.

Note 20 - Loans and Credit (cont'd)

20.6 Covenants (cont'd)

The Company has committed that for as long as the Series D and Series E debentures have not been redeemed in full, the ratio of equity (not including non-controlling interests) to the total consolidated balance sheet will not fall below 20% at any time. Failure to comply with said ratio for two consecutive quarters will credit the Series D and Series E debenture holders for additional interest, as stated in the debenture certificate.

The Company has committed that for as long as the Series E debentures have not been redeemed in full, the Company's equity in its consolidated financial statements, excluding a reduction in equity arising as a result of the acquisition of non-controlling interests after the date of issue of the debentures, will not fall below NIS 500 million. Failure to comply with said minimum equity for three or more consecutive calendar quarters will serve as cause for immediate repayment.

Should the Company fail to comply with any of the covenants to which it has committed in favor of the holders of Series D and Series E debentures during the relevant period, as the case may be, the Company will be entitled to prepare, for the purpose of calculating its compliance with the covenants it has not met, a pro forma income statement and balance sheet in accordance with the accounting standards under which the Company's financial statements as at September 30, 2012 were prepared with respect to Series D debentures, or in accordance with the accounting standards under which its financial statements as at March 31, 2017 were prepared, without applying IFRS 11, with respect to Series E debentures.

Banks and financial institutions

The Company has an undertaking to banks in Israel and non-bank institutions from which it has received loans to meet two stipulations: the ratio of equity (not including non-controlling interests) to the total balance sheet shall be no less than 20%, and the net debt to EBITDA ratio shall be no more than 4.

The Company has a loan from a non-bank institution which contains a progressive incremental interest mechanism should the abovementioned financial ratio increase to above 3 and below 4 (provided that the incremental interest does not exceed 0.25%).

With respect to the loans taken by the subsidiary Strauss Coffee as described in Note 20.5 above, the following covenants were defined: (1) the ratio of equity (plus shareholders' loans) to balance sheet will be no less than 25%; (2) the net debt (less shareholders' loans) to EBITDA ratio will not exceed 3.5 (debt service coverage ratio). Following are events on the occurrence of each of which 0.5% interest will be added to the loans from institutional bodies: (1) if the ratio of equity to balance sheet as defined above is less than 30%; (2) if the debt service coverage ratio as defined above is higher than 2.5; (3) if the debt service coverage ratio as defined above is higher than 3. Furthermore, 1.5% interest will be added if cause for immediate repayment is created. As at December 31, 2017, Strauss Coffee is in compliance with all of the financial covenants described above.

Additionally, three subsidiaries are required to meet covenants in favor of banks in Israel and other countries and non-banking corporations. As at the date of this report, the subsidiaries are in compliance with these covenants.

Note 20 - Loans and Credit (cont'd)

20.6 Covenants (cont'd)

As at December 31, 2017 and throughout the year the Company was in compliance with all terms and conditions and covenants under the Series D and Series E debenture trust deeds. In addition, as at December 31, 2017 and throughout the year the conditions establishing cause for immediate repayment of the debentures or for the exercise of sureties given to secure payment to the debenture holders were not satisfied.

Note 21- Long-Term Payables and Credit Balances

	December 31	
	2017	2016
	NIS millions	
Accrued expenses	11	3
Deferred income	50	33
Liability in respect of contracts with inferior terms	8	12
Institutions	-	11
Other payables	7	1
	76	60

Note 22 - Employee Benefits

22.1 The labor laws in Israel require the Group to pay severance pay to employees who were dismissed or have retired (including those who left the Group in other specific circumstances). The liability for the payment of severance pay is calculated according to the labor agreements in effect on the basis of salary components which, in the opinion of Company management, create an obligation to pay severance pay.

The Company has two severance pay plans: one plan according to the provisions of section 14 of the Severance Pay Law, which is accounted for as a defined contribution plan; and the other for employees to whom section 14 does not apply, which is accounted for as a defined benefit plan. The Group's liability in Israel for the payment of severance pay to employees is mostly covered by current deposits in the names of the employees in recognized pension and severance pay funds, and by the acquisition of insurance policies, which are accounted for as plan assets.

In addition to these plans, the Company has an obligation to pay an acclimatization bonus to senior executives. The Group's obligation for the payment of acclimatization bonuses is not covered by the current deposits in the names of the employees.

22.2 As regards its international operations, employee benefits are accounted for in accordance with the requirements of the law in each country in which the Group operates. These requirements usually comprise of monthly deposits in government plans.

The Company has an obligation to pay benefits to certain employees in accordance with personal employment contracts. In addition, the Company has an obligation to pay benefits to employees who have retired in accordance with the labor laws in Germany. These benefits were accounted for as a defined benefit plan.

Note 22 - Employee Benefits (cont'd)

22.3 Composition

	December 31	
	2017	2016
	NIS millions	
Defined benefit plan		
Present value of funded obligation	130	122
Fair value of plan assets	(84)	(75)
Total employee benefits, net	46	47

22.4 Defined benefit plans

22.4.1 Changes in the liability for defined benefit plans

	2017	2016
	NIS millions	
Liability in respect of defined benefit plans as at January 1	122	127
Benefits paid under the plans	(3)	(10)
Current service costs	7	5
Interest expenses	3	3
Actuarial losses (gains)	2	(1)
Other adjustments	(1)	(2)
Liability in respect of defined benefit plans as at December 31	130	122

22.4.2 Composition of defined benefit plan assets

	December 31	
	2017	2016
	NIS millions	
Cash and cash equivalents	9	9
Government debentures	11	10
Corporate debentures	21	20
Equity instruments and real estate properties	43	36
Total plan assets	84	75

Note 22 - Employee Benefits (cont'd)

22.4 Defined benefit plans (cont'd)

22.4.3 Changes in defined benefit plan assets

	2017	2016
	NIS millions	
Fair value of plan assets as at January 1	75	72
Contributions paid into the plans	5	11
Benefits paid under the plans	(2)	(7)
Interest income	2	2
Actual yield less interest income	2	(1)
Other adjustments	2	(2)
Fair value of plan assets as at December 31	84	75

22.4.4 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions as at the reporting date (weighted average) in nominal terms:

	2017	2016
Discount rate as at December 31 (1)	0.80%-3.11%	0.80%-3.11%
Future salary increases	2.00%-6.00%	2.00%-5.97%
Demographic assumptions (2)		

(1) In 2017 and 2016 the discount rate is based on high yield corporate debentures.

(2) Calculations are based on demographic assumptions, as follows:

a) Mortality and loss of work capacity rates are based on pension circular 2014-3-1 published by the Capital Market, Insurance and Savings Division of the Ministry of Finance.
b) Employee turnover rates are based on an analysis of historical data. According to this analysis, the main employee turnover rate is 10.40% for each year of seniority. For senior employees, the turnover rate is 13.50% 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, 2017
Discount rate	1% increase	(4)
Discount rate	1% decrease	5
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	1
Percentage of persons entitled to supplementation	Multiplied by 0.8	(2)

Note 22 - Employee Benefits (cont'd)

22.4 Defined benefit plans (cont'd)

22.4.5 Impact of the plan on the Group's future cash flows

The Group's estimate of contributions expected in 2018 to a funded defined benefit plan is NIS 5 million.

The Group's estimate of the plan's life (according to a weighted average) as at the end of the reporting period is 5.00-6.44 years (2016: 5.70-7.20 years).

22.5 Defined contribution plans

In the year ended December 31, 2017 the Group recorded an expense of NIS 42 million (2016: NIS 37 million, 2015: NIS 37 million) in respect of defined contribution plans.

Note 23 - Share-Based Payments

23.1 Description of the plan

23.1.1 Employee options plan - in accordance with the May 2003 senior employee options plan, which was updated from time to time and most recently in March, May and September 2016 (hereinafter: the "Plan") and approved by the board of directors of the Company and/or its committees, the Company has granted senior Group employees option warrants, free of charge, each of which may be exercised into one ordinary share of NIS 1 par value on a "net stock" basis, as described below:

Vesting period	
Option warrants granted before September 9, 2013	50% will vest approximately two years from the grant date, and the remaining 50%, three years from the grant date.
Option warrants granted between September 9, 2013 and March 20, 2016	Will vest in three equal tranches, two, three and four years from the grant date, respectively.
Option warrants granted commencing on March 20, 2016	50% will vest approximately two years from the grant date, and the remaining 50%, three years from the grant date.
Exercise price	
Option warrants granted up to September 9, 2013	Determined according to the average closing price of the Company's share immediately prior to the approval of the grant, linked to the CPI.
Option warrants granted between September 9, 2013 and September 12, 2016	Determined according to the average closing price of the Company's share in the 30 trading days preceding the grant date plus a 5% premium; with respect to option warrants granted before March 2016, the exercise price shall be no less than the closing price of the share on the TASE at the close of trading on the day before the grant date.
Option warrants granted commencing on September 12, 2016	According to one of the following alternatives: (1) the average closing price of the Company's share in the 30 trading days preceding the grant date plus a premium to be determined by the board of directors and/or its committees; (2) the average closing price of the Company's share in the 30 trading days preceding the grant date with no premium, linked to the CPI.
Manner of exercise	
The option warrants will be exercised without payment of the exercise price, such that the offeree will be allotted underlying shares of a number that reflects the benefit component embodied in the options, which is equal to the amount arising from the difference between the minimum price determined by the employee (if determined) or the market price (the closing price of an ordinary share on the last trading day before the exercise date) if no minimum price was determined, and the actual exercise price, multiplied by the number of warrants exercised.	

Note 23 - Share-Based Payments (cont'd)

23.1 Description of the plan (cont'd)

23.1.1 Employee options plan (cont'd)

The exercise price or conversion ratio of each option warrant will be adjusted pro rata for the allotment of bonus shares, consolidation and split of the Company's shares, a rights issue to the shareholders of the Company or the distribution of a dividend. The board of directors and/or its committees reserve the right to make amendments to the Plan with respect to all offerees or to a particular offeree.

In the event of termination other than due to dismissal for cause as defined in the Plan and employment agreement, the employee shall be entitled to exercise the options which have matured before and until the termination date during a period of 180 days after the termination date. Further, the board of directors and/or its committees may accelerate options that have not vested before the termination date such that they will vest on the termination date, provided, however, that the original vesting date is no more than 6 months after the termination date. With regard to options that are due to vest within 6 months from the termination date, the board of directors may extend the exercise period by an additional 180 days.

23.1.2 Restricted share units ("RSU"/"PSU") plan – according to the remuneration plan for senior employees of July 2016, which was approved by the board of directors and the meeting of shareholders of the Company, the Company may allot restricted shares to senior employees, free of charge. Upon satisfaction of their vesting terms and conditions, each RSU shall be automatically converted into one NIS 1 par value ordinary share of the Company on the vesting date determined for each offeree.

The number of shares shall be adjusted pro rata following the allotment of bonus shares, a rights issue to the shareholders of the Company or a change in the Company's structure (merger or sale of the Company). If a dividend is distributed before the RSUs have been exercised, the holder of the RSUs shall be entitled to the amount of the dividend whereto he would have been entitled had he held, on the date the dividend was distributed, the number of ordinary shares of the Company equal to the number of RSUs, less the tax applying to the distribution.

23.1.3 Taxation – for employees in Israel, the plans described above were approved under section 102 of the Income Tax Ordinance (New Version), 1961 and accordingly, the option warrants or RSUs were deposited with a trustee. According to the plans, the employees shall bear any and all taxes applying thereto.

Note 23 - Share-Based Payments (cont'd)

23.2 Grants during the reporting period

Following is information on the fair value of the new option warrants granted in the reporting period:

Grant date	Number of options and entitled employees	Fair value NIS M	Share price NIS	Exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %
March 27, 2017 (1)	773,325 to 14 managers	8.3	62.26	63.49	4.29-5.29	19.95-21.00	0.12-0.23
May 28, 2017 (2)	368,060 to 11 managers	4.2	64.52	63.82	4.29-5.29	19.69-20.98	(0.07)-(0.22)
May 28, 2017 (3)	401,193 to 4 managers	7.8	64.52	49.74-53.5	2.89-6.30	19.62-23.60	0.48-1.48
August 9, 2017 (4)	93,332 to 2 managers	1.1	68.34	68.08	4.29-5.29	19.67-20.61	(0.13)-(0.22)

(1) The exercise price of each option is linked to the CPI published on March 15, 2017. Entitlement to exercise the options will crystallize in two equal tranches on March 27 of each of the years 2019 and 2020. The benefit arising from the grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

(2) Entitlement to exercise the options will crystallize in two equal tranches on May 28 of each of the years 2019 and 2020. The exercise price of each option is linked to the CPI published on May 15, 2017. The benefit arising from the grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

(3) As part of the buyback by Strauss Coffee of TPG's holding (25.1%) in Strauss Coffee, options held by some of the managers of Strauss Coffee were exchanged for 401,193 options of the Company. The exercise price of the options is unlinked. Entitlement to exercise the options will crystallize according to the original terms and conditions of the options granted to the managers of Strauss Coffee, in 2018-2021. No incremental value was recognized on the swap, since the fair value of the options after the change of terms did not exceed their fair value prior to the change, as measured on the date when the terms were modified.

(4) Entitlement to exercise the options will crystallize in two equal tranches on August 9 of each of the years 2019 and 2020. The exercise price of each option is linked to the CPI published on July 14, 2017. The benefit arising from the grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

Note 23 - Share-Based Payments (cont'd)

23.3 Changes in the number of share options:

	Number of share options (thousands)		
	2017	**2016**	**2015**
Balance as at January 1	4,154	3,926	3,453
Additional allotment	1,636	618	1,240
Exercise of options (1)	(1,343)	(137)	(590)
Forfeiture of options	(23)	(253)	(177)
Balance as at December 31 (2)	4,424	4,154	3,926

(1) The weighted average share price on the exercise date of the options exercised in 2017 is NIS 67.19 (2016: NIS 61.08, 2015: NIS 62.13).

(2) On December 31, 2017, 1,007 thousand (2016: 1,352 thousand) of the outstanding option warrants had vested.

23.4 Share-based payments in a subsidiary

As part of the buyback by Strauss Coffee of TPG's holding in Strauss Coffee, in 2017 Strauss Coffee redeemed options that had been allotted to managers in Strauss Coffee at an amount of €16 million (of which €13 million were paid by the date of publication of this report) and Strauss Group options valued at €1 million were allotted. The Board of Directors also approved the cash redemption of stock options of the coffee company that had been allotted to one of the managers of Strauss Coffee in consideration for approximately NIS 7 million, which were paid as at the date of this report, and the vesting of the remaining options which had not yet vested by the redemption date was accelerated.

23.5 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2017	**2016**	**2015**
Total expense included in salary expenses	17	14	14

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements

24.1 Contingent liabilities

24.1.1 Following is information on material claims filed with the courts against the Company and its subsidiaries for class certification. Based on the estimates of the Company's legal 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 and the ruling	Claim amount (NIS millions)
April 2015	Central District Court	The Company, the Parent Company, Tnuva Central Cooperative for the Marketing of Agricultural Produce in Israel Ltd. and Tnuva Food Industries Agricultural Co-Op in Israel Ltd.	Alleged unfair pricing by a monopoly holder, and of products under price control (see also Note 24.1.3.3)	57 (The group's share)
May 2016	Central District Court	The Company and Parent Company	Allegedly excessive pricing by a monopoly of the Milky dairy dessert (see Note 24.1.3.3)	100
May 2016	Central District Court	The Company and Parent Company	Allegedly excessive pricing by a monopoly of the Elite Cocoa product	38
July 2016	Central District Court	The Company and Parent Company	Allegedly excessive pricing by a monopoly of an instant coffee product	80

24.1.2 Following is information on material claims filed with the courts against the Company and its subsidiaries for class certification, in which respect legal proceedings ended in the reporting period through to the date of approval of the financial statements:

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim and the ruling	Claim amount (NIS millions)
November 2014	Tel Aviv – Jaffa District Court	The Company	Alleged misleading in the sale of a product. On May 17, 2017 the Tel Aviv –Jaffa District Court approved the claimant's notice of withdrawal from a monetary claim and a motion for its certification as a class action. The Company was charged payment of compensation and attorney fees to the claimant and his attorney at an amount of NIS 20,000 (plus VAT).	38
June 2016	Haifa District Court	The Company, Uri Horazo Yotvata Dairies and the subsidiary, Strauss Health	Sale of allegedly defective products. On April 6, 2017 the Haifa District Court approved the claimant's notice of withdrawal from a monetary claim and a motion for its certification as a class action.	915
January 2017	Central District Court	The subsidiary Strauss Water Ltd.	Failure to supply spare parts in a timely manner. On April 30, 2017 the court directed that the motion for class certification be abated without ruling costs.	59
April 2017	Central District Court	The Company	Allegedly deceptive product labeling. On November 9, 2017 the Central District Court approved the claimant's notice of withdrawal from a monetary claim and a motion for its certification as a class action.	53

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

24.1 Contingent liabilities (cont'd)

24.1.3 Claims and other contingent liabilities

24.1.3.1 According to a letter of indemnity for officers of the Company (including those who are among the controlling shareholders and their relatives), the Company has irrevocably undertaken to indemnify officers of the Company with respect to any liability or expense (as defined in the letter of indemnity) imposed on the officer due to actions performed in his capacity as such after the date of the letter of indemnity, which are directly or indirectly related to one or more of the types of events described in the letter of indemnity, or part of them or anything related to them, directly or indirectly. The amount the Company will pay, in addition to sums which shall be received from insurance companies, if any, for all officers cumulatively, in respect of one or more of the events described in the letter of indemnity, has been limited to 25% of the shareholders' equity of the Company according to its most recent financial statements as at the actual date of the indemnity payment (hereinafter: the **"Date of Record"**). The maximum amount of indemnity will be linked to the index from the latest index published prior to the Date of Record, until the latest index published prior to the payment date. Additionally, under a deed of exemption from liability granted to officers, the Company has released, in advance and retrospectively, its officers (including those among the controlling shareholders and their relatives) from their liability, in whole or in part, for damage as a result of a breach of the duty of care to the Company to the maximum extent permitted by law, provided, however, that such release shall not apply to a decision or transaction in the approval of which the controlling shareholder or an officer had a personal interest. See also Note 24.4.2.

24.1.3.2 The liquidator of Esio Beverage Company ("Esio"") filed an action against Strauss Water Ltd. in the State of Delaware, USA. The filing of the action was approved on November 5, 2015. On October 1, 2017 the court approved a settlement agreement, in which the subsidiary Strauss Water Ltd. agreed to pay the claimant and its attorney the sum of approximately $30,000.

24.1.3.3 On December 27, 2016 the court instructed on the joinder of a claim of April 2015 regarding the collection of an allegedly unfair price by a monopoly for products subject to price control (the part relating to Strauss's dairy desserts) with a claim of May 2016 on the collection of an allegedly excessive price by a monopoly for the Milky dairy dessert.

24.1.3.4 As at the date of publication of this report, claims in the civil courts and other claims that were not mentioned in the preceding notes amounted to approximately NIS 91 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.

24.1.3.5 There are lawsuits in the civil courts and other claims underway against an equity-accounted investee in Brazil. As at December 31, 2017, these claims (the Group's share) totaled approximately NIS 261 million (of which approximately NIS 109 million relate to claims by the tax authorities, NIS 143 million relate to labor claims and NIS 9 million to civil suits). Based on the information received from the equity-accounted investee's legal counsel, an analysis of the pending legal proceedings and past experience as far as the amounts claimed are concerned, the equity-accounted investee estimates that the chances of approximately NIS 176 million of the claims are slight and has made provisions totaling approximately NIS 10

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

24.1 Contingent liabilities (cont'd)

24.1.3 Claims and other contingent liabilities (cont'd)

million (the Group's share), which is considered sufficient to cover the expected losses as a result of the above claims.

24.1.3.6 See Note 35.1.2 for information on benefits received by Group companies by virtue of the laws for the encouragement of capital investments.

24.2 Liens

24.2.1 The following encumbrances have been created to secure the liabilities of the Group companies:

	December 31	
	2017	2016
	NIS millions	
On current assets abroad in favor of foreign banks	3	3
On the assets of equity-accounted investees	50	51

24.2.2 There are fixed and floating charges on a number of real estate properties in the Group in favor of banks and others to secure credit.

24.2.3 With respect to its debts, the Company has undertaken in favor of banks, other financing entities and debenture holders not to create charges on its assets (negative charges) other than in certain cases as defined in the loan agreements or trust deeds.

24.3 Guarantees

24.3.1 Guarantees were given to banks and others with respect to the business operations of the Group, as follows:

	December 31	
	2017	2016
	NIS millions	
In favor of subsidiaries in Israel and abroad	525	483
In favor of others in Israel and abroad	19	23

24.3.2 There are mutual guarantees between the Company and subsidiaries, limited (see above) and unlimited in amount, to secure all liabilities to banks and others.

24.4 Material commitments

24.4.1 In the engagement for the investment by PepsiCo Foods International (hereinafter: "PepsiCo") in Strauss Frito-Lay Ltd, the shareholders agreed that should control of the Company (directly or indirectly) be assumed by a party that is not the Strauss family, PepsiCo shall have the right, after 12 months have elapsed from the Company becoming thus controlled, to acquire the Company's entire remaining shareholding in Strauss Frito-Lay Ltd. at the market price to be determined as

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.4 Material commitments (cont'd)

specified in the agreement, on condition that PepsiCo had attempted in good faith to cooperate with the new controlling shareholder in the said 12 months and shall reasonably determine that its attempt was unsuccessful.

24.4.2 As at the reporting date the Company is engaged in a policy for the insurance of directors and officers serving in the Company and its subsidiaries with liability limits of approximately USD 100 million, for payment of an annual premium of USD 100 thousand.

24.4.3 The agreement between Uri Horazo Yotvata Dairies (limited partnership), Kibbutz Yotvata (which holds 50% of the shares of Yotvata) (hereinafter: the "Kibbutz") and Strauss Health determines, *inter alia*, that for as long as the Kibbutz holds at least 20% of the ordinary share capital of Yotvata, a resolution by Yotvata's board of directors or general meeting relating to certain matters enumerated in the agreement will be passed by a majority of votes of the directors or shareholders, as the case may be, provided that the majority of votes includes the vote of at least one director appointed by the Kibbutz or the Kibbutz's representative at the meeting of shareholders, as the case may be.

24.4.4 Strauss Health and Yotvata are engaged in agreements with dairy farmers to purchase the entire quotas of their milk produce in accordance with the Milk Sector Planning Law, 2011.

24.4.5 On December 29, 2005 a series of agreements was signed between companies in the Group and the Lima family of Brazil and companies under its control, their goal being the consolidation of the parties' operations in Brazil. It was determined that the transfer or sale of shares by a shareholder of the jointly-held company to a third party which is not related to either of the shareholders is subject to a right of first refusal to the sale, right of first offer and a shareholder's tagalong right to the sale of the other shareholder's shares. The agreement further determines that the shareholders will have preemptive rights with respect to any allotment of securities by the joint company in the future, in such manner that they will be able to acquire new securities pro rata to their holdings. Should a shareholder in the jointly-held company enter insolvency proceedings, the other shareholder will be entitled to acquire all of the shareholder's shares in the jointly-held company on the basis of the joint company's fair market value, subject to a prescribed valuation mechanism.

The agreement further determines that should an arbitrator 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. In addition, there is a limitation prohibiting a shareholder from selling its shares to a rival of the jointly-held company until January 1, 2020.

24.4.6 In December 2007, a joint venture transaction was signed with a PepsiCo subsidiary (Frito-Lay Dip Company, Inc.) (the "Buyer") such that effective March 28, 2008, the Company (via S.E. USA, Inc.) and PepsiCo (via the Buyer) each holds 50% of the "participation rights" in Sabra Dipping Company, LLC ("Sabra"). After five years have elapsed from the date of the agreement, each of the holders of "participation rights" in Sabra will have a put option to sell its "participation

Note 24 - Contingent Liabilities, Liens, Guarantees and Commitments (cont'd)

24.4 Material commitments (cont'd)

rights" to the other holders of "participation rights" in Sabra at such time, on the basis of Sabra's market value less 25%. The party against which the option was exercised will have the right to purchase the "participation rights" of the party exercising the option at the said price or alternatively, to sell the party exercising the option its "participation rights" on the basis of Sabra's market value plus 25%. The bylaws determine, *inter alia*, that the sale of "participation rights" to a third party is subject to the tagalong right of the remaining owners of "participation rights", and insofar as this right is not exercised, the seller shall have a drag-along right to enforce a sale on the remaining owners of "participation rights". This right shall be available to the seller after five years have elapsed from the date whereon the bylaws became effective. Additionally, the bylaws contain an itemization of certain corporations, in which respect any transfer of "participation rights" in Sabra to them shall require the consent of the Buyer or of S.E. USA, Inc., according to the provisions of the bylaws.

24.4.7 In July 2011 the Company contracted with the US food concern PepsiCo (through PRB Luxembourg, hereinafter: "PRB") in an agreement for the establishment of a joint venture via a company in which the parties would be equal shareholders (each party holding 50%) – PepsiCo Strauss Fresh Dips & Spreads International GmbH (hereinafter: the "Venture" or "Obela"). After five years have elapsed from the date on which the joint venture agreement took effect, each of the shareholders in Obela will have a put option to sell its shares to the counterparty on the basis of Obela's market value less 25%. The party against which the option has been exercised will have the right to acquire the shares of the party exercising the option at that price and alternatively, to sell its shares to the party exercising the option according to the Venture's market value plus 25%, all of the foregoing as set forth in the agreement.

24.4.8 For information on transactions with interested and related parties, see Note 37.

Note 25 - Operating Leases

Leases in which the Group is the lessee

The Group companies are party to non-cancelable long-term lease agreements relating to property and other assets, pursuant to which the following minimum rental fees shall be paid:

	December 31	
	2017	2016
	NIS millions	
In the first year	46	56
Between one and five years	95	103
In the fifth year and thereafter	31	43
	172	202

Note 25 - Operating Leases (cont'd)

25.1 Information on material lease contracts

Lessee	Lessor	The leased property	Remaining lease period
The Company	Third party	Acre distribution and logistics center	Until February 2021, with an option to extend for a further five years
The Company	Third party	Haifa distribution and logistics center	Until October 2018
The Company	Third party	Tzrifin distribution and logistics center (1)	Until November 2021

(1) In the course of 2015 the Company relocated its operations from Tzrifin and other sites to the logistics center in Shoham, and from January 1, 2016 the Tzrifin site has been sublet under inferior terms. Income from the sublet in 2017 amounted to NIS 7 million.

25. 2 In the year ended December 31, 2017 an amount of NIS 63 million was recorded as an expense in the income statement in respect of operating leases (2016 and 2015: NIS 81 million and NIS 85 million, respectively).

Note 26 - Capital and Reserves

Capital management – goals, procedures and processes

It is Company management's policy to maintain a strong capital base with the aim of preserving the Company's ability to conduct its operations in a manner that generates shareholder yield and benefits to other related parties such as credit providers and employees of the Company, as well as to support future business development. Company management monitors the return on equity, which is defined as total equity attributed to the shareholders of the Company, as well as the dividend payout ratio for holders of the Company's ordinary shares

26.1 Share capital

26.1.1 Composition

	December 31	
	2017	2016
	Number of shares (in thousands) of NIS 1 par value	
Authorized	150,000	150,000
Issued and paid-up (26.1.2)	115,590	108,234
Treasury shares (see also Note 26.2)	(868)	(868)
	114,722	107,366

26.1.2 In April 2017, 2,293,652 ordinary shares of NIS 1 nominal value of the Company were issued to institutional entities at a price of NIS 63 per share. 793,651 of these shares were issued to companies of the Migdal group, which are interested parties in the Company by virtue of their

Note 26 - Capital and Reserves (cont'd)

26.1 Share capital (cont'd)

holdings. Additionally, in April 2017 the Company issued 1,781,100 ordinary shares of NIS 1 nominal value of the Company at a price of NIS 65.10 per share under shelf offering report of April 6, 2017.

In June 2017, 2,727,274 shares of NIS 1 nominal value of the Company were issued to institutional entities at a price of NIS 66 per share. 757,576 of these shares were issued to companies of the Migdal group, which are interested parties in the Company by virtue of their holdings.

26.1.3 The holders of ordinary shares are entitled to dividends declared from time to time and to one vote per share at shareholders' meetings of the Company. In respect of the treasury shares (see below), all rights attaching thereto are suspended until they are reissued.

26.2 Treasury shares

The reserve for treasury shares includes the cost of shares of the Company held by the Company. On December 31, 2017 and 2016 the Company held 868 thousand Company shares, constituting approximately 0.8% of the shares of the Company. These shares are suspended until reissued.

26.3 Dividend distribution

Declaration date	Payment date	Total dividend paid NIS millions	Dividend per share NIS
August 9, 2017 (ex-date: August 20, 2017)	September 05, 2017	160	1.397
July 7, 2016 (ex-date: July 18, 2016)	July 26, 2016	150	1.397

As a result of the dividend distribution, the exercise price of option warrants granted to employees was adjusted. See Note 23.1.1.

26.4 Capital reserve in respect of available-for-sale financial assets

The capital reserve in respect of available-for-sale financial assets comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired.

26.5 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of monetary items that in fact constitute an increase or decrease in the net investment of the Group in foreign operations.

Note 26 - Capital and Reserves (cont'd)

26.5 Translation reserve (cont'd)

The effect of changes in foreign exchange rates that was recognized as other comprehensive income (including the share of non-controlling interests) according to the relevant operating segments was:

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
International Coffee	(84)	103	(389)
International Dips and Spreads	(42)	(12)	(1)
Other	5	9	3
Total	(121)	100	(387)

26.6 Reserve from transactions with non-controlling interests

The reserve from transactions with non-controlling interests includes the difference between the consideration paid for the acquisition of non-controlling interests and the change in non-controlling interests.

Note 27 - Segment Reporting

27.1 General

Segment information is presented in respect of the operating segments of the Group on the basis of the Group's management (non-GAAP) and internal reports (hereinafter: "Management Reports"). The Group's division into reportable operating segments is derived from Management Reports, which are based on the geographical location and types of products and services, as follows:

- The Israel operation, which includes two operating segments –
  - Fun & Indulgence – includes the manufacture, marketing and sale of confectionery, bakery products and snacks.
  - Health & Wellness – includes the manufacture, marketing and sale of dairy products and milk beverages, fresh salads and foods, honey products, olive oil, fruit preserves, cooking sauces, bottled lemon juice and natural maple syrup.

- The coffee operation, which includes two operating segments –
  - Israel Coffee – includes the manufacture, marketing and sale of coffee products in Israel and the Coffee Company's corporate expenses in material amounts.
  - International Coffee – includes the manufacture, marketing and sale of coffee products outside Israel.

Note 27 - Segment Reporting (cont'd)

27.1 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, which was sold during the year, as well as the Company's water business, which is incorporated in Strauss Water, and other non-material activities of the company.

The results of the operating segments set forth below are based on evaluations of the Company's performance in the framework of the Management Reports. These evaluations are based on operating profit, which includes the allocation of selling expenses and general and administrative expenses, less certain items, as follows:

- Other expenses (income)
- All adjustments required to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties
- Expenses in respect of share-based payment

Inter-segment pricing is determined on the basis of transaction prices within the ordinary course of business.
Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing income and expenses.

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Income			
Sales to external customers:			
Health & Wellness	2,068	1,975	1,898
Fun & Indulgence	1,063	1,006	968
Total Israel	3,131	2,963	2,866
Israel Coffee	704	673	647
International Coffee	3,396	3,000	2,785
Total Coffee	4,100	3,673	3,432
International Dips and Spreads	692	717	752
Other	569	590	592
Sales to other segments:			
Health & Wellness	7	7	8
Fun & Indulgence	11	11	9
Total Israel	18	18	17
Israel Coffee	2	2	1
International Coffee	2	1	-
Total Coffee	4	3	1
International Dips and Spreads	-	-	-
Other	-	1	-
Total income of the segments	8,514	7,965	7,660
Elimination of inter-segment sales	(22)	(22)	(18)
Total income of segments excluding inter-segment sales	8,492	7,943	7,642
Adjustments to the equity method	(3,012)	(2,661)	(2,459)
Total consolidated income	5,480	5,282	5,183

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements (cont'd)

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Profit			
Health & Wellness	222	213	188
Fun & Indulgence	106	101	93
Total Israel	328	314	281
Israel Coffee	104	87	84
International Coffee	289	272	184
Total Coffee	393	359	268
International Dips and Spreads	19	48	80
Other	40	23	30
Total profit of the segments	780	744	659
Unallocated income (expenses):			
Adjustments in respect of commodity hedges (1)	(31)	-	22
Other expenses, net	(52)	(50)	(42)
Share-based payment	(17)	(15)	(15)
Total operating profit	680	679	624
Adjustments to the equity method	(48)	(48)	(39)
Total operating profit in the consolidated financial statements	632	631	585
Financing expenses, net	(117)	(109)	(101)
Income before taxes on income	515	522	484

(1) Reflects mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices. Following a change in Management Reports commencing in the first quarter of 2017, reflects all adjustments necessary to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties.

Note 27 - Segment Reporting (cont'd)

27.3 Additional information on operating segments and reconciliation with the consolidated financial statements

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Depreciation and amortization			
Health & Wellness	55	58	54
Fun & Indulgence	36	35	32
Total Israel	91	93	86
Israel Coffee	13	12	10
International Coffee	53	61	74
Total Coffee	66	73	84
International Dips and Spreads (1)	65	27	23
Other (2)	39	27	39
Total depreciation and amortization attributed to segments	261	220	232
Adjustments:			
Depreciation of unallocated non-financial assets	20	20	21
Adjustments to the equity method	(90)	(49)	(41)
Total depreciation and amortization in consolidated statements	191	191	212

(1) In 2017, includes an impairment loss on an operation of an associate. For additional information, see Note 12.2.
(2) In 2017, includes a loss in respect of the sale of an operation. For additional information, see Note 6.6.

27.4 Information on geographical segments

The Group's income from sales to external customers, as reported in the income statement, on the basis of their geographical location, is as follows:

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Israel	4,117	3,917	3,776
North America	23	70	80
Europe and rest-of-world	1,340	1,295	1,327
Total consolidated income	5,480	5,282	5,183
Adjustments to income of operating segments	3,012	2,661	2,459
Total income of operating segments	8,492	7,943	7,642

Note 27 - Segment Reporting (cont'd)

27.4 Information on geographical segments (cont'd)

The non-current assets of the Group, as reported in the statement of financial position, on the basis of their geographical location, are as follows:

	December 31	
	2017	2016
	NIS millions	
Israel	1,875	1,876
North America	-	20
Europe and rest-of-world	790	578
Total consolidated assets	2,665	2,474
Adjustment to assets of operating segments	921	1,018
Total assets of operating segments	3,586	3,492

These assets mainly include fixed assets and intangible assets, and do not include financial assets, current tax assets, deferred tax assets and assets designated for the payment of employee benefits.

27.5 Information regarding products and services

Following are the revenues of the Group from sales to external customers as reported in the income statement, according to groups of similar products and services:

	Year ended December 31		
	2017	2016	2015
	NIS millions		
Income			
Dairy products	1,441	1,394	1,342
Salads	345	277	277
Other Health & Wellness products	282	286	279
Confectionery and bakery products	828	788	761
Coffee	2,015	1,946	1,945
Water purification devices and related services	541	496	470
Other	28	95	109
Total consolidated income in income statement	5,480	5,282	5,183
Adjustments to income of operating segments	3,012	2,661	2,459
Total income of operating segments	8,492	7,943	7,642

Note 28 - Financial Instruments

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk;
- Market risks that include: commodity price risk, interest rate risk, foreign currency risk and CPI risk;
- Liquidity risk.

This note provides information regarding the exposure of the Group to these risks and Group policy for the management of such risks.

In calculations of fair value and the sensitivity analyses the Company used the following:
1. Options – Black & Scholes model, standard deviation and quotations of relevant underlying assets.
2. Forward transactions – According to the change in the price of the relevant underlying asset and interest differences deriving from interest rates and/or stock exchange market prices (for commodities).
3. Debentures – According to the known interest curve and average life of the debentures.

28.1 Credit risk

In 2017 in Israel and in the Group companies outside of Israel there were no customers in which respect the Group's revenues from sales to these customers exceeded 10% of the Company's total income in its financial statements. The balance of the Company's customers is spread out and the risk arising from the concentration of credit with a single customer or group of customers is immaterial.

Most of the sales of the Group to its customers (in and outside of Israel) are made on accepted market credit terms. Part of the credit to retail customers in the private market in Israel is guaranteed by credit insurance (including a deductible) and by different collateral, and the rest of the credit to the private market that is not covered by any security is at risk. Nevertheless, the wide spread of the Group's customers in the private market reduces this risk. Part of the credit to large customers is not secured and is concentrated among a small number of customers to which the scope of the Group's sales is large, and therefore the non-repayment of credit which is not secured by any of the large customers may significantly impair the Group's cash flows and business results. Most of the credit to foreign customers is not guaranteed.

Company management constantly monitors customer debts, and the financial statements include specific provisions for doubtful debts which fairly reflect, according to management's estimate, the loss inherent in debts which collection is doubtful.

28.1.1 Exposure to credit risk

The carrying amount of financial assets reflects maximum credit exposure.
For information regarding exposure to credit risk in respect of customers, see Note 9. Additionally, for a segmentation of financial assets with varying credit risks see Note 13 regarding loans granted and Note 8 regarding investment in deposits and marketable securities.

Note 28 - Financial Instruments (cont'd)

28.1.2 Sureties and other credit enhancements

As at December 31, 2017 credit to retail customers in the amount of NIS 735 million (2016: NIS 765 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 92 million as at 31 December 2017 (2016: NIS 86 million).

28.1.3 One of the Company's major customers in Israel, Mega Retail Ltd. (hereinafter: "Mega"), filed a motion with the Lod Central Region District Court for a debt settlement under section 350 of the Companies Law, 1999. In July 2015 the court approved the composition with creditors, which included the rescheduling of debts to banks and suppliers, and an undertaking by Mega's owners to the injection of funds and guarantees. As part of the settlement, the parties agreed to a two-year deferment of 30% of the debt as at the date of filing of the motion, with the balance subsequently being repaid in 36 equal monthly installments, plus interest, commencing on July 15, 2017. On January 17, 2016 the District Court granted Mega a stay of proceedings. Commencing on July 1, 2016, following the approval of the composition with creditors and Mega's acquisition by Yenot Bitan, the Company resumed credit sales to Mega. In the Company's estimation, taking the existence of credit insurance into account, the provision on the Company's books is adequate. For further information, see Note 10 regarding receivables and debit balances and also Note 13 regarding other investments and long-term debit balances. In March 2017 an amount of NIS 13 million was received from the insurance company for credit losses in respect of Mega's debt.

28.2 Interest rate risk

Interest rate profile

The Company's interest rate risk primarily arises from bank loans at floating interest rates. Additionally, from time to time the Company invests in short-term deposits bearing floating interest.

As at the date of publication of the report, short-term loans and credit amounting to NIS 53 million (2016: NIS 107 million) bear floating interest, and the remainder of the debt, NIS 2,416 million (2016: NIS 1,777 million), bears fixed interest. Accordingly, any change in interest rates with respect to the Company's financial debt on the reporting date is not expected to have a material impact on equity and profit and loss in the relevant periods.

28.3 Commodity risk

The Group companies use derivative financial instruments in order to reduce the exposure to risks arising from unusual changes in the prices of raw materials required for production (green coffee, cocoa, corn, sugar and crude oil) or materials and cost influenced by commodity prices (crude oil, corn).

Note 28 - Financial Instruments (cont'd)

28.3 Commodity risk (cont'd)

28.3.1 Following is an itemization of the Group's material derivative financial instruments (stock exchange derivatives)

			December 31 2017	
			Fair value	Carrying amount and fair value
		Exercise/expiry date	NIS millions	
Green coffee	Contracts purchased, net	January 2018 – July 2018	147	(17)
Green coffee	Put sell	March 2018 – May 2018	(19)	(1)
				(18)

			December 31 2016	
			Fair value	Carrying amount and fair value
		Exercise/expiry date	NIS millions	
Green coffee	Contracts purchased, net	March 2017– September 2017	131	1
Green coffee	Call buy	March 2017	15	1
Green coffee	Put sell	May 2017-September 2017	(11)	-
				2

28.3.2 Sensitivity analysis – forward transactions and options

Any increase (decrease) in the prices of the essential commodities will increase (decrease) equity and income for the period, in respect of forward transactions and options, by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2017				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	5	2	(2)	(2)	(5)
Robusta	11	6	(16)	(6)	(12)
Total	16	8	(18)	(8)	(17)

Note 28 - Financial Instruments (cont'd)

28.3 Commodity risk (cont'd)

28.3.2 Sensitivity analysis – forward transactions and options (cont'd)

	December 31, 2016				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	3	2	(3)	(2)	(3)
Robusta	11	5	5	(5)	(11)
Total	14	7	2	(7)	(14)

28.4 Foreign currency risk

28.4.1 The Group uses derivatives (OTC) to hedge part of its foreign currency risk. As at December 31, 2017 the carrying amount and fair value of the Group's derivative financial instruments (foreign currency), net amounted to less than NIS 1 million (December 31, 2016: NIS 1 million).

28.4.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis relating to the Group's material derivative instruments (foreign currency – OTC) as at December 31, 2017 and December 31, 2016. 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, 2017				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	3.814	3.640	3.467	3.294	3.120
Total NIS/USD derivatives	7	3	-	(4)	(9)

	December 31, 2016				
	10% increase	5% increase	Fair value and carrying amount	5%5% decrease	10% decrease
NIS/USD exchange rate	4.229	4.037	3.845	3.653	3.461
Total NIS/USD derivatives	8	5	1	(4)	(10)

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.3 Statement of financial position according to linkage bases

The Group's exposure to CPI and foreign currency risk, not including risk associated with financial derivatives, is as follows:

	December 31, 2017							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-monetary	Total
	NIS millions							
Cash and cash equivalents	-	140	96	78	11	65	-	**390**
Securities and deposits	15	167	-	-	-	-	-	**182**
Trade receivables	-	727	8	3	84	133	-	**955**
Other receivables and debit balances (1)	-	35	7	2	4	6	32	**86**
Other investments and long-term debit balances	-	25	48	-	-	9	-	**82**
Current maturities of debentures	(178)	(28)	-	-	-	-	-	**(206)**
Short-term loans and credit	(4)	(59)	-	-	(38)	(3)	-	**(104)**
Trade payables	-	(515)	(136)	(15)	(6)	(43)	-	**(715)**
Other payables and credit balances (2)	(9)	(412)	(7)	(64)	(21)	(30)	(70)	**(613)**
Debentures	-	(826)	-	-	-	-	-	**(826)**
Long-term loans and credit	(459)	(750)	-	(124)	-	-	-	**(1,333)**
Other payables and long-term credit balances	-	(2)	-	-	-	(12)	(62)	**(76)**
Total	(635)	(1,498)	16	(120)	34	125	(100)	**(2,178)**

(1) Excluding derivative financial instruments in the amount of NIS 6 million.
(2) Excluding derivative financial instruments in the amount of NIS 26 million.

	December 31, 2016							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-monetary	Total
	NIS millions							
Cash and cash equivalents	-	290	198	140	13	70	-	**711**
Securities and deposits	23	30	-	-	-	-	-	**53**
Trade receivables	-	629	22	2	100	128	-	**881**
Other receivables and debit balances (1)	-	46	22	2	2	2	69	**143**
Other investments and long-term debit balances	-	55	55	44	-	9	-	**163**
Current maturities of debentures	(177)	(19)	-	-	-	-	-	**(196)**
Short-term loans and credit	(4)	(128)	(15)	-	-	-	-	**(147)**
Trade payables	-	(504)	(165)	(24)	(5)	(45)	-	**(743)**
Other payables and credit balances (2)	(12)	(410)	(9)	(8)	(49)	(52)	(64)	**(604)**
Debentures	(178)	(457)	-	-	-	-	-	**(635)**
Long-term loans and credit	(462)	(444)	-	-	-	-	-	**(906)**
Other payables and long-term credit balances	-	-	(6)	-	-	(5)	(49)	**(60)**
Total	(810)	(912)	102	156	61	107	(44)	**(1,340)**

(1) Excluding derivative financial instruments in the amount of NIS 13 million.
(2) Excluding derivative financial instruments in the amount of NIS 38 million

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.4 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the major currencies as at December 31 relating to the currency risk arising from financial items denominated in foreign currency, which is not the functional currency of the Company and its subsidiaries, will increase (decrease) equity (the equity attributable to all shareholders of the Company) in the following amounts:

	December 31, 2017				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	3.814	3.640	3.467	3.294	3.120
Effect in NIS millions	7	4	71	(4)	(7)
NIS/EURO exchange rate	4.568	4.360	4.153	3.945	3.737
Effect in NIS millions	(10)	(5)	(102)	5	10
RUB/USD exchange rate	30.762	29.364	27.965	26.567	25.169
Effect in NIS millions	(2)	(1)	(16)	1	2

	December 31, 2016				
	NIS million				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	4.229	4.037	3.845	3.653	3.461
Effect in NIS millions*	9	4	87	(4)	(9)
RUB/USD exchange rate	66.741	63.708	60.674	57.640	54.607
Effect in NIS millions	(10)	(5)	(96)	5	10
UAH/USD exchange rate	29.728	28.377	27.025	25.674	24.323
Effect in NIS millions	(3)	(1)	(25)	1	3

* Restated.

Note 28 - Financial Instruments (cont'd)

28.5 CPI risk

28.5.1 The Company uses CPI futures for varying periods to partly hedge the index risk arising from the excess of index-linked liabilities.

28.5.2 Sensitivity analysis – CPI futures contracts

Any increase (decrease) in the anticipated CPI in relation to the anticipated index inherent in the fair value of each of the CPI futures will increase (decrease) the equity attributable to 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, 2017				
	2% increase	1% increase	Fair value and carrying amount	1% decrease	2% decrease
			NIS millions		
CPI futures	5	3	(*) -	(3)	(5)

(*) Less than NIS 1 million.

	December 31, 2016				
	2% increase	1% increase	Fair value and carrying amount	1% decrease	2% decrease
			NIS millions		
CPI futures	9	4	(25)	(4)	(8)

28.6 Liquidity risk

The Company's liabilities mainly derive from credit that was raised by issuing debentures (Series B, Series D and Series E) and loans from banks and others. In addition to these liabilities, the Company has unsecured credit lines from banks. Over the years the Company's business operations have generated positive cash flows that enable it to meet the financial obligations it has undertaken. However, should the Company require any sources of financing in addition to those generated by its business operations the Company will be able to use, *inter alia*, the additional credit lines available to it. Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

Note 28 - Financial Instruments (cont'd)

28.6 Liquidity risk (cont'd)

	December 31, 2017									
	Note	Carrying amount	Contractual cash flow	2018	2019	2020	2021	2022	2023 and thereafter
		NIS millions							
Trade payables	17	715	715	715	-	-	-	-	-
Derivatives	18,21	26	26	26	-	-	-	-	-
Other payables (1)	18	543	515	515	-	-	-	-	-
Debentures Series B	20	178	182	182	-	-	-	-	-
Debentures Series D	20	455	528	47	46	77	83	80	195
Debentures Series E	20	399	479	11	11	30	30	29	368
Shekel loans from banks	20	215	242	19	113	54	3	53	-
Shekel loans from others	20	1,051	1,202	92	177	254	292	215	172
Foreign currency loans and credit from banks	20	165	177	43	2	2	2	2	126
Finance lease (2)	20	6	8	-	-	-	-	-	7
Long-term payables and credit balances	21	14	14	-	14	-	-	-	-
		3,767	4,088	1,650	363	417	410	379	868

(1) The carrying amount includes accrued expenses in respect of interest.
(2) Yearly payments are less than NIS 1 million.

	December 31, 2016								
	Note	Carrying amount	Contractual cash flow	2017	2018	2019	2020	2021	2022 and thereafter
		NIS millions							
Trade payables	17	743	743	743	-	-	-	-	-
Derivatives	18,21	38	38	38	-	-	-	-	-
Other payables (1)	18	604	576	576	-	-	-	-	-
Debentures Series B	20	355	370	189	181	-	-	-	-
Debentures Series D	20	476	567	39	47	46	77	83	275
Shekel loans from banks	20	346	391	115	40	121	58	4	53
Shekel loans from others	20	686	809	60	59	144	183	220	143
Foreign currency loans and credit from banks	20	15	15	15	-	-	-	-	-
Finance lease (2)	20	6	9	-	-	-	-	-	7
		3,269	3,518	1,775	327	311	318	307	478

(1) The carrying amount includes accrued expenses in respect of interest.
(2) Yearly payments are less than NIS 1 million.

28.7 Fair value of financial instruments

28.7.1 Fair value

The carrying amount of cash and cash equivalents, short and long-term investments, trade receivables, other receivables and debit balances, trade payables and other payables and credit balances is the same as or proximate to their fair value.

The fair value of the debentures, which is based on TASE prices, together with their carrying amount (including accrued interest), presented in the statement of financial position, is as follows:

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS millions			
Debentures Series B	181	182	362	368
Debentures Series D	460	508	481	527
Debentures Series E (1)	399	423	-	-

(1) For information on the Series E debenture issue, see Note 20.4.

28.7.2 Fair value hierarchy

28.7.2.1 Derivatives – fair value valuation technique

Forward contracts – fair value is estimated by discounting the difference between the forward price quoted in the contract and the current forward price for the remaining term of the contract until the maturity date, using the appropriate market interest rates applying to similar instruments.

Foreign currency options – fair value is determined according to the Black & Scholes model.

28.7.2.2 Fair value hierarchy of financial instruments measured at fair value

	December 31, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	NIS millions					
Financial assets (liabilities)						
Marketable securities	31	-	-	46	-	-
Trade receivables- derivatives	3	3	-	11	2	-
Trade payables- derivatives	(23)	(3)	-	(11)	(27)	-
Available-for-sale financial asset	-	-	-	28	-	-
	11	-	-	74	(25)	-

Note 29 - Sales

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Sales of manufactured products	4,424	4,264	4,245
Sales of other products	676	662	602
Other income (1)	380	356	336
	5,480	5,282	5,183

(1) Other income mainly includes income from providing services for water purification devices and royalty income.

Note 30 - Cost of Sales

30.1 By components

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Materials consumed (1)	2,585	2,479	2,570
Wages, salaries and related expenses	421	393	384
Depreciation and amortization	108	109	106
Other manufacturing expenses	216	196	188
Change in provision for warranty	2	2	2
	3,332	3,179	3,250
Valuation of balance of commodity hedging transactions as at the end of the year	22	-	(22)
	3,354	3,179	3,228

(1) In 2017, including a net loss of NIS 29 million (2016 and 2015: NIS 24 million and NIS 21 million, respectively) in respect of inventory impairment.

30.2 By sources of income

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Manufactured products	2,870	2,741	2,868
Other products	326	302	257
Other income (1)	136	136	125
	3,332	3,179	3,250
Valuation of balance of commodity hedging transactions as at the end of the year	22	-	(22)
	3,354	3,179	3,228

(1) Costs in respect of other income mainly include costs of services for water purification devices.

Note 31 - Selling and Marketing Expenses

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Salaries and related expenses	532	512	497
Advertising	266	254	227
Doubtful and bad debts	2	7	17
Transport expenses	218	210	208
Maintenance expenses	140	152	158
Depreciation and amortization	50	53	58
Reimbursement of expenses by equity-accounted investees	(32)	(36)	(38)
Other	83	82	71
	1,259	1,234	1,198

Note 32 - General and Administrative Expenses

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Salaries and related expenses (1)	254	241	207
Depreciation and amortization	23	21	24
Contributions	9	9	6
Consulting and professional fees	59	52	56
Maintenance expenses	23	25	30
Reimbursement of expenses by equity-accounted investees	-	(1)	(9)
Other	20	20	15
	388	367	329
(1) Less:			
Salaries and related expenses capitalized to software for own use	5	5	6

Note 33 - Other Income (Expenses), Net

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Other income			
Gain on sale of fixed assets and investment property, net	2	1	1
Dividend income on available-for-sale financial assets	-	2	1
Restructuring income, net	-	-	6
Cancelation of impairment of assets held for sale	-	-	4
Other income (1)	25	3	4
Total other income	27	6	16
Other expenses			
Restructuring expenses, net (2)	(24)	(29)	(15)
Business establishment and acquisition costs	(4)	(5)	(10)
Loss on fixed assets, deferred expenses and assets held for sale, net	(5)	(6)	(4)
Impairment loss on intangible assets	-	(14)	(18)
Other expenses	(3)	(1)	(10)
Total other expenses	(36)	(55)	(57)
Other expenses, net	(9)	(49)	(41)

(1) Other income in 2017 mainly includes a gain of NIS 21 million on the realization of an available-for-sale investment in consideration for NIS 31 million.

(2) Restructuring expenses in 2017 mainly include a net loss of NIS 21 million on the sale of the Max Brenner operation. Restructuring expenses in 2016 include, *inter alia*, expenses of NIS 15 million in respect of an onerous contract and NIS 11 million in respect of the derecognition of fixed assets and intangible assets.

Note 34 - Financing Expenses, Net

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Financing income:			
Interest income	6	5	12
Linkage differentials to the CPI in Israel, net	-	2	9
Total financing income	6	7	21
Financing expenses:			
Net loss on derivative financial instruments measured at fair value through profit or loss	(9)	(10)	(8)
Interest expenses	(105)	(101)	(112)
Net loss deriving from changes in exchange rates	(7)	(5)	(1)
Linkage differentials to the CPI in Israel, net	(2)	-	-
Other	-	-	(1)
Total financing expenses	(123)	(116)	(122)
Financing expenses, net	(117)	(109)	(101)

Note 35 - Taxes on Income

35.1 Information on the tax environment in which the Group companies in Israel operate

35.1.1 Corporate tax rates

- The following tax rates are relevant to the Company in 2015-2017:

  2015 – 26.5%

  2016 - 25%

  2017 - 24%

  On January 4, 2016 the Knesset passed Amendment 216 to the Income Tax Ordinance, 2016 (hereinafter: the "Amendment") which determined, *inter alia*, that the corporate tax rate would be lowered by 1.5% from 2016 onwards, to 25%. On December 31, 2016 the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives for 2017 and 2018) was published in the Official Gazette. The law determines, *inter alia*, a decrease in the corporate tax rate to 24% commencing in 2017 and to 23% commencing in 2018. The impact of the changes on deferred taxes is expressed in a reduction of approximately NIS 22 million in 2016.

  Current taxes for the reporting periods were calculated according to the tax rates presented above.

  On January 12, 2012 Amendment 188 to the Income Tax Ordinance (New Version), 1961 (hereinafter: the "Ordinance") was published in the Official Gazette, in which section 87A of the Ordinance was amended such that a temporary order determines that Israeli Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" published by the Israel Accounting Standards Board will not apply to the determination of taxable income in regard to the 2010 and 2011 tax years, even if the above standard was applied in the financial statements (hereinafter: the "Temporary Order"). On July 31, 2014 Amendment 202 to the Ordinance was published, which extends the validity of the Temporary Order with respect to the 2012 and 2013 tax years.

35.1.2 Benefits under laws for the encouragement of capital investments

In accordance with the Law for the Encouragement of Capital Investments, 1959 and the Law for the Encouragement of Capital Investments in Agriculture, 1980 (hereinafter: the "Capital Investment Encouragement Laws") some of the Group's production facilities were granted the status of an "approved enterprise", which entitles them to investment grants or tax benefits ("alternative benefits track"). The benefits are contingent upon fulfillment of the terms prescribed in the Capital Investment Encouragement Laws and their related regulations, and in the deeds of approval under which the investments in the approved enterprises were made. The main customary conditions in the deeds of approval are: the minimal percentage of the investments in fixed assets by paid-up share capital; keeping of proper books of account in the double entry system; execution of the plan in a timely manner, as stipulated in the deed of approval; operation of the assets of the approved enterprise for a period of no less than 7 years from the date they were purchased by the Company; increase of the employee headcount or of exports. Failure to comply with these terms is liable to lead to the benefits being revoked and refunded plus the higher of arrears interest or linkage differentials. To date, the relevant companies have complied with the conditions.

Note 35 - Taxes on Income (cont'd)

35.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

35.1.2 Benefits under laws for the encouragement of capital investments (cont'd)

A. Amendment of the Law for Encouragement of Capital Investments, 1959

According to a legal opinion received by the Company, some of the plants of companies in the Group fulfill the definition of a "competitive industrial plant" as this term is defined in the law, and as such, these companies are entitled to tax benefits pursuant to the provisions of the law from 2011 and thereafter. Accordingly, the tax rate that will apply to the taxable income of those companies thanks to the preferred plant is 10% (for 2011-2012) and 7% (for 2013). It is noted that on August 5, 2013 the Knesset passed the Law for the Change of National Priorities (Legislative Amendments for Achieving Budget Objectives for the Years 2013 and 2014), 2013, which determines that the law was amended retrospectively with respect to 2012. As it is not presently possible to estimate the outcome of the discussions and/or proceedings which will take place with the tax authorities on the subject, and noting that the tax authority's position differs, the relevant subsidiaries adopted a conservative approach and recorded their tax expenses in their financial statements in accordance with the corporate tax rate in the relevant year and paid the advance payments arising from this calculation.

Income tax returns for 2011, 2012 and 2013 were filed according to the tax rates defined in the Encouragement Laws.

B. Temporary order for distribution of exempt profits

On November 5, 2012 Amendment No. 69 and a temporary order relating to the Encouragement of Capital Investments Law, 1959 (hereinafter: the "Temporary Order") were enacted, proposing an arrangement for payment of reduced tax by companies that had received an exemption from corporate tax by virtue of the said law. The Temporary Order determined that companies choosing to apply the Temporary Order will be entitled to benefit from a tax discount for "unfreezing" the exempt profits (hereinafter: "Advantageous Corporate Tax"). In the course of 2013 all Group companies to which the provisions of this law are relevant decided to apply the Temporary Order and to unfreeze the balance of accumulated exempt profits in the Group, in an amount of approximately NIS 203 million. The Advantageous Tax rate in respect of the unfrozen profits is 10%. Accordingly, the Group recognized current tax expenses during the reporting period in respect of payment of Advantageous Corporate Tax in the amount of approximately NIS 20 million. According to the Company's decision and the Temporary Order, the Company is obligated to invest a total of approximately NIS 15 million in an industrial plant (as defined in the Temporary Order) by the end of 2017. As at the reporting date, the Company is in compliance with this obligation.

Note 35 - Taxes on Income (cont'd)

35.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

35.1.3 Benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company and part of the Group companies (including Strauss Health Ltd., Strauss Frito-Lay Ltd., Uri Horazo Yotvata Dairies Ltd) are "industrial companies" as defined in the Law for the Encouragement of Industry (Taxes), 1969. In accordance with this status they are entitled to benefits, the principal ones being as follows:

a. Higher rates of depreciation.
b. Amortization of issuance expenses of shares listed for trading on the Stock Exchange in three equal annual portions commencing in the year the shares were listed for trading.
c. Amortization of patents and knowhow used for the plant's development over an 8-year period.
d. The possibility of filing consolidated tax returns by companies with one production line.

The Company and certain subsidiaries submit a consolidated tax return to the tax authorities under the Encouragement of Industries (Taxes) Law, 1969.

35.2 Information on the tax environment in which the Group companies outside of Israel operate

The companies incorporated outside of Israel are assessed according to the tax laws in their countries of domicile.

The principal tax rates applicable to the business operations of these companies are as follows: Romania – 16%; Poland – 19%; Serbia – 15%; The Netherlands – 25%; Switzerland – 9%; Ukraine – 18%; Russia –20%; UK – 20% (19% since April 1, 2017); USA – approximately 43% (approximately 28% since January 1, 2018); 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. In parallel, corporate tax paid in foreign countries can be credited against tax payable in Israel under the "indirect credit" mechanism, in accordance with the rules and restrictions stipulated in the provisions of the Israeli law. The Company has created a tax reserve in respect of the additional tax that may be imposed on the Company as a result of the distribution of a dividend.

On December 22, 2017 an amendment was approved in the United States that determined, inter alia, that the corporate tax rate would be lowered to 21% commencing on January 1, 2018. Based on the Company's estimate, the change in the tax rate has led to a decrease of approximately NIS 12 million in the deferred tax liability that was recognized against income from deferred taxes. Since the amendment is broad and complex and further professional updates are expected to be published in its regard, the Company is unable, at the present stage, to estimate the overall impact of additional aspects in the amendment.

Note 35 - Taxes on Income (cont'd)

35.3 Tax benefits in the countries where the Group companies outside of Israel operate

In respect of its operation in Serbia, until the 2016 tax year the Company was 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.

35.4 Final tax assessments

The company and its major subsidiaries in Israel were issued with final tax assessments or self-assessments that are considered final (subject to the dates of submission of the tax returns and extension of the period of limitations according to the law) up to an including the 2010 tax year.

Final tax assessments were issued for the Group companies outside of Israel as follows: For Strauss Poland up to and including the 2011 tax year; for Strauss Coffee in Holland up to and including the 2011 tax year; for Strauss Romania up to and including the 2008 tax year; for Strauss Ukraine and Russia up to and including the 2014 tax year; for Strauss Switzerland up to and including the 2016 tax year; for Strauss Adriatic up to and including the 2012 tax year; for S.E. USA up to and including the 2013 tax year.

35.5 Carryforward tax losses

The Group has carryforward tax losses from operations carried over to the subsequent year in the amount of NIS 429 million (2016: NIS 438 million). Deferred taxes were not recorded in respect of losses of NIS 290 million (2016: NIS 345 million).

35.6 Transfer prices

In November 2006 a general provision and regulations were published, allowing for intervention in determining the price and terms of international transactions between related parties. The regulations define principles for examining the market value of international transactions between related parties, and prescribe reporting requirements regarding such transactions. The Company examines these transfer prices from time to time, and performs surveys to the extent required according to the regulations.

35.7 Disputed tax assessments

On March 14, 2017 the Company and subsidiaries were issued with income tax orders and assessments for the years 2011 to 2014. The payment demanded for said period amounts to a total of NIS 121 million (including interest and linkage until March 14, 2017). The Company disputes the position of the Tax Authority and accordingly, intends to appeal the orders in court and to file an objection against the assessments. Additionally, Uri Horazo Yotvata Dairies Ltd. has filed an appeal, through its tax consultants, against an order issued to it in respect of the years 2011 and 2012 regarding the implementation of the Encouragement of Capital Investments Law as set forth in section 35.1.2 above. As at the date of this report, the proceeding is in summation. Based on the opinion of its professional consultants, Company management estimates that the provisions recorded on the books of the Company and the subsidiaries are sufficient.

An investee is presently negotiating the assessments for the years 2009-2013 with the local tax authorities. At this initial stage the investee has not yet received all information from the tax

Note 35 - Taxes on Income (cont'd)

35.7 Disputed tax assessments (cont'd)

authorities regarding their position. The investee has made a provision according to its best estimates, based on the information in its possession as at the date of this report. If further clarification is received from the tax authorities, the company's estimates may change.

35.8 Composition of income tax expenses

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Current taxes	106	116	111
Deferred taxes	(4)	41	41
Taxes in respect of prior years	9	(1)	(13)
Effect of changes in tax rates	(12)	(22)	-
	99	134	139

35.9 Reconciliation between the theoretical tax on pre-tax income and the tax expenses recorded on the Company's books:

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Income before taxes on income	515	522	484
Principal tax rate	24%	25%	26.5%
Taxes on income at the principal tax rate	124	131	128
Effect of change in tax rates	(12)	(22)	-
Deferred taxes at a different tax rate to the principal rate	17	20	16
Permanent differences, net	20	37	21
Temporary differences and losses utilized in which respect deferred taxes were not recorded	2	3	-
Share of profits of equity-accounted investees, in which respect deferred taxes were not recorded	(41)	(31)	(28)
Impairment losses in which respect deferred taxes were not recorded	-	2	5
Net differences resulting from differences in tax rates abroad	(18)	(4)	11
Taxes in respect of prior years	9	(1)	(13)
Differences resulting from benefits and reduced tax rates	(2)	(1)	(1)
Taxes on income in the statement of income	99	134	139
Effective tax rate	19.1%	25.7%	28.7%

Note 35 - Taxes on Income (cont'd)

35.10 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2016	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized in other comprehensive income	Effect of changes in tax rates recognized directly in statement of income	Balance as at December 31, 2016	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized in other comprehensive income	Effect of changes in tax rates recognized directly in statement of income	Business combinations	Balance as at December 31, 2017
Deferred taxes in respect of:										
Provision for doubtful debts	13	(4)	-	(1)	8	(1)	-	-	-	7
Provision for vacation and convalescence	12	(2)	-	(1)	9	(1)	-	-	-	8
Tax losses and deductions	11	3	-	-	14	21	(1)	(7)	-	27
Employee severance benefits	6	(1)	-	(1)	4	1	-	-	-	5
Inventory adjustments	-	2	1	-	3	-	-	-	-	3
Other temporary differences	8	13	2	-	23	(2)	(3)	(2)	-	16
Fixed assets, other assets and deferred expenses	(211)	(28)	2	17	(220)	(3)	3	21	(13)	(212)
Hedging transactions	7	(7)	(3)	-	(3)	6	1	-	-	4
Differences arising from investment in subsidiaries and in equity-accounted investees	(32)	(17)	-	8	(41)	(17)	-	-	-	(58)
	(186)	(41)	2	22	(203)	4	-	12	(13)	(200)
	9%-43%				9%-43%					9%-28%

Note 36 - Basic and Diluted Earnings per Share

The basic earnings per share as at December 31, 2017 were calculated by dividing the income attributable to the ordinary shareholders in the amount of NIS 342 million (2016 and 2015: NIS 272 million and NIS 257 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average number of ordinary shares:

	For the year ended December 31		
	2017	2016	2015
	Millions of NIS 1 par value shares		
Balance as at January 1	108.2	108.2	107.9
With the addition of options exercised into weighted shares and shares issued during the period	47	-	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	112.0	107.3	107.2

The diluted earnings per share as at December 31, 2017, 2016 and 2015 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		
	2017	2016	2015
	Millions of NIS 1 par value shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	112.0	107.3	107.2
Effect of share options	0.6	0.4	0.5
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	112.6	107.7	107.7

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, 2017, 1,577 thousand option warrants (2016 and 2015: 3,008 thousand and 2,633 thousand option warrants, respectively) were excluded from the calculation of the diluted weighted average number of ordinary shares as their effect would have been anti-dilutive.

Note 37 - Balances and Transactions with Interested and Related Parties

37.1 Identity of interested and related parties

The Company's interested and related parties are the parent company, related parties of the parent company, jointly controlled companies (see Note 12), and members of the board of directors and senior management, who are the Company's key management personnel.

37.2 Transactions with members of senior management

37.2.1 In addition to salaries, the members of senior management participate in the options plan of the Company. For information on the allotment of options to executives in 2017, see Note 23.

The benefits awarded to members of senior management are as follows:

	For the year ended December 31					
	2017		2016		2015	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Short-term benefits	8	26	8	26	8	20
Post-employment benefits	8	-	8	-	8	1
Share-based payment	8	11	8	9	8	9
		37		35		30

37.2.2 The benefits awarded to members of the board of directors are as follows:

	For the year ended December 31					
	2017		2016		2015	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Directors not employed	12	3	11	3	11	3
Employed directors	1	5	1	6	1	3
	13	8	12	9	12	6

Expenses related to directors' benefits were included in general and administrative expenses in the income statement. As at December 31, 2017 there is a credit balance of NIS 1 million for directors' salaries, similar to 2016.

37.2.3 See Notes 24.1.3.1 and 24.4.2 for information on a deed of undertaking to indemnify officers and a directors and officers (D&O) liability policy.

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.3 Balances and transactions with interested and related parties

	The parent company and its related parties	Equity-accounted investees	Total
		NIS millions	
As at December 31, 2017:			
Current assets presented under trade and other receivables	-	3	3
Long-term assets presented under investments and long-term debit balances	-	48	48
Current liabilities presented under trade and other payables	(3)	(12)	(15)
As at December 31, 2016:			
Current assets presented under trade and other receivables	-	15	15
Long-term assets presented under investments and long-term debit balances	-	53	53
Current liabilities presented under trade and other payables	(3)	(29)	(32)

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.3 Balances and transactions with interested and related parties (cont'd)

	The parent company and its related parties (1)	Equity-accounted investees	Total
		NIS millions	
For the year ended December 31, 2017:			
Sales	1	10	11
Purchases	-	(10)	(10)
Selling, general and administrative income (expenses)	(12)	36	24
Financing income, net	-	-	-
For the year ended December 31, 2016:			
Sales	1	9	10
Purchases	-	(6)	(6)
Selling, general and administrative income (expenses)	(10)	40	30
Financing income, net	-	2	2
For the year ended December 31, 2015:			
Sales	-	14	14
Purchases	-	(9)	(9)
Selling, general and administrative income (expenses)	(17)	46	29
Financing income, net	-	4	4

(1) Prices and credit terms for transactions with interested are under customary commercial terms and conditions. In 2017 mainly includes the purchase of advertising services from Reshet Noga Ltd. in the amount of NIS 12 million (2016: NIS 10 million, 2015: NIS 12 million).

Note 38 - Post-Statement of Financial Position Date Events

After the date of the statement of financial position, part of assets held for sale was sold with no material effect on the statement of income.

STRAUSS GROUP LTD.

SEPARATE FINANCIAL INFORMATION AS AT DECEMBER 31, 2017

Unofficial Translation from Hebrew

Strauss Group Ltd.
Annex "B"

Separate Financial Information as at December 31, 2017

Table of Contents | **Page**

Somekh Chaikin
KPMG Millennium Tower
17 Ha’arba’a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

An Unofficial translation of the Hebrew version, the binding version is the Hebrew one.

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, 2017 and 2016 and for each of the three years, the last of which ended on December 31, 2017. 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 .

we did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 59 million and NIS 23 million as of December 31, 2017 and 2016, respectively, and the Group’s share in their profits amounted to approximately NIS 22 million, NIS 9 million and NIS 4 million for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the 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 13, 2018

Strauss Group Ltd.

Information Pertaining to Financial Position

	Additional information	December 31 2017	December 31 2016
		NIS millions	
Current assets			
Cash and cash equivalents	2	89	126
Securities and deposits	3	150	23
Trade receivables		192	179
Income tax receivables		5	17
Other receivables and debit balances		22	31
Investee receivables		207	196
Inventory		137	118
Assets held for sale		22	32
Total current assets		824	722
Investments and non-current assets			
Investments in investees	4	1,609	1,816
Other investments and long-term debit balances	4	892	665
Fixed assets		932	944
Investment property		4	-
Intangible assets		52	53
Total investments and non-current assets		3,489	3,478
Total assets		4,313	4,200

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

Date of approval of the separate financial information: March 13, 2018

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

Information Pertaining to Financial Position (cont'd)

	Additional information	December 31 2017	December 31 2016
		NIS millions	
Current liabilities			
Current maturities of debentures	5	206	196
Short-term credit and current maturities of long-term loans and other long-term liabilities	5	15	15
Trade payables		199	202
Other payables and credit balances		219	248
Investee payables		119	160
Provisions		2	2
Total current liabilities		760	823
Non-current liabilities			
Debentures	5	826	635
Long-term loans and other long-term liabilities	5	782	796
Long-term payables and credit balances		7	16
Employee benefits, net		22	20
Deferred tax liability	7	99	75
Total non-current liabilities		1,736	1,542
Total equity attributable to the Company's shareholders		1,817	1,835
Total liabilities and equity		4,313	4,200

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 2017	2016	2015
		NIS millions		
Sales		1,011	1,010	904
Cost of sales		625	622	555
Gross profit		386	388	349
Selling and marketing expenses		251	266	226
General and administrative expenses		71	61	36
		322	327	262
Operating profit before other income (expenses)		64	61	87
Other income		3	2	5
Other expenses		(8)	(12)	(18)
Other expenses, net		(5)	(10)	(13)
Operating profit		59	51	74
Financing income		26	28	36
Financing expenses		(98)	(88)	(99)
Financing expenses, net		(72)	(60)	(63)
Profit (loss) before taxes on income		(13)	(9)	11
Taxes on income	7	(34)	(38)	(28)
Loss after taxes on income		(47)	(47)	(17)
Income from investees		389	319	274
Income for the year attributable to the shareholders of the Company		342	272	257

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

Information Pertaining to Comprehensive Income

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Income for the period attributable to the shareholders of the Company	342	272	257
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:			
Other comprehensive income (loss) from investees	(111)	71	(289)
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	(111)	71	(289)
Comprehensive income (loss) for the period attributable to the shareholders of the Company	231	343	(32)

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

Information Pertaining to Cash Flows

	For the year ended December 31		
	2017	2016	2015
	NIS millions		
Cash flows from operating activities			
Income for the year attributable to the shareholders of the Company	342	272	257
Adjustments:			
Depreciation	53	56	46
Amortization of intangible assets and deferred expenses	15	14	18
Other income, net	(2)	(1)	(4)
Expenses in respect of share-based payment	14	13	12
Share in gain of investees	(389)	(319)	(274)
Financing expenses, net	72	60	63
Income tax expenses	34	38	28
Change in inventory	(22)	24	12
Change in trade and other receivables	(10)	6	24
Change in investee receivables	68	65	(118)
Change in long-term debit balances	-	-	(7)
Change in trade and other payables	(15)	15	(51)
Change in investee payables	(41)	45	(30)
Change in employee benefits	2	(3)	1
Interest paid	(74)	(77)	(89)
Interest received	8	18	20
Income tax received (paid), net	(9)	(41)	16
Net cash flows from (used in) operating activities	46	185	(76)
Cash flows from investing activities			
Sale (purchase) of marketable securities and deposits, net	(127)	6	49
Proceeds from sale of fixed and other assets	13	29	4
Acquisition of fixed assets	(45)	(49)	(90)
Investment in intangible assets and deferred expenses	(14)	(11)	(13)
Repayment of deposits and long-term loans	9	9	5
Long-term loans granted	(10)	(8)	(3)
Dividends from investees	164	159	340
Cash received in respect of investing activities with investees	114	91	35
Cash paid in respect of investing activities with investees	(660)	(152)	(82)
Proceeds from sale of operations	8	-	-
Net cash flows from (used in) investing activities	(548)	74	245
Cash flows from financing activities			
Repayment of debentures and long-term loans	(211)	(215)	(211)
Dividends paid	(160)	(150)	(100)
Proceeds from issuance of debentures, net of issuance costs	399	-	-
Proceeds from issuance of share capital, net of issuance costs	436	-	-
Proceeds from the exercise of stock options	1	-	-
Net cash flows from (used in) financing activities	465	(365)	(311)
Net decrease in cash and cash equivalents	(37)	(106)	(142)
Cash and cash equivalents as at January 1	126	232	374
Cash and cash equivalents as at December 31	89	126	232

Fixed assets in the amount of NIS 16 million were purchased on credit as at December 31, 2017 (2016: NIS 15 million, 2015: NIS 23 million).

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

Note 1 – Reporting Rules and Policies

1.1 General

This report contains financial information from the consolidated financial statements of Strauss Group Ltd. (hereinafter: the "Company") as at December 31, 2017 (hereinafter: the "Consolidated Financial Statements" or "Consolidated Statements"), attributed to the Company itself (hereinafter: "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, joint ventures and associates.

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 on the basis of the Consolidated Financial Statements is equal to the equity of the Company as derived from the Separate Financial Information.

1.2.2 Income and expenses included in the Consolidated Statements, attributable to the Company itself as parent company

The amounts of income and expenses included in the financial statements, segmented between profit or loss and other comprehensive income, attributable to the Company itself as parent company, reflect the income and expenses contained in the consolidated statements of income and the consolidated statements of comprehensive income, not including amounts of income and expenses in respect of investees, plus or minus, as the case may be, intercompany income and expenses that were eliminated in the framework of the Consolidated Financial Statements.

Note 1 - Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

1.2.2 Income and expenses included in the Consolidated Statements, attributable to the Company itself as parent company (cont'd)

Additionally, this information includes information relating to the net amount, based on the Consolidated Financial Statements, attributable to the controlling shareholders of the Company, of the amount of income less the amount of expenses, which in the Consolidated Financial Statements represent the results of operations in respect of investees, including goodwill impairment or cancellation. These data are presented, segmented 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 gains in respect of investees.

As a result of this presentation, the total income for the period attributable to the shareholders of the Company and the total comprehensive income for the year attributable to the shareholders of the Company, on the basis of the Consolidated Financial Statements, are equal to the total income for the year attributable to the shareholders of the Company and the total other comprehensive income for the year attributable to the shareholders of the Company, respectively, as these are derived from the Separate Financial Information.

1.2.3 Cash flows included in the Consolidated Statements, attributable to the Company itself as parent company

This information presents cash flows included in the Consolidated Financial Statements attributable to the Company itself as parent company, which are taken from the consolidated statements of cash flows (i.e. the balances remaining after the elimination of intercompany cash flows in the Consolidated Statements), segmented between cash flows from operating activities, cash flows from investing activities and cash flows from financing activities, accompanied by an itemization of the components of each. Additionally, 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, excluding cash flows in respect of investees.

The Notes presented below also include disclosures relating to other material information in accordance with the disclosure requirements presented in Regulation 9C and as set forth in the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, subject to clarifications by the ISA staff, to the extent that such information was not included in the Consolidated Statements in a manner that expressly refers to the Company as parent company.

Note 2 – Cash and Cash Equivalents

	As at December 31	
	2017	**2016**
	NIS millions	
Cash and bank balances	28	13
Deposits	61	113
	89	126

Note 3 – Securities and Deposits

	As at December 31, 2017		December 31, 2016
	NIS millions	**Interest rate**	**NIS millions**
Deposits and non-marketable securities- Shekel deposit	150	0.35%	7
Marketable securities- Government debentures	-		10
Corporate debentures	-		6
	-		16
	150		23

Note 4 – Investments in Investees and Other Investments and Long-Term Debit Balances

4.1 Composition of other investments and long-term debit balances

	As at December 31		
	2017	**2016**	
	NIS millions		
Preferred shares of an investee	289	289	
Loans to investees	388	-	Shekel-denominated and bearing 2% interest
Loans to investees	164	172	Dollar-denominated and bearing 6.5%-9.2% interest
Capital notes to investees	118	21	Unlinked and interest-free
Capital notes to investees	48	92	Dollar-denominated and interest-free
Capital notes to investees	-	124	Unlinked and bearing 6% interest
Loans to employees	4	4	Bearing 3.41% interest (2016: 3.41%)
Other	5	4	
	1,016	706	
Less current maturities	124	41	
	892	665	

Note 4 – Investments in Investees and Other Investments and Long-Term Debit Balances (cont'd)

4.2 For information on the sale of the Max Brenner operation, see Note 6.6 to the Consolidated Financial Statements.

4.3 Further to the acquisition of the non-controlling interest in the subsidiary Strauss Water (hereinafter: the "Subsidiary") in November 2016, in the reporting period the Company and the Subsidiary signed off on a change in the terms and conditions of the outstanding balance of loans amounting to approximately NIS 124 million, which the Company had granted the Subsidiary in the past. In the framework of the change of the terms and conditions, said loans were replaced with unlinked, interest-free capital notes which shall be redeemed not earlier than May 18, 2022. As a result, the difference between the carrying value of the loans and the capitalized value was classified under the "investment in investees" item.

4.4 On July 31, 2017 the Company granted the subsidiary Strauss Coffee a long-term loan of approximately NIS 375 million. The loan bears 2% annual interest. The principal of the loan is to be repaid in 3 annual installments commencing on December 31, 2018, as follows: two annual installments amounting to 44% of the loan, each, and the remainder – 12% in one installment. On December 28, 2017 Strauss Coffee repaid approximately NIS 67 million of the principal on account of the payment scheduled for December 31, 2018, and also paid the interest that had accrued until that date, in the amount of approximately NIS 3 million.

4.5 In the course of 2017 the Company issued the subsidiary Strauss Water capital notes amounting to approximately NIS 84 million. The capital notes are unlinked and interest-free, and will be redeemed not earlier than 5 years from the issuance date. During the year the Company and the Subsidiary signed off on a change in the capital notes. In the context of the change, the carrying value of the capital notes was classified under the "investment in investees" item.

4.6 In the course of 2017 the Company issued the subsidiary Strauss Water capital notes amounting to NIS 83 million. The capital notes are unlinked and interest-free, and will be redeemed not earlier than 5 years from the issuance date. The capital notes are included under the "investment in investees" item.

4.7 On December 26, 2017 the Company granted the subsidiary Strauss Health a long-term loan of NIS 80 million. The loan bears 2% annual interest. The principal of the loan will be repaid in 5 equal annual installments commencing on December 31, 2018.

Note 5 – Loans and other liabilities

Information on material loans:

Type	Loan date	Original loan amount	Currency	Linkage base	Nominal interest (%)	Redemption year	December 31, 2017 Face value	December 31, 2017 Book value
		NIS millions					NIS millions	
Debentures Series B	February 2007	770	NIS	CPI	4.1	2018	149	178
Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2018-2023	446	455
Debentures Series E	July 2017	403	NIS	Unlinked	2.61	2020-2027	403	399
Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Loans from others	January 2011	300	NIS	Unlinked	5.82	2018-2022	228	228
Loans from others	April 2012	372	NIS	CPI	3.55	2018-2022	354	361

Type	Loan date	Original loan amount	Currency	Linkage base	Nominal interest (%)	Redemption year	December 31, 2016 Face value	December 31, 2016 Book value
		NIS millions					NIS millions	
Debentures Series B	February 2007	770	NIS	CPI	4.1	2017-2018	297	355
Debentures Series D	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	465	476
Loans from banks	September 2011	100	NIS	CPI	3.95	2019-2022	100	102
Loans from banks	September 2011	100	NIS	Unlinked	6.3	2019-2022	100	100
Loans from others	January 2011	300	NIS	Unlinked	5.82	2017-2022	239	239
Loans from others	April 2012	372	NIS	CPI	3.55	2017-2022	357	364

Note 6 – Financial Instruments

For a description of the risks to which the Company is exposed deriving from the use of financial instruments and in regard to the policy for managing the Company's risks, see Note 28 to the Consolidated Financial Statements.

6.1 Commodity price risk

Any increase (decrease) in the prices of the following substantial commodities will increase (reduce) the equity attributable to all shareholders of the Company and the income for the period in respect of futures transactions and options, by the amounts presented below. This analysis was assuming that all other variables remain constant, and disregards the tax effect.

	December 31, 2017				
	10% increase	5% increase	Fair value and book value	5% decrease	10% decrease
			NIS millions		
Cocoa	2	1	(2)	(1)	(2)
Sugar	1	1	(1)	(1)	(1)
Total	3	2	(3)	(2)	(3)

	December 31, 2016				
	10% increase	5% increase	Fair value and book value	5% decrease	10% decrease
			NIS millions		
Cocoa	3	1	(5)	(2)	(3)
Sugar	1	1	2	(1)	(1)
Total	4	2	(3)	(3)	(4)

6.2 CPI and foreign exchange risk

6.2.1 Statement of financial position according to linkage bases

The Company's foreign exchange risk, based on carrying amounts, is as follows:

	December 31, 2017		
	NIS linked	NIS unlinked	Total
		NIS millions	
Current maturities of debentures	178	28	206
Short-term loans and credit	4	11	15
Debentures	-	826	826
Long-term loans	459	323	782
Total	641	1,188	1,829

	December 31, 2016		
	NIS linked	NIS unlinked	Total
		NIS millions	
Current maturities of debentures	177	19	196
Short-term loans and credit	4	11	15
Debentures	178	457	635
Long-term loans	462	334	796
Total	821	821	1,642

Note 6 – Financial Instruments (cont'd)

6.2 CPI and foreign exchange risk (cont'd)

6.2.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis of the derivatives (foreign exchange - OTC) of the Company as at December 31, 2017 and of December 31, 2016. Any change in the exchange rates of the major currencies as at December 31, 2017 or 2016 would increase (decrease) the shareholders' equity (attributable to all of the shareholders of the Company) and income for the period by the amounts presented below. This analysis was performed assuming that all other variables remain constant, and disregards tax effects.

	December 31, 2017				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
	NIS millions				
NIS/USD exchange rate	3.814	3.640	3.467	3.294	3.120
Effect in NIS millions	2	1	0	(1)	(3)
NIS/EUR exchange rate	4.568	4.360	4.153	3.945	3.737
Effect in NIS millions	2	1	0	(1)	(2)

	December 31, 2016				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
	NIS millions				
NIS/USD exchange rate	4.229	4.037	3.845	3.653	3.461
Effect in NIS millions	3	2	0	(1)	(3)
NIS/EUR exchange rate	4.448	4.246	4.044	3.842	3.639
Effect in NIS millions	1	0	0	(0)	(1)

6.3 CPI risk

For information on the CPI risk, see Note 28.5 to the Consolidated Financial Statements.

6.4 Floating interest rate risk and cash flow sensitivity analysis regarding floating interest instruments

The Company has floating rate deposits and consequently its financial results are exposed to changing interest rates.

Due to the low interest rate, a flow sensitivity analysis relating to possible changes in the interest rate is not presented since the impact is immaterial.

Note 6 – Financial Instruments (cont'd)

6.5 Liquidity risk

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, 2017							
	Carrying amount	Contractual cash flow	2018	2019	2020	2021	2022	2023 and thereafter
	NIS millions							
Trade payables	199	199	199	-	-	-	-	-
Derivatives	4	4	4	-	-	-	-	-
Other payables (1)	215	192	192	-	-	-	-	-
Investee payables	119	119	119	-	-	-	-	-
Debentures Series B	178	182	182	-	-	-	-	-
Debentures Series D	455	528	47	46	77	83	80	195
Debentures Series E	399	479	11	11	30	30	29	368
Shekel loans from banks	202	229	10	109	54	3	53	-
Shekel loans from others	589	680	41	126	166	203	144	-
Finance lease (2)	6	8	-	-	-	-	-	7
	2,366	2,620	805	292	327	319	306	570

(1) The carrying amount includes accrued expenses in respect of interest.
(2) Yearly payments are less than NIS 1 million.

Note 6 – Financial Instruments (cont'd)

6.5 Liquidity risk (cont'd)

	December 31, 2016							
	Carrying amount	**Contractual cash flow**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022 and thereafter**
	NIS millions							
Trade payables	202	202	202	-	-	-	-	-
Derivatives	32	32	32	-	-	-	-	-
Other payables (1)	216	189	189	-	-	-	-	-
Investee payables	160	160	160	-	-	-	-	-
Debentures Series B	355	370	189	181	-	-	-	-
Debentures Series D	476	567	39	47	46	77	83	275
Shekel loans from banks	202	241	10	10	110	55	3	53
Shekel loans from others	603	721	42	41	126	166	203	143
Finance lease (2)	6	9	-	-	-	-	-	7
	2,252	2,491	863	279	282	298	289	478

(1) The carrying amount includes accrued expenses in respect of interest.
(2) Yearly payments are less than NIS 1 million.

Note 6 – Financial Instruments (cont'd)

6.6 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 28.7.1 to the Consolidated Financial Statements.

Note 7 – Information on Taxes on Income

7.1 General

The Company's income is taxed at the ordinary tax rate. For information on the tax rates applying to the Company and on various benefits and laws for encouragement, see Note 35.1 to the Consolidated Financial Statements.

7.2 Final tax assessments

The Company has been issued with final tax assessment up to and including the year 2010.

7.3 Disputed tax assessments

On March 14, 2017 the Company was issued income tax orders and assessments for the years 2011 to 2014. The payment demanded for said period amounts to a total of NIS 92 million (including interest and linkage differentials until March 14, 2017). The Company disputes the position of the Tax Authority and accordingly, intends to appeal the orders in court and to file an objection against the assessments. Based on the opinion of its professional consultants, Company management estimates that the provisions recorded on the books of the Company are sufficient.

7.4 Dividend income from subsidiaries

The Company recorded deferred tax expenses against deferred tax liabilities in the reporting year in respect of dividends not yet paid in an amount of NIS 17 million (2016: NIS 9 million).

7.5 Composition of income tax expenses

	For the year ended December 31		
	2017	2016	2015
		NIS millions	
Current tax expenses	(10)	(22)	(8)
Deferred tax expenses, net	(24)	(30)	(20)
Effect of changes in tax rates	-	14	-
Income tax expenses, net	(34)	(38)	(28)

Note 7 – Information on Taxes on Income (cont'd)

7.6 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2016	Decrease (increase) in deferred tax expenses in profit or loss	Effect of changes in tax rates	Balance as at December 31, 2016	Decrease (increase) in deferred tax expenses in profit or loss	Balance as at December 31, 2017
Deferred taxes in respect of:						
Provision for doubtful debts	4	(1)	-	3	(1)	2
Provision for vacation and convalescence	6	-	(1)	5	-	5
Investment in investees	(32)	(17)	8	(41)	(17)	(58)
Fixed and intangible assets	(43)	(17)	7	(53)	(7)	(60)
Employee benefits	6	(1)	-	5	-	5
Carryforward tax losses	-	6	-	6	(1)	5
Other	-	-	-	-	2	2
	(59)	(30)	14	(75)	(24)	(99)
	26.5%			23%-24%		23%

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 164 million.

8.2 For further information on the Company's investments in investees, including guarantees extended to investees, see Notes 6, 12 and 24.3 to the Consolidated Financial Statements.

Note 9 – Claims and Contingent Liabilities

For information on claims filed against the Company and other contingent liabilities, see Note 24.1 to the Consolidated Financial Statements.

Note 10 – Liens

For information on encumbrances, see Note 24.2 to the Consolidated Financial Statements.

Note 11 – Events after the Reporting Date

For information on events after the reporting date, see Note 38 to the Consolidated Financial Statements.

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STRAUSS GROUP LTD.

ADDITIONAL INFORMATION ON

THE COMPANY

Regulation 10A: Condensed Quarterly Statements of Comprehensive Income

	Q1	Q2	Q3	Q4	Total
			NIS millions		
Profit and loss:					
Sales	1,408	1,288	1,399	1,385	5,480
Cost of sales	840	797	854	863	3,354
Gross profit	568	491	545	522	2,126
Selling and marketing expenses	318	309	308	324	1,259
General and administrative expenses	93	86	96	113	388
Share of profit of equity-accounted investees	44	50	26	42	162
Operating profit before other income (expenses)	201	146	167	127	641
Other income	23	1	2	1	27
Other expenses	(16)	(15)	(2)	(3)	(36)
Other income (expenses), net	7	(14)	-	(2)	(9)
Operating profit	208	132	167	125	632
Financing income	2	-	7	3	6
Financing expenses	(31)	(39)	(29)	(30)	(123)
Financing expenses, net[1]	(29)	(39)	(22)	(27)	(117)
Income before taxes on income	179	93	145	98	515
Taxes on income	(30)	(10)	(37)	(22)	(99)
Income for the period	149	83	108	76	416
Attributable to:					
The Company's shareholders	107	73	94	68	342
Non-controlling interests	42	10	14	8	74

[1] The total sum of financing items for all quarters is not identical to the split of financing items in total for the year as a result of the net presentation of expenses/income from the valuation of financial liabilities.

Income for the period	149	83	108	76	416
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:					
Foreign currency translation differences	(17)	(15)	18	1	(13)
Changes in fair value of available-for-sale financial assets, net of tax	3	-	-	-	3
Reclassification of capital reserve in respect of available-for-sale securities to profit or loss	(21)	-	-	-	(21)
Reclassification of translation reserve in respect of sale of an operation to profit or loss	-	7	-	-	7
Other comprehensive income (loss) from equity-accounted investees	(35)	(61)	27	(39)	(108)
Total other comprehensive income (loss) items for the year that will be reclassified to profit or loss, net of tax	(70)	(69)	45	(38)	(132)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods:					
Changes in employee benefits	-	(2)	(2)	4	-
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	-	(2)	(2)	4	-
Comprehensive income for the period	79	12	151	42	284
Attributable to:					
The Company's shareholders	57	2	138	34	231
Non-controlling interests	22	10	13	8	53
Comprehensive income for the period	79	12	151	42	284

Regulation 10C: Use of the Proceeds from Securities

In April 2017, under a shelf offering report of April 6, 2017, the Company issued 1,781,100 shares of NIS 1 par value of the Company at a price of NIS 65.10 per share. The immediate gross consideration received by the Company in respect of the allotment of the shares to the public under the shelf offering report amounted to approximately NIS 116 million.

The proceeds from the issue were designated and are being used, *inter alia*, to finance the Company's current operations, to invest in new transactions and to settle liabilities, according to the Company's needs and as decided by the Company in alignment with its goals and strategy. In this context, the proceeds from the issue served to provide the coffee company with the required funds for its acquisition of the non-controlling interest, as described in these regulations below.

For further information, see section 1.7 in the Description of the Company's Business report as at December 31, 2017.

In addition, in July 2017 the Company issued debentures (Series E) to the public under a shelf offering report of July 2, 2017. The immediate gross consideration received by the Company for the Series E debentures allotted to the public under the shelf offering report amounted to approximately NIS 403 million.

The proceeds from the issue were designated and are being used to finance the Company's regular business operations, including refinancing.

Until use is made of the entire proceeds from the issue, the Company has invested the proceeds in accordance with its investment policy, which, as at the date of this report, is to invest in liquid deposits.

It is noted that in 2017 the Company granted a loan of approximately NIS 375 million to Strauss Coffee to provide the funds required for the acquisition of the non-controlling interest by Strauss Coffee.

Regulation 11: **List of Investments in Subsidiaries and in Associated Companies**

Following is information on material subsidiaries and related companies of the Company (directly held by the Company) stating the number of shares and their par value held by the Company on the date of the report in each of the companies, their cost, their price in the Company's books, the outstanding balance of Company loans to said companies and particulars of other Company investments therein, and their major conditions[(1)]:

Company name	Share class	No. of shares	Total par value of issued and paid-up share capital	Par value of shares held by the Company	% holding in the security	% holding in capital	% holding in voting rights	% holding in power to appoint directors	Value of investment in the Company's separate financial statements as at Dec. 31, 2017	Value of loans to the subsidiaries as at Dec. 31, 2017
									NIS millions	
Strauss Frito-Lay Ltd.	Ordinary NIS 1.00	28,775,854	NIS 28,775,854	NIS 14,387,927	50	50	50	50	69	-
Strauss Coffee B.V. (2)	Ordinary €735	191,228	EUR140,552,580	EUR 105,273,882	100	100	100	100	1,150	308
SE USA, Inc.	Ordinary US$ 0.001	1,000	US$ 1	US$ 1	100	100	100	100	179	164
Strauss Health Ltd.	Ordinary NIS 1.00	6,500,000	NIS 6,500,000	NIS 5,200,000	80	80	80	80	128	80
Strauss Water Ltd.	Preferred A NIS 0.01	700,014	NIS 7,000	NIS 7,000	100	100	100	100	20	385
	Preferred B NIS 0.01	3,863,712	NIS 38,637	NIS 38,637	100	100				
	Ordinary NIS 0.01	490,000	NIS 4,900	NIS 4,900	100	100				
	Ordinary A NIS 0.01	92,566	NIS 926	NIS 926	100	100				

(1) For information on additional subsidiaries that are directly or indirectly held by the Company, see Note 6.1 to the Financial Statements of the Company as at December 31, 2017.

(2) In 2017 the subsidiary Strauss Coffee effectuated a buyback of the entire non-controlling interest in Strauss Coffee (25.1%). Following the buyback, the Company holds 100% of the shares of Strauss Coffee. For further information, see section 1.7 in the Description of the Company's Business report as at December 31, 2017, and also Note 6.4 to the Financial Statements of the Company as at December 31, 2017.

Regulation 12: Changes in Investments in Subsidiaries and Associated Companies

Changes in investments in companies directly held by the Company

Name of the company	Nature of the change	Date of change	Change in %	Cost NIS millions
Strauss Water Ltd.	Capital contribution	June – November 2017	-	167
PepsiCo Strauss Fresh Dips & Spreads International GmbH	Capital contribution	February – July 2017	-	15

Regulation 13: Income of Subsidiaries and Associated Companies and Revenues from Them as at Balance Sheet Date (NIS Millions)

Following is information on profit (loss) before and after tax of the Company's material subsidiaries and associated companies, held directly by the Company (profit (loss) figures are the consolidated data of these companies), dividends, interest and management fees received by the Company or which it is entitled to receive, as at December 31, 2017:

Name of subsidiary/associate	Pre-tax profit (loss)	After-tax profit (loss)	Dividend	Reimbursement of management expenses [(1)]	Interest income (expenses)	Other comprehensive income (loss)	Total profit (loss)
Strauss Frito-Lay Ltd.	32	24	18	2	-	-	24
Strauss Coffee B.V.	321	256	-	33	(3)	(83)	173
SE USA, Inc.	2	40	-	-	(15)	(25)	15
Strauss Health Ltd.	227	178	144	39	1	(18)	160
Strauss Water Ltd.	17	15	-	-	(7)	(2)	13

(1) Including management fees.

Regulation 20: Trading on the Tel Aviv Stock Exchange (TASE)

In the reporting period, 7,361,162 Ordinary Shares of NIS 1 par value of the Company were listed for trading on TASE; of them, 559,136 Ordinary Shares of NIS 1 par value arising from the exercise of option warrants granted to senior employees of the Company; 2,293,652 Ordinary Shares of NIS 1 par value from a private placement to institutional investors in April 2017; 1,781,100 Ordinary Shares of NIS 1 par value issued under a shelf offering report of April 2017; and 2,727,274 Ordinary Shares of NIS 1 par value from a private placement to institutional investors in June 2017.

Further, in the reporting period NIS 403,112,000 face value of debentures (Series E) issued under a shelf offering report of July 2017 were listed for trading.

For further information, see section 21 in the Description of the Company's Business report as December 31, 2017, and also Notes 20.4, 20.6 and 26 to the Financial Statements of the Company as at December 31, 2017.

Trading in the Company's securities was not suspended during the reporting period.

Regulation 21: Payments to Interested Parties and Senior Officers

Details of recipients of remuneration				Remuneration for services (at cost), in NIS thousands excluding share-based payment					
Name	**Title**	**Scope of position**	**Percentage of share capital held, fully diluted (A)**	**Annual gross salary**	**Accompanying benefits (B)**	**Total salary**	**Bonus [as relevant - deferred amount according to the Remuneration Policy] (C)**	**Management fees / consulting fees / commission / other**	**Total excluding share-based payment**
Ms. Ofra Strauss (1)	Chairperson of the Board of Directors of the Company	100%	--	2,100	958	3,058	1,986 [411]	--	5,044
Mr. Gadi Lesin (2)	Company President and CEO	100%	Fully diluted: 0.59%	1,834	794	2,628	1,735 [359]	--	4,363
Mr. Giora Bardea (3)	Deputy CEO	100%	Fully diluted: 0.34%	1,456	822	2,278	1,175 [228]	--	3,453
Mr. Zion Balas (4)	In the reporting period - CEO, Strauss Israel	100%	Fully diluted: 0.28%	1,428	1,082	2,510	1,063 [223]	--	3,573
Mr. Tomer Harpaz (5)	In the reporting period - CEO, Strauss Coffee	100%	Fully diluted: 0.17%	1,624	852	2,476	1,424	--	3,900
Remaining directors (6)		--	--	--	--	3,435	--	--	3,435

Details of recipients of remuneration		Remuneration for services (at cost), in NIS thousands		
Name	**Title**	**Total excluding share-based payment**	**Share-based payment (D)**	**Total cost of salary**
Ms. Ofra Strauss	Chairperson of the Board of Directors of the Company	5,044	--	5,044
Mr. Gadi Lesin	Company President and CEO	4,363	6,450 (E)	10,813 (E)
Mr. Giora Bardea	Deputy CEO	3,453	1,114	4,567
Mr. Zion Balas	In the reporting period - CEO, Strauss Israel	3,573	876	4,449
Mr. Tomer Harpaz	In the reporting period - CEO, Strauss Coffee	3,900	427	4,327

<u>Notes to the table</u>:

(a) <u>Full dilution</u> – full dilution figures are proximate to the date of publication of the report; assuming full exercise of 4,424,379 option warrants granted to senior employees and 164,634 performance share units (PSUs) awarded to the Company CEO, which are theoretically exercisable (as at March 13, 2018) into 4,589,013 Ordinary Shares of the Company, excluding dormant shares. It is noted that calculations do not include options approved by the Remuneration Committee and the Board of Directors on March 13, 2018, which have not yet been allotted on the date of this report. It is noted that in practice, pursuant to the terms and conditions of the Company's option warrants, upon exercise of the option warrants the offerees will not be allotted the full number of shares arising from the options, but rather, only shares of a quantity that reflects the amount of the financial benefit inherent in the options, i.e. the difference between the ordinary share price on the exercise date and the original exercise price of the option warrant, adjusted for the distribution of dividends. Therefore, in practice, the quantity of allotted shares arising from the exercise of the option warrants is lower than the quantity indicated above. It is further noted that exercise of the PSUs is dependent on conditions, including accomplishment of a sales budget target outside of Israel. For the terms and conditions of the options plan and those of the performance share units plan, see Note 23.1 to the Financial Statements of the Company as at December 31, 2016, and also the Immediate Report of the Company of August 18, 2016, reference no. 2016-01-105793 (hereinafter: the "**Convening of the September 2016 Meeting Report**").

(b) <u>Accompanying benefits</u> – regarding the recipients of remuneration specified in the table, who are employed in the Company (including the Chairperson of the Board) – the amount set forth in the "accompanying benefits" column includes wage-related benefits in accordance with the Company's procedures, such as car maintenance (including "cash for car"), telephone and social benefits. It is noted that Company employees, including officers, are entitled to reimbursement of reasonable business expenses, according to Company procedure.

(c) <u>Bonus</u> – the amount stated in the "bonus" column is the amount of the bonus for 2017 and does not include bonus amounts that were paid during 2017 in respect of 2016. In addition, in the event of retirement, the amount specified in this column also includes a retirement/adjustment bonus, as well as special bonuses for attaining long-term goals insofar as relevant. As a rule, according to the remuneration policy bonuses paid to officers of the Company are based on the extent of accomplishment of financial targets derived from the Group's budget (as approved by the Board of Directors from time to time (including revisions made thereto during the course of the year)) and the extent of accomplishment of functional targets. The amount of the bonus paid to officers of the Company includes a portion that is deferred to the subsequent year when the incentive amount exceeds the salary amount defined as the "target incentive" (which expresses full accomplishment of targets), provided that in the subsequent year the threshold condition for the receipt of the yearly incentive for that year was met. See also the Remuneration Policy for Officers of the Company (and the Convening of the September 2016 Meeting Report).

(d) Share-based payment – the amount stated in the "share-based payment" column is the expense recorded by the Company in 2017 in accordance with IFRS 2, in respect of the options and PSUs granted.

(e) For the maximum annual compensation ceiling determined in accordance with the resolution of the General Meeting of the Company of November 8, 2017, see par. (2) below.

Additional information:

(1) **Ms. Ofra Strauss** – Ms. Strauss has served as active Chairperson of the Board of Directors of the Company since June 2001. Ms. Strauss is employed under a personal employment agreement. In accordance with the revised employment agreement with Ms. Strauss, which was approved by the General Meeting of Shareholders of the Company on September 26, 2016 (with regard to the convening of the meeting, see the Convening of the September 2016 Meeting Report), the agreement is for an indefinite period beginning on June 1, 2014, which will expire when Ms. Strauss's term of office as chairperson ends. However, the continued effectiveness of the agreement is subject to the approval of the Company's competent organs pursuant to the provisions of the Companies Law in its current version from time to time, and on the most recent approval of the employment agreement in the Meeting, the terms and conditions of office and employment were approved, effective commencing October 1, 2016 for three years, until September 30, 2019. The employment agreement may be cancelled by the Chairperson on the one hand and by the Company in a board resolution on the other, subject to three months' advance notice (which may be shortened at the Company's initiative or with its consent) and in accordance with the provisions of the Remuneration Policy. It is noted that Ms. Strauss is not entitled to an adjustment period.

As active Chairperson of the Board, Ms. Strauss is responsible for the management of the Board of Directors, and in the framework of the Board of Directors' work, for development the Company's strategy and supervision of the performance of the CEO and senior management of the Company (GMT – Group Management Team). Ms. Strauss does not engage in the day-to-day management of the Company, and the managers subordinated to the CEO do not report to her and are not subordinate to her, but rather to the CEO. Furthermore, Ms. Strauss does not fill additional positions in the Company, other than serving on the boards of the Company's subsidiaries. The Board of Directors of the Company is responsible for maintaining the separation between the roles of the Chairperson of the Board and the Company CEO.

Ms. Strauss's wage component includes a monthly salary of NIS 175,000 (gross), linked to economy-wide cost-of-living increments that paid under expansion orders, plus accompanying benefits, as specified in note (b) above. However, the value of the company car benefit is not grossed up, other than if decided otherwise by the Remuneration Committee and the Board of Directors of the Company.

Ms. Strauss is entitled to an annual bonus that is calculated on the basis of financial goals only, without a discretionary bonus, in respect of each calendar year, as set forth in the Remuneration Policy.

The Chairperson of the Board is entitled to insurance coverage under the Company's D&O liability insurance or any other insurance coverage that applies to officers of the Company; she is entitled to a letter of undertaking of indemnification in the form of the letter of undertaking of indemnification given to directors and officers, which is in place in the Company; and she is also entitled to a letter of exemption in the form given to officers of the Company who are not among the controlling shareholders or their relatives; see paragraph (7) below.

For further information on the Chairperson's conditions of office and employment, see the Convening of the September 2016 Meeting Report.

The amount of the bonus paid to Ms. Strauss for 2017 is approximately NIS 1,986 thousand for the accomplishment of financial goals only, with a score of 4.57. The score for the accomplishment of financial targets is derived from sales (non-GAAP) of approximately NIS 8,492 million, representing a score of 3.67 of the target, non-GAAP overseas sales of approximately NIS 4,145 million, representing a score of 2.67 of the target, non-GAAP operating profit of approximately NIS 780 million, rated 5 of the target, non-GAAP net profit of approximately NIS 415 million, representing a score of 5 of the target, and non-GAAP free cash flows amounting to NIS 372 million, representing a score of 5 of the target.

As described in note (c) above, part of the bonus will be deferred to next year and will be paid proximate to the publication of the Annual Financial Statements for 2018, provided, however, that in 2018 the threshold condition for the receipt of the yearly incentive for 2018 was satisfied.

It is noted that in light of the satisfaction of the threshold conditions for the receipt of the annual incentive for 2017, according to the provisions of the Remuneration Policy, shortly after the Financial Statements for 2017 Ms. Strauss will be paid the deferred bonus for 2016 in the amount of approximately NIS 447 thousand.

(2) **Mr. Gadi Lesin** – Mr. Lesin has served as President and CEO of the Company since July 2009 (before then, he served as CEO of Strauss Israel from September 2007). Mr. Lesin's employment is for an indefinite period and may be terminated with at least 90 days' advance written notice to the other party (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Lesin his salary and accompanying benefits (including social benefits) for a further 12 months in the event of dismissal, and for a further 6 months in the event of resignation, other than in circumstances where severance pay may be denied by law.

Mr. Lesin's wage component includes a monthly salary of NIS 152,868 (gross), linked to economy-wide cost-of-living increments paid under expansion orders; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Lesin in respect of 2017 is approximately NIS 1,735 thousand, the calculated incentive component being approximately NIS

1,735 thousand in respect of the extent of accomplishment of financial goals as set forth in paragraph (1) above.

As described in note (c) above, part of the bonus will be deferred to next year and will be paid proximate to the publication of the Annual Financial Statements for 2018, provided, however, that in 2018 the threshold condition for the receipt of the yearly incentive for 2018 was satisfied.

It is noted that in light of the satisfaction of the threshold conditions for the receipt of the annual incentive for 2017, according to the provisions of the Remuneration Policy, shortly after the Financial Statements for 2017 Mr. Lesin will be paid the deferred bonus for 2016 in the amount of approximately NIS 612 thousand.

On or about the date of the report, Mr. Lesin holds a total of 533,220 non-marketable option warrants of the Company, as follows: (1) 524,613 option warrants of the Company, their exercise price being NIS 63.133; the terms and conditions of the option warrants include a ceiling for the possible benefit, in such manner that if the market price of the share on the exercise date is higher by 60% or more than the average adjusted closing prices of the Company’s share on TASE in the 30 trading days preceding the date of approval by the Board of Directors the exercise price shall increase, and the difference between the share price on the exercise date and the price on the grant date, plus 60%, shall be added to the original exercise price. Mr. Lesin’s entitlement to receive said option warrants crystallizes in four tranches, 50% on July 27, 2018 and 16.667% on July 27 in each of the years 2019, 2020 and 2020, with the right to exercise the first and second tranches inuring until July 27, 2023, the right to exercise the third tranche – until July 27, 2024, and the right to exercise the fourth tranche – until July 24, 2025; and (2) 8,607 option warrants, their exercise price being NIS 35.86, linked to the Consumer Price Index of August 2012, with Mr. Lesin's entitlement to receive the option warrants crystallizing in several tranches in the years 2014, 2015, 2016 and 2017, and his entitlement to exercise each of the tranches inuring until September 15, 2020. In addition, Mr. Lesin holds 164,634 PSUs, and his entitlement to exercise them shall crystallize in four tranches, 50% on August 30, 2018 and 16.667% on August 30 in each of the years 2019, 2020 and 2021, subject to Mr. Lesin being employed by the Company on the vesting date of each tranche and subject to the achievement of at least 90% of the cumulative quarterly sales budget (commencing from the first full quarter after the grant date through to the last full quarter before the vesting date) in the functional currencies of the cash generating units in geographies outside of Israel, according to the budgets approved by the Board of Directors. For the terms and conditions of the option warrants and the PSUs, see the Convening of the September 2016 Meeting Report.

According to the resolution of the General Meeting of the Company of September 26, 2016 (see also the Convening of the September 2016 Meeting Report), a ceiling has been defined for the CEO’s remuneration, in such manner that the maximum yearly remuneration to which the CEO is entitled, i.e. the fixed remuneration (salary and accompanying benefits), the yearly incentive and the special bonus, as well as the share-based payment resulting only from the 2016 grant of options and PSUs (according to fair value linearly divided over 5 years’ vesting) shall not exceed the amount of NIS 8 million. The share-based payment for 2017, according to fair value of the equity-based compensation granted in 2016 linearly divided over 5 years’ vesting, is NIS 3,375 thousand, and accordingly, the total cost of salary is NIS 7,738 thousand.

(3) **Mr. Giora Bardea** – Mr. Bardea has served as Deputy CEO of the Company since August 1, 2014 (before then, he served as CEO of Obela). Mr. Bardea's employment as Deputy CEO of the Company is for an indefinite period and may be terminated by either party with three months' advance notice to the other (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period (other than in circumstances where severance pay may be denied by law), and the Company will continue to pay Mr. Bardea his salary and accompanying benefits (except for those relating to actual work and excluding the yearly incentive and equity-based compensation) for a further six months.

Mr. Bardea's wage component as Deputy CEO includes a monthly salary of NIS 121,339 (gross), linked to economy-wide cost-of-living increments paid under expansion orders; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Bardea in respect of 2017 is approximately NIS 1,175 thousand. The calculated incentive component for the accomplishment of financial goals as described in par. (1) above and for the accomplishment of a score of 3.20 for functional targets (including implementation of the Group's strategy and achievement of financial targets by Strauss Water and Sabra and Obela), according to the formula in clause 11 of the Company's Remuneration Policy, is approximately NIS 1,055 thousand, and an additional sum of approximately NIS 120 thousand is a discretionary bonus as approved by the Remuneration Committee and the Board of Directors.

It is emphasized that according to the provisions of the Remuneration Policy, the Remuneration Committee and the Board of Directors may determine a yearly incentive for officeholders subordinated to the CEO based on non-measurable criteria, taking the officeholder's contribution to the Company into account, in lieu of or in addition to the calculated incentive and/or the discretional incentive.

As described in note (c) above, part of the bonus will be deferred to next year and will be paid proximate to the publication of the Annual Financial Statements for 2018, provided, however, that in 2018 the threshold condition for the receipt of the yearly incentive for 2018 was satisfied.

It is noted that in light of the satisfaction of the threshold conditions for the receipt of the annual incentive for 2017, according to the provisions of the Remuneration Policy, shortly after the Financial Statements for 2017 Mr. Bardea will be paid the deferred bonus for 2016 in the amount of approximately NIS 217 thousand.

On or about the date of the report, Mr. Bardea holds a total of 400,000 non-marketable option warrants of the Company, as follows: (1) 240,000 options warrants, their exercise price being NIS 70.13. Mr. Bardea's entitlement to receive the option warrants will crystallize in three equal tranches of 80,000 option warrants each, on the following dates: August 19, 2016, August 19, 2017 and August 19, 2018. The right to exercise each tranche of said option warrants will inure to Mr.

Bardea for four years from the vesting date of the tranche. (2) 160,000 option warrants of the Company, their exercise price being NIS 63.49 linked to the Consumer Price Index published on March 15, 2017 and entitlement to the receipt thereof crystallizing in two equal tranches in March 2019 and March 2020.

(4) **Mr. Zion Balas** – From March 12, 2018 Mr. Balas serves as CEO of Strauss Coffee. In the reporting period (and since June 2009) Mr. Balas served as CEO of Strauss Israel (before then, he served as CEO of the Group's Sales Division from 2004). According to the terms and conditions of his employment in the reporting period, Mr. Balas's employment is for an indefinite period and may be terminated by either party with at least ninety days' advance notice to the other (with an option to shorten the notice period at the Company's initiative or with its consent). The employer-employee relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Balas his salary and accompanying benefits (including social benefits) for a further six months, other than in circumstances where severance pay may be denied by law.

Mr. Balas's wage component includes a monthly salary of NIS 114,142 (gross) until March 1, 2017, and NIS 120,000 gross commencing on that date, linked to economy-wide cost-of-living increments paid under expansion orders; and also accompanying benefits, as specified in note (b) above.

The amount of the bonus payable to Mr. Balas in respect of 2017 is approximately NIS 1,063 thousand. The calculated incentive component, amounting to approximately NIS 1,063 thousand, is for the accomplishment of 50% of the Company's financial goals as described in par. (1) above and for the accomplishment of 50% of Strauss Israel's financial goals. (The score for the accomplishment of Strauss Israel's financial goals is derived from sales amounting to NIS 3,828 million, representing a score of 4 of the target, operating profit of NIS 329 million, representing a score of 4.5 of the target, 32.4% market share in relevant categories, which represents a score of 5 of the target, a gross profit margin of 39.3%, representing a score of 1.64 of the target, and 91% cash conversion, which represents a score of 2.24 of the target, as well as a score of 4.07 in the accomplishment of functional targets) (including an innovation goal, a productivity goal and a food safety goal), according to the formula in clause 11 of the Company's Remuneration Policy. It is emphasized that according to the provisions of the Remuneration Policy, the Remuneration Committee and the Board of Directors may determine a yearly incentive for officeholders subordinated to the CEO based on non-measurable criteria, taking the officeholder's contribution to the Company into account, in lieu of or in addition to the calculated incentive and/or the discretional incentive.

As described in note (c) above, part of the bonus will be deferred to next year and will be paid proximate to the publication of the Annual Financial Statements for 2018, provided that in 2018 the threshold condition for the receipt of the yearly incentive for 2018 was satisfied.

It is noted that in light of the satisfaction of the threshold conditions for the receipt of the annual incentive for 2017, according to the provisions of the Remuneration

Policy, shortly after the Financial Statements for 2017 Mr. Bardea will be paid the deferred bonus for 2016 in the amount of approximately NIS 219 thousand.

As at the date of the report, Mr. Balas holds a total of 333,333 non-marketable option warrants of the Company, as follows: (1) 200,000 option warrants at an exercise price of NIS 67.14. Mr. Balas is entitled to receive the options in three tranches of 33.33% on the following dates: March 25, 2016, March 25, 2017 and March 25, 2018. The right to exercise said option warrants shall inure to Mr. Balas for four years from the vesting date of the tranche; (2) 133,333 option warrants at an exercise price of NIS 63.49 linked to the Consumer Price Index published on March 15, 2017 and entitlement to the receipt thereof crystallizing in two equal tranches in March 2019 and March 2020.

(5) **Mr. Tomer Harpaz** – From March 12, 2018 Mr. Harpaz serves as CEO of the dips and spreads companies Sabra and Obela. In the reporting period (and since June 2014) Mr. Harpaz served as CEO of the coffee company (before then, he served as the Company's Senior Vice President, Business Development & Strategy from July 2010, and from January 2014, also as temporary CEO of the coffee company).

According to the terms and conditions of his employment in the reporting period, Mr. Harpaz's employment as CEO of the coffee company was for an indefinite period, and may be terminated with advance notice via registered mail; Mr. Harpaz is committed to a four-month advance notice period and Strauss Coffee is obligated to eight months' advance notice.

Mr. Harpaz's wage component includes a monthly salary of €33,333 (approximately NIS 138,420), gross. Furthermore, Mr. Harpaz is entitled to the customary social and accompanying benefits for senior officers in Strauss Coffee (pension, health insurance, sick leave, leave, car and reimbursement of expenses) as well as additional benefits according to Strauss Coffee's overseas employment policy for expatriates, including a relocation bonus of $7,500 that was received in 2014, reimbursement of school fees for children up to the age of eighteen in the amount of up to €18,000 per year, home leave every 12 months and an adjustment period of 6 months (provided that the early notice period plus the adjustment period do not exceed 6 months).

The bonus payable to Mr. Harpaz for 2017 is approximately NIS 1,424 thousand; the calculated incentive component is NIS 1,424 thousand for the accomplishment of financial targets of Strauss Coffee with a score of 4.72 (the score was derived from a cash conversion target of 71.3%, which represents a score of 5 of the target, operating profit before depreciation of the allocation of a purchase price amounting to €96,843 thousand, representing a score of 5, sales less raw material costs amounting to €375,754 thousand, representing a score of 5, volume sales of 181,118 tonnes, representing a score of 3.62, and a net profit of €67,969 thousand, representing a score of 5 of the target) as well as a score of 3.7 for the accomplishment of functional targets (including a target relating to the margin in Brazil, a technological development project and free cash flow).

After the acquisition of all shares of Strauss Coffee by the Company and according to the terms and conditions of Strauss Coffee's options plan, 1148 non-marketable

Strauss Coffee option warrants were redeemed in cash by Strauss Coffee in consideration for approximately €1.4 million, and an additional 764 Strauss Coffee option warrants were redeemed in cash in early 2018 in consideration for approximately €1.7 million.

In addition, on or about the reporting date Mr. Harpaz holds 200,000 non-marketable option warrants of the Company, granted to him in respect of having served as the Company's Senior Vice President, Business Development & Strategy, at an exercise price of NIS 67.14, which vest on March 25, 2016, March 25, 2017 and March 25, 2018 (approximately one-third on each of said dates). The right to exercise each tranche shall inure to Mr. Harpaz for four years from the vesting date of that tranche.

(6) Payments to the other directors include the total payments received by all the directors of the Company, with the exception of Ms. Ofra Strauss. It is noted that the annual compensation and participation fees paid to directors who are not employed by the Company are in accordance with the maximum amount determined in the Companies Regulations (Rules Regarding Compensation and Expense Reimbursement of External Directors), 2000; for a director recognized as an expert director, compensation is paid at the maximum amount payable for an expert director according to said regulations, in alignment with the Company's ranking.

(7) For the exemption, indemnification and insurance of directors and officers of the Company see Note 24 to the Financial Statements of the Company as at December 31, 2017, in sections 1.3.1 and 4.2 of the Note, and also Regulation 29A below.

Regulation 21A: Corporate Control

The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: "**Strauss Holdings**") and a direct holding of 21,882 Ordinary Shares of the Company, and Ms. Ofra Strauss, who is deemed to hold the shares of the Company jointly with Mr. Michael Strauss. For information on the holdings in Strauss Holdings, see section 1.3 of the Description of the Company's Business report.

Regulation 22: Transactions with a Controlling Shareholder

Following is information, to the best of the Company's knowledge, on each transaction with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest (each such transaction in which the Company or its subsidiary or related company are a party thereto), which was contracted in 2017 or at a date subsequent to the reporting year until the date of filing of this report or which is still in force on the date of publication of this report. See also Note 37 to the Financial Statements of the Company as at December 31, 2017. It is noted that said transactions are presented for approval by the Company's Audit Committee each year in accordance with the procedure adopted by the Company.

Transactions Enumerated in Section 270(4) of the Companies Law

a. Employment agreement with Ms. Ofra Strauss, Chairperson of the Board of Directors – for information, see Regulation 21 above.

b. Directors' fees - Adi Strauss – on May 28, 2017 the Board of Directors of the Company resolved, in accordance with the Companies Regulations (Relief in Transactions with Interested Parties), 2000, to approve Mr. Adi Strauss's inclusion in the Company's current policy for directors and officers liability insurance. On the same date, the Board of Directors approved Mr. Adi Strauss's entitlement to the maximum directors' fee permitted under 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 the Immediate Report dated May 29, 2017 (reference no. 2017-01-045241). In addition, on September 26, 2016 the Meeting of Shareholders of the Company approved the grant of a letter of undertaking to indemnification for Mr. Adi Strauss, in the form of the letter of undertaking to indemnification of directors and officers that is in place in the Company. For further information, see the Immediate Reports dated September 27, 2016 and August 18, 2016 (reference no. 2016-01-054906 and reference no. 2016-01-105793, respectively). Additionally, on November 8, 2017 the Meeting of Shareholders approved an amendment to the letter of undertaking to indemnification of directors and officers, including directors who are among the controlling shareholders and their relatives. For further information, see the Immediate Reports of November 9, 2017 and October 18, 2017 (reference no. 2017-01-105120 and reference no. 2017-01-100227, respectively). Mr. Adi Strauss was also granted a letter of exemption in the form identical to the letter for officers of the Company who are not among the controlling shareholders or their relatives. See the Immediate Reports of June 9, 2015 (reference no. 2015-01-043815 and reference no. 2015-01-043824) and of July 14, 2015 (reference no. 2015-01-072546).

c. Undertakings to indemnification and grant of a right to use the name "Strauss" in accordance with the merger transaction with Strauss – for information, see section 25.1 in the Description of the Company's Business report as at December 31, 2017. As stated in that section, members of the Strauss family have undertaken not to compete against the Company and not to use the Strauss brand in specific areas and during specific periods, all of the foregoing as set forth in said section. To the best of the Company's knowledge, members of the Strauss family are in compliance with the above undertakings.

Transactions that Are Not Enumerated in Section 270(4) of the Companies Law

a. In accordance with the resolution of the Company's Board of Directors dated February 21, 2011, guidelines and rules were determined for the classification of a transaction of the Company or of a consolidated company with an interested party therein as a negligible transaction, as stipulated in Regulation 41(a)(6)(a) of the Securities Regulations (Annual Financial Statements), 2010, and as a transaction which is non-negligible and non-extraordinary, as defined in the Companies Law. It was determined that these rules and guidelines will also serve to examine the scope of disclosure in the Periodic Report and in prospectuses (including shelf offering reports) with respect to a transaction of the Company, a corporation under its control or a related company, with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest; and also to review the need to issue an Immediate Report with respect to such transaction of the Company. The guidelines include, *inter alia*, guidelines regarding transactions of the same type, which are not interdependent, that are executed frequently and repeatedly every period, interrelated or inter-conditional transactions and multiannual transactions.

b. In 2017, no transactions were executed and as at the date of this report, there are no transactions still in effect with the controlling shareholder or in which the controlling shareholder has a personal interest, which are not enumerated in Section 270(4) of the Companies Law and which are not negligible transactions, save for the transactions specified hereunder.

Purchase of advertising time – the Group purchases advertising time through a media company on Reshet, a TV franchiser under the Second Authority for Television and Radio Law, 1990. To the best of the Company's knowledge, Mr. Michael Strauss and Mrs. Raya Ben-Dror indirectly hold 16% of Reshet's share capital, cumulatively. The purchase of advertising time is made in the ordinary course of business, on market terms and prices, and as part of the purchase of advertising time from other commercial broadcasting entities (such as Keshet, Channel 10 and Channel 24) according to rating considerations and the Group's marketing needs.

Achihud recycling reservoir – in 2008 Strauss Health built a wastewater recycling reservoir on land owned by the controlling shareholder, Strauss Holdings Ltd., in Achihud. Since the construction date and as at the date of this report, Strauss Holdings has not charged the Company any fees for the use of the land.

c. Following are transactions with the controlling shareholder or in which the controlling shareholder has a personal interest, classified by the Company as negligible in accordance with the aforementioned resolution, taking into account the nature of the Company, which is one of the largest industrial companies in the market, with extensive operations in Israel and overseas, the scope of its assets, the diversity of the Company's business activity, the nature of transactions executed by it, and the extent of their cumulative impact on the Company's operations and its results:

1. Sale of food products to the Ritz-Carlton Hotel – the Company, from time to time, in the ordinary course of business and under customary market conditions, sells food products to the Ritz-Carlton Hotel, which, to the best of the Company's knowledge, is controlled by a relative of the controlling shareholders of the Company.

2. Sale of food products to Strauss Investments (1993) Ltd. – the Company, from time to time, in the ordinary course of business and under customary market conditions, sells food products to Strauss Investments (1993) Ltd., a company which, to the best of the Company's knowledge, is owned by Mr. Michael Strauss, the controlling shareholder of the Company, and Mrs. Raya Ben-Dror.

3. Payment to the Ritz-Carlton Hotel for hospitality – the Company, from time to time, in the ordinary course of business and according to customary market conditions, extends hospitality at the Ritz-Carlton Hotel, which, to the best of the Company's knowledge, is controlled by a relative of the controlling shareholders of the Company.

d. From time to time, the Group makes contributions to organizations or entities, including such where the controlling shareholders or their relatives are connected to the recipient of the contribution. For additional details, see section 5.3 in the Board of Directors' Report as at December 31, 2017.

Regulation 24: Holdings of Interested Parties and Senior Officers

For information on the holdings of interested parties and senior officers, see the Company's Immediate Report dated January 7, 2018 (reference no. 2018-01-001755).

It is noted that on February 1, 2018 the Company fully redeemed its Series B debentures. For further details, see the Immediate Report dated February 1, 2018 (reference no. 2018-01-009636).

Regulation 24A: Authorized Capital, Issued Capital and Convertible Securities

For details, see Notes 26.2, 26.1 and 23 to the Financial Statements of the Company as at December 31, 2017 and the definition of "full dilution" in Regulation 21 above.

Regulation 24B: Shareholder Register

For details on the Company's shareholder register, see the Company's Immediate Report dated February 1, 2018 (reference no. 2018-01-009636).

Regulation 25A: Registered Office

Address: 49 Hasivim St., Petach Tikva 4959504
Tel: 03-6752499, Fax: 03-6752279
Email address: mike.avner@strauss-group.com

Regulation 26: Directors of the Company

Following are the details of directors of the Company serving on the Board of Directors as of the date of the report:

Director's name	Ofra Strauss, Chairperson of the Board	Adi Strauss	Ronit Haimovitch	Prof. Arie Ovadia	David Mosevics
Identity no.	56616584	022889323	56417843	78284338	007130271
Date of birth	August 22, 1960	February 27, 1967	May 12, 1960	December 25, 1948	July 26, 1946
Address for service of judicial documents	31 Hamatsbiim St., Tel Aviv	37 Havradim St., Ganei Yehuda	3 Nissim Aloni St., Tel Aviv	11a Hashomer St., Raanana	3 Daniel Frisch St, Tel Aviv
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	February 1996	August 2011	August 2003	June 1997	December 1977
Education	LL.B. – Tel Aviv University	English Studies - Cambridge, England; Business Administration, Sheffield University, England	BA in Economics and Management – Technion, Haifa and MA in Economics – Technion , Haifa	Ph.D. in Economics – Wharton University (Pennsylvania, US); MBA in Finance and Accounting – Tel Aviv University	LL.B. – the Hebrew University of Jerusalem
Occupation in the past five years	Chairman of the Board of Directors from June 2001	Business manager	CEO of Strauss Investments (1993) Ltd.	Business consultant to companies; lecturer at the College of Management	An attorney in private practice
Family relations with another interested party	Michael Strauss's daughter; sister of Adi Strauss and Irit Strauss; Raya Ben-Dror's niece; cousin of Ran Midyan and Gil Midyan	Michael Strauss's son; brother of Ofra Strauss and Irit Strauss; Raya Ben-Dror's nephew; cousin of Ran Midyan and Gil Midyan	None	None	None
Position in the Company, subsidiary, related company or in an interested party of the Company	Chairperson of the Board of Directors of the Company, director of subsidiaries of the Company	Chairman of the Board of Strauss Holdings Ltd., director of Strauss Health	An employee of a related company of the controlling shareholder of the Company – CEO of Strauss Investments (1993) Ltd.; director of Strauss Holdings Ltd.	None	None

Director's name	Ofra Strauss, Chairperson of the Board	Adi Strauss	Ronit Haimovitch	Prof. Arie Ovadia	David Mosevics
Additional corporations in which he/she serves as a director	Strauss Holdings Ltd.; investee companies and related companies of the Company	Strauss Holdings Ltd.; Adi's Investments Ltd.; Adi's Lifestyle Ltd.; Adi's Herbert Samuel Ltd.; Adi's Ahad Haam Ltd.; Adi's Marina Ltd.; Idan Marina Ltd.; Marina H. Hotel Management Ltd.; Adi's Assets Ltd.; Adi's Hospitality Ltd.;	Strauss Holdings Ltd.; Rav Etgar Ltd.; Reshet-Noga Ltd.; Hashachar Haole Holdings Ltd., Hashachar Haole, Consulting and Investment Management Ltd.; Pistacia Path Ltd.; Acro Real Estate Development Ltd., Acro Afeka General Partner Ltd., Acro Z.A.R. Projects Ltd., Acro Israel Ltd., Acro Auctions Ltd., Acro Herzliya General Partner Ltd., Or Mania Ltd.; Alaska Advisors S.A.; Red Canyon Industries Ltd.; Perl Properties Holding Inc.; Emanate Technology & Trade Ltd.; Deep Blue Yachting Ltd.; Ocean Blue Holdings Ltd.; Ocean Blue Yachting Ltd.	Aenetz Consultants Ltd.; Bazan – Oil Refineries Ltd.; Giron Ltd.; Israel Petrochemical Enterprises Ltd.; Destiny Investments Ltd.; Compugen Ltd	None
Membership on committee/s of the Board of Directors	Chairperson of the Human Resources, Nominating and Corporate Governance Committee; member of the Finance and Investment Committee	Finance and Investment Committee; Human Resources, Nominating and Corporate Governance Committee	Finance and Investment Committee	Financial Statements Review Committee; Remuneration Committee; Finance and Investment Committee	Audit Committee; Human Resources, Nominating and Corporate Governance Committee
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number of such directors determined by the Board of Directors	No	No	Yes	Yes	No

Director's name	Meir Shanie	Galia Maor	Dalia Narkys (external director)	Samer Haj-Yehia (external director)	Joshua (Shuki) Shemer
Identity no.	8409732	01154780	51928695	024770364	005360029
Date of birth	September 8, 1945	February 11, 1943	May 2, 1953	September 28, 1969	December 7, 1947
Address for service of judicial documents	28 Hanof St., Savion	10 Haparsa St., Ramat Gan	29 Yad Hamaavid St., Tel Aviv	P.O.B. 1152, Tel Aviv 6101001	16 Haprachim Ave., Reut 71908
Citizenship	Israeli	Israeli	Israeli	Israeli and US	Israeli
Commencement of term of office	September 1997	May 2013	February 2017	June 2017	March 2018 (*)
Education	BA in Economics and Accounting – Tel Aviv University; MBA – Tel Aviv University; qualified accountant	BA in Economics and Statistics – the Hebrew University of Jerusalem; MBA – the Hebrew University of Jerusalem	Bachelor of Business Administration, College of Management Academic Studies; Executive Management Course, Tel Aviv University; Executive Education Programs, INSEAD Business School, France. Directors and Officers Course, IDC Herzliya; Advanced Directors Course, IDC Herzliya	PhD in Economics, MIT; LLB – the Hebrew University of Jerusalem; MBA – the Hebrew University of Jerusalem MA in Economics – the Hebrew University of Jerusalem; BA in Accounting and Economics – the Hebrew University of Jerusalem; Fourth year Accounting studies – Tel Aviv University	Graduate of the Hebrew University and Hadassah Medical School; Professor (emeritus) of Internal Medicine, Sackler Faculty of Medicine, Tel Aviv University; Diploma studies (magna cum laude) in Medical Administration, University of Haifa
Occupation in the past five years	Self employed	Chairperson, Leumi Private Bank Switzerland	Since 2016: Dalia Narkys Consultants Until 2015: Chair of ManpowerGroup Israel and Director of East Mediterranean Countries, ManpowerGroup global organization. Member of ManpowerGroup's global management team	Since 2017 – member of the Council for Higher Education of Israel; Since 2015 – Chair and CEO of S.H. Eden Management & International Business Consulting Ltd.; Since 2015 – lecturer at IDC Herzliya (public benefit corporation); Since 2015 – Chair of the audit committee of the Hadassah Medical Organization (public benefit corporation);	Active Chairman of Assuta Medical Centers Ltd.; Chair of Assuta Ashdod Ltd.; Director of the Israeli Center for Technology Assessment in Healthcare, Gertner Institute for Epidemiology and Health Policy Research at Tel Hashomer; director of companies as enumerated below

Director's name	Meir Shanie	Galia Maor	Dalia Narkys (external director)	Samer Haj-Yehia (external director)	Joshua (Shuki) Shemer
				Since 2014 – Director of Bank Leumi le-Israel; 20l2-2013 – Commercial strategist, GMO; 2006-2012 – Vice President Financial Engineering at Fidelity Investments	
Family relations with another interested party	His son-in-law Yaniv Shirazi is CEO of Strauss Water	None	None	None	None
Position in the Company, subsidiary, related company or in an interested party of the Company	None	None	None	External director	Independent director
Additional corporations in which he/she serves as a director	Shani-Aharoni Investments Ltd.; family-owned companies, Delek San Ltd.; Fidel; Xenia Venture Capital Ltd.; Chemi San Ltd.	Teva Pharmaceutical Industries Ltd.; Aphelion G.J. Ltd.; Perihelion G.J. Ltd.	IACC – Israel Association of Community Centers Ltd.; The Academic College of Tel Aviv – Yaffo; Afeka Tel Aviv College of Engineering; ELEM Youth in Distress in Israel;The College of Management Academic Studies.	Bank Leumi le-Israel; Hadassah Medical Organization (public benefit corporation); S.H. Eden Management & International Business Consulting Ltd.	Active Chairman of Assuta Medical Centers Ltd.; Chair of Assuta Ashdod Ltd.; Maccabi Health Services; Bayit Balev Ltd.; MaccabiDent Ltd.
Membership on committee/s of the Board of Directors	Human Resources, Nominating and Corporate Governance Committee	Chair of Finance and Investment Committee; Human Resources, Nominating and Corporate Governance Committee	Chair of Remuneration Committee; Audit Committee; Financial Statements Review Committee; Human Resources, Nominating and Corporate Governance Committee	Chair of Audit Committee; Chair of Financial Statements Review Committee; Remuneration Committee; Finance and Investment Committee	Financial Statements Review Committee

Director's name	Meir Shanie	Galia Maor	Dalia Narkys (external director)	Samer Haj-Yehia (external director)	Joshua (Shuki) Shemer
Does the Company view him/her as having accounting and financial expertise, for purposes of compliance with the minimum number of such directors determined by the Board of Directors	Yes	Yes	Yes	Yes	Yes

(*) On March 13, 2018, further to the recommendation of the Audit Committee, the Board of Directors of the Company approved the appointment of Mr. Joshua (Shuki) Shemer as an independent director of the Company until the convening of the Annual General Meeting of the Shareholders of the Company in accordance with article 97 in the Company's Articles of Association.

Regulation 26A: Senior Officers

Following are the details of senior officers of the Company as at the date of the report:

Officer's name	Gadi Lesin	Giora Bar-Dea	Michael Avner	Nurit Tal Shamir	Shahar Florence	Zion Balas
Identity no.	022848352	51921195	65261398	058786245	059764407	59167858
Date of birth	April 19, 1967	May 4, 1953	December 6, 1955	August 5, 1964	August 20, 1965	November 28, 1964
Commencement of term of office	July 2009	August 2014	April 1994	October 2007	November 2008	March 2018
Position in the Company	President and CEO of the Group	Deputy CEO	Senior Vice President, CLO and Company Secretary	VP Human Resources of the Group	CFO of the Group	CEO, Strauss Coffee B.V.
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company	Director of subsidiaries of the Company	Alternate director of a subsidiary	Director of subsidiaries of the Company	Director of subsidiaries of the Company	Director of subsidiaries of the Company
Education	MBA – Ben Gurion University; BA in Business Administration, College of Management, Tel Aviv	BA in Humanities, Tel Aviv University; graduate of the Advanced Management Program (AMP) of the Business Administration, Harvard Business School, Massachusetts, USA	LL.B. – Tel Aviv University	BA in Educational Psychology, Sociology – the Hebrew University of Jerusalem; MA in Behavioral Sciences – Technion, Haifa	BA in Economics and Accounting – Tel Aviv University	BA and MA in Industrial Engineering and Management – Technion, Haifa
Occupation in the past five years	President and CEO of the Group since July 1, 2009	CEO of Obela, 2011-2014 2014-2017 – Deputy CEO, Strauss Group	Senior VP, CLO and Company Secretary	VP Human Resources of the Group since October 1, 2007	CFO of the Group since November 3, 2008	June 2009 – February 2018 – CEO of Strauss Israel
Family relations with another interested party	None	None	None	None	None	None

Officer's name	Eyal Dror	Tomer Harpaz	Ronen Zohar	Yaniv Reuven	Shlomo Ben Shimol
Identity no.	028005999	25257304	56216013	024216160	12308789
Date of birth	November 20, 1970	February 28, 1973	February 9, 1960	January 30, 1969	July 2, 1956
Commencement of term of office	February 2018	March 2018	April 2015	January 2015	1999
Position in the Company	CEO of Strauss Israel	Incoming CEO of Sabra Dipping Company	CEO of Strauss Water	Group Controller	Internal auditor
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company	Director of subsidiaries of the Company	None	None	None
Education	BA in Communications and Management, College of Management Academic Studies; MBA, College of Management Academic Studies	LL.B. University of East Anglia, Norwich, England; Postgraduate Diploma in Business Administration, Hull University, London, England	BA in Food Sciences, the Hebrew University of Jerusalem	BA in Business Administration and Accounting, College of Management; Certified accountant	BA in Economics and Accounting - Tel Aviv University; certified accountant and internal auditor (CIA)
Occupation in the past five years	CEO of the Confectionery Division, Strauss Israel	2010-2014 VP Business Development & Strategy, Strauss Group; 2006-2014, chairman of Re:Bar	CEO of Sabra Dipping Company	2013 – controller, Soda Stream Group; 2010-2013 – controller, Better Place Group	Partner in the accounting firm of Deloitte, Brightman Almagor Zohar & Co.
Family relations with another interested party	None	None	None	None	None

Regulation 26B: Independent Authorized Signatories in the Company

The Company does not have independent authorized signatories.

Regulation 27: The Company's Accountants

Somekh Chaikin, 17 Ha'arba'ah St., Millennium Tower, Tel Aviv 64739.

Regulation 28: Modification to the Memorandum or Articles of Association in the Reporting Year

On November 8, 2017 the Meeting of Shareholders of the Company approved the amendment of article 67.1 in the Company's Articles of Association, such that notice of a general meeting may be posted on the Company's website (in lieu of publication in two widely-circulated daily newspapers published in Hebrew). On the same date, the Meeting of Shareholders also approved the amendment of articles 1, 163.4 and 164.5 in the Company's Articles of Association such that *inter alia*, the Company may indemnify its officers for costs expended by an officer in connection with an administrative proceeding conducted in his respect by virtue of the Restrictive Trade Practices Law, 1988, including reasonable litigation expenses and attorney fees, as well as in any other or additional administrative enforcement proceeding in which respect indemnification or insurance may be given by law for expenses incurred in its respect or related payments. For further information, see the Immediate Reports dated October 18, 2017 and November 9, 2017 (reference no. 2017-01-100227, reference no. 2017-01-105120 and reference no. 2017-01-105126).

Regulation 29:

a. **Recommendations and Resolutions of the Board of Directors**

(1) Payment of a dividend or execution of a distribution, as defined in the Companies Law, in any other manner, or distribution of bonus shares – On August 9, 2017, the Board of Directors of the Company resolved to distribute a cash dividend of approximately NIS 1.396 per each Ordinary Share of NIS 1 par value each in a total amount of NIS 160 million. For further details, see the Immediate Report dated August 17, 2017 (reference no. 2017-01-084270) and Note 26.3 to the Financial Statements of the Company as at December 31, 2017.

(2) For information on issuances by the Company in 2017, which were approved by the Board of Directors, see Note 26.1.2 to the Financial Statements of the Company as at December 31, 2017.

b. **Resolutions of Special General Meetings**

(1) Special General Meeting of February 5, 2017, in which the appointment of an external director, Ms. Dalia Narkys, was approved. For details, see the Immediate Reports of the Company of December 28, 2016 and February 6, 2017 (reference no. 2016-01-092340 and 2017-01-011185, respectively).

(2) Special General Meeting of June 12, 2017, in which the appointment of an external director, Dr. Samer Haj-Yehia, was approved. For details, see the Immediate Reports of the Company of May 7, 2017 and June 13, 2017 (reference no. 2017-01-037639 and 2017-01-049336, respectively).

(3) Annual and Special General Meeting of November 8, 2017, in which it was approved, *inter alia*, to amend the Company's Articles of Association as described in Regulation 28 above, to amend the letter of undertaking to indemnification for directors and officers of the Company who are not among the controlling shareholders of the Company and their relatives, and to amend the letter of undertaking to indemnification for directors and officers of the Company who are among the controlling shareholders and their relatives. For further information, see the Immediate Reports of October 18, 2017 and November 9, 2017 (reference no. 2017-01-100227 and reference no. 2017-01-105120, respectively).

Regulation 29A: Company Resolutions

Exemption, insurance or an undertaking to indemnification of officers

1. For the provisions of the revised Remuneration Policy of the Company with regard to the exemption, insurance and indemnification of officers of the Company, see Part "I" of the Remuneration Policy that was approved on September 26, 2016 in the General Meeting of Shareholders of the Company (see Immediate Reports of August 18, 2016 (reference no. 2016-01-105793) and of September 27, 2016 (reference no. 2016-01-054906)).

2. For the grant of letters of exemption from liability to officers of the Company, including those who are among the controlling shareholders of the Company and their relatives, see Note 24.1.3.1 to the Financial Statements of the Company as at December 31, 2017; and see also the Immediate Report with regard to the convening of an Annual and Special Meeting dated June 9, 2015 (reference no. 2015-01-043824) and the Immediate Report with regard to the results of the meeting dated July 14, 2015 (reference no. 2015-01-072546); and with regard to the grant of a letter of exemption to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above.

3. For information on the terms and conditions of the Company's D&O insurance policy, including in regard to those who are among the controlling shareholders of the Company and their relatives, see Note 24.4.2 to the Financial Statements of the Company as at December 31, 2017, and with regard to the inclusion of Ms. Ofra Strauss and Mr. Adi Strauss in the policy, see also Regulation 22 above.

4. For information on an undertaking to indemnify officers of the Company, including those who are among the controlling shareholders of the Company and their relatives, which was approved in a resolution of the General Meeting of the Company on June 6, 2011, see Note 24.1.4.1 to the Financial Statements of the Company as at December 31, 2017; and with regard to the grant of an undertaking to indemnification to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above. See also the Company's Immediate Report in regard to the convening of an Annual and Special General Meeting of the Company, dated October 18, 2017, and the Immediate Report in regard to the results of the meeting, dated November 9, 2017 (reference no. 2017-01-100227 and reference no. 2017-01-105120, respectively), which approved an amendment to the letters of undertaking to indemnification granted by the Company to directors and officers of the Company, including directors and officers who are among the controlling shareholders and their relatives.

Strauss Group Ltd.

Names of signatories and their positions:

Ofra Strauss, Chairperson of the Board of Directors
Gadi Lesin, Company CEO

Date: March 13, 2018

Unofficial Translation from Hebrew

Corporate Governance Questionnaire[1]

Independence of the Board of Directors			
		Correct	**Incorrect**
1.	Throughout the reporting year, two or more external directors held office in the corporation. In this question, a "correct" answer could be marked, if the time period in which there were no two outside directors holding office in the corporation does not exceed 90 days, as stated in Section 363.a(b)(10) of the Companies Law. However, any answer (correct/incorrect) shall state the time period (in days) in which two or more outside directors did not hold office in the corporation during the reporting year (including a period approved retrospectively, while distinguishing between different directors): Director A: Dalia Narkys, term of office commenced on February 5, 2017 Director B: Samer Haj-Yehia, term of office commenced on June 12, 2017 On June 12, 2017, Mr. Michael Anghel (external director), Ms. Dafna Schwartz (external director), Ms. Dalya Lev (independent director) and Mr. Akiva Mozes (independent director) concluded their term of office as directors of the corporation. On March 13, 2018, further to the recommendation of the company's audit committee, the board of directors of the company approved the appointment of Prof. Joshua (Shuki) Shemer as an independent director of the company, until the convening of the annual general meeting of the shareholders of the company according to article 97 of the company's articles of association. Number of external directors holding office in the corporation as of the date of release of this Questionnaire: 2	√	

[1] . Published within the framework of legislative proposals for improvement of statements on March 16, 2014.

Unofficial Translation from Hebrew

2.	The rate[2] of independent directors[3] holding office in the corporation as of the date of release of this Questionnaire: 3/10. The rate of independent directors, stated in the articles of association[4] of the corporation[5]: _____. ☒ Irrelevant (no provision was stated in the articles).	_____	______
3.	In the reporting year, an examination was made with the external directors (and the independent directors) and it was found that in the reporting year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of any linkage of the external (and independent) directors holding office in the corporation, and that they also fulfilled the conditions required for holding office as an external (or independent) director.	√	
4.	All of the directors who held office in the corporation during the reporting year do not, directly or indirectly, report[6] to the CEO (excluding a director who is a representative of the company's employees, if there is an employee representative body in the corporation). If your answer is "incorrect", (i.e., the director reports to the CEO as aforesaid) - the number of directors not complying with the aforesaid restriction shall be stated: ______.	√	

2 . In this Questionnaire "**rate**" – certain number out of all of the directors. Thus, e.g. 3/8.
3 . Including "external directors", as defined in the Companies Law.
4 . For the purpose of this question – "articles" including according to a specific law provision applying to the corporation (e.g. for a banking corporation – guidelines of the Supervisor of Banks).
5. A debenture company is not required to fill in this section.
6. For the purposes of this question – the mere holding of office as a director in a held corporation which is controlled by the corporation shall not be deemed "reporting"; conversely, a director's office in a corporation acting as an officer (other than a director) and/or employee in the held corporation which is controlled by the corporation shall be deemed "reporting" for the purposes of this question.

Unofficial Translation from Hebrew

5.	All of the directors, who notified of the existence of a personal interest they have in the approval of a transaction on the meeting's agenda, were not present fort the deliberations and did not participate in a vote as aforesaid (other than a deliberation and/or vote in circumstances as stated in Section 278(b) of the Companies Law) : If your answer is "incorrect" – Was this for the purpose of the presentation of a specific issue by him/her pursuant to the provisions of the last part of Section 278(a): ☐ Yes ☐No (kindly mark X in the appropriate box) State the number of meetings in which such directors were present at the deliberation and/or participated in the vote, other than in circumstances as provided in Subsection a. : ____________.	√	
6.	The controlling shareholder (including his relative and/or anyone on his behalf), who is not a director or a senior officer of the corporation, was not present in the board meetings held in the reporting year. If your answer is "incorrect" (i.e., the controlling shareholder and/or his relative and/or anyone on his behalf who is not a board member and/or a senior officer of the corporation attended such board meetings) - the following details regarding the attendance of the additional person in such board meetings shall be stated: Identity: ______________________. Position in the corporation (if any): _______________ Details of the linkage to the controlling shareholder (if the person present is not the controlling shareholder himself): _______________ Was it for the purpose of the presentation of a certain matter by him: ☐Yes ☐No *(kindly mark x in the appropriate box)* The rate of his attendance[7] at board meetings held in the reporting year for the purpose of presentation of a specific issue by him: ____________, Other presence: ____________. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	

[7] Distinguishing between the controlling shareholder and his relative and/or a party on his behalf.

Competencies and Qualifications of the Directors				
			Correct	**Incorrect**
7.	In the corporation's articles of association there is no provision limiting the possibility to immediately terminate the office of all of the directors of the corporation, who are not external directors (in this regard - a determination by a regular majority is not deemed a limitation).[8] If your answer is "incorrect" (i.e., such limitation exists), the following shall be stated -		√	
	a.	The time period prescribed in the articles of association for the office of a director: ______.		
	b.	The required majority prescribed in the articles of association for the termination of office of the directors: ______.		
	c.	The lawful quorum at the general meeting prescribed in the articles of association for the termination of office of the directors: ______.		
	d.	The majority required for amending these provisions in the articles of association: ______.		
8.	The corporation has a training plan for new directors, in the field of the corporation's business and in the field of the law applicable to the corporation and the directors, as well as a continuing plan for the training of serving directors, which is adjusted, *inter alia*, to the position held by the director in the corporation. If your answer is "correct" - state whether the plan was implemented in the reporting year: ☒Yes ☐No (kindly mark x in the appropriate box)		√	

[8] A debenture company is not required to fill in this section.

Unofficial Translation from Hebrew

9.	a.	The corporation prescribed a required minimal number of directors on the board who must have accounting and financial expertise. If your answer is “correct” the minimal number prescribed will be stated: 3	√	
	b.	Number of directors holding office in the corporation during the reporting year: Having accounting and financial qualifications[9]: 6. Having professional qualifications:[10] 9 In the event of changes in the number of directors, as stated in the reporting year, the datum of the lowest figure (with the exception of a time period of 60 days from occurrence of the change) or directors of any kind serving during the reporting year.		
10.	a.	Throughout the reporting year, the composition of the board included members of both genders. If your answer is “incorrect” - the time period (in days) in which the aforesaid was not met shall be stated: ______. *In this question, you may answer “correct” if the time period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (correct/incorrect), state the time period (in days) in which directors of both genders did not hold office in the corporation:* 0.	√	
	b.	Number of directors of each gender holding office on the board of the corporation as of the release date of this questionnaire: Men: 6, Women: 4	________	_______

9 Following an evaluation of the board, according to the provisions of the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and a Director with Professional Qualifications), 2005.

10 See Footnote 9.

Board Meetings (and Convening of a General Meeting)				
			Correct	**Incorrect**
11.	a.	Number of board meetings held during each quarter in the reporting year: Q1 (2017): 12 Q2: 9 Q3: 6 Q4: 4	______	______
	b.	Alongside each of the names of the directors holding office in the corporation during the reporting year, state their participation rate[11] in the board meetings (in this subsection - including meetings of the board committees of which they are members, and as stated below) held during the reporting year (in reference to his term of office): (Additional lines should be added according to the number of directors).	______	______

[11] See Footnote 2.

	Name of the Director	Participation Rate in **Board** Meetings	Participation Rate in **Audit Committee**[12] meetings	Participation Rate in meetings of the **Financial Statements Review Committee** [13]	Participation Rate in **Remuneration Committee**[14] meetings	Participation rate in meetings of **other board committees of which he is a member** (stating the name of the committee)		
	Ofra Strauss	31/31				Strategy, Finance and Investment Committee – 10/11 HR, Nominating and Corporate Governance Committee – 4/4		
	Adi Strauss	25/31				Strategy, Finance and Investment Committee – 9/11 HR, Nominating and Corporate Governance Committee – 4/4		
	Ronit Haimovitch[15]	17/31				Strategy, Finance and Investment Committee – 1/11		
	Meir Shanie	25/31						
	David Mosevics	26/31	8/8			HR, Nominating and Corporate Governance Committee – 4/4		

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.
15 . Ms. Ronit Haimovitch began serving on the Strategy, Finance and Investment Committee in the second quarter of 2017.

	Dalia Narkys[16]	20/31	6/8	3/4	4/6	HR, Nominating and Corporate Governance Committee – 3/4		
	Samer Haj-Yehia[17]	14/31	3/8	2/4	2/6			
	Arie Ovadia	28/31		4/4	6/6	Strategy, Finance and Investment Committee – 10/11		
	Galia Maor	29/31				Strategy, Finance and Investment Committee – 9/11 HR, Nominating and Corporate Governance Committee – 4/4		
12.	In the reporting year, the board held at least one discussion regarding the management of the corporation's business by the CEO and the officers reporting to him, in their absence, after they were given opportunity to express their position.						√	

16. Ms. Dalia Narkys began serving as a director of the corporation on February 5, 2017.
17. Mr. Samer Haj-Yehia began serving as a director of the corporation on June 12, 2017.

Separation between the Positions of the CEO and the Chairman of the Board				
			Correct	**Incorrect**
13.	Throughout the entire reporting year, a chairman of the board held office in the corporation. *In this question, you may answer "correct" if the time period in which a chairman of the board did not hold office in the corporation does not exceed 60 days, as stated in Section 363a(2) of the Companies Law). However, in any (correct/incorrect) answer, state the time period (in days) during which there was no chairman of the board holding office in the corporation as aforesaid:* 0.		√	
14.	Throughout the entire reporting year, a CEO held office in the corporation. *In this question, you may answer "correct" if the period of time during which there was no serving CEO at the corporation does not exceed 90 days as specified in Section 363a.(6) of the Companies Law, however, in any (correct/incorrect) answer, the time period (in days) during which there was no CEO holding office in the corporation as aforesaid should be stated:* 0. ______________		√	
15.	In a corporation in which the chairman of the board serves also as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law.[18] ☒Irrelevant (insofar as such dual office does not exist in the corporation).			
16.	The CEO is <u>not</u> a relative of the chairman of the board. If your answer is "incorrect" (i.e., the CEO is a relative of the chairman of the board) -		√	
	a.	State the kinship between the parties: ______.	______	______
	b.	The office was approved in accordance with Section 121(c) of the Companies Law[19]: ☐ 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).		√	

18 . In a debenture company – approval according to Section 121(d) of the Companies Law.

19 . In a debenture company – approval according to Section 121(d) of the Companies Law.

Unofficial Translation from Hebrew

The Audit Committee				
			Correct	Incorrect
18.	The following <u>did not</u> hold office in the audit committee during the reporting year -			
	a.	The controlling shareholder or his/her relative. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
	b.	The chairman of the board.	√	
	c.	A director who is employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him/her.	√	
	d.	A director who regularly provides services to the Corporation or to the controlling shareholder of the Corporation or a corporation controlled by him/her.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
19.	No one who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present in the audit committee meetings, other than pursuant to the provisions of Section 115 (e) of the Companies Law.		√	
20.	The lawful quorum for deliberations and adoption of resolutions in all of the audit committee's meetings held during the reporting year was a majority of the committee members, where the majority of attendees were independent directors and at least one of them was an external director. If your answer is "incorrect" - state the rate of the meetings in which the said requirement was not met: _______.		√	
21.	In the reporting year, the audit committee held at least one meeting in the presence of the internal auditor and the external auditor, and in the absence of officers of the corporation who are not members of the committee, regarding deficiencies in the business management of the Corporation.		√	
22.	In all of the audit committee's meetings in which a person who is not entitled to be a member of the committee was present, it was with the approval of the chairman of the committee and/or at the request of the committee (regarding the general counsel and secretary of the corporation who is not a controlling shareholder or his/her relative).		√	

Unofficial Translation from Hebrew

23.	Arrangements stated by the Audit Committee with respect to the manner of handling of complaints of corporation's employees in connection with deficiency in the management of its business affairs and the protection to be given to the employees who have complained, as stated, which were valid during the reporting year.	√	
24.	The audit committee (and/or the financial statements review committee) was satisfied that the scope of work of the external auditor and his fees in the reporting year were appropriate for the performance of proper audit and review of the financial statements in the reporting year.	√	

Functions of the Financial Statements Review Committee (hereinafter - FSRC) in its Preliminary Work toward the Approval of the Financial Statements				
			Correct	**Incorrect**
25.	a.	State the time period (in days) prescribed by the board of directors as reasonable time for delivery of the committee's recommendations in contemplation of the board meeting in which the periodic or quarterly reports will be approved: 2 business days.	______	________
	b.	The number of days actually elapsed between the date of delivery of the recommendations to the board and the date of approval of the financial statements: Q1 statements (2017): 6 Q2 statements: 2 Q3 statements: 2 Annual statements: 5	_______	________
	c.	The number of days elapsed between the date of delivery of the draft financial statements to the directors and the date of deliberation approval of the financial statements by the board: Q1 statements (2017): 11 Q2 statements: 8 Q3 statements: 7 Annual statements: 13		
26.		The corporation's external auditor was invited to all of the FSRC and board meetings in which the financial statements of the corporation referring to periods included in the reporting year were discussed. If your answer is "incorrect" - state the rate of his participation: ______.	√	

Unofficial Translation from Hebrew

27.	All of the conditions specified below were fulfilled at the FSRC throughout the entire reporting year and until the release of the annual statements:		______	______
	a.	The number of its members was not less than three (on the date of the discussion at the FSRC and approval of the statements as aforesaid).	√	
	b.	All of the conditions specified in Section 115 (b) and (c) of the Companies Law (in respect of the office of audit committee members) were fulfilled.	√	
	c.	The chairman of the FSRC is an external director.	√	
	d.	All of its members are directors and most of its members are independent directors.	√	
	e.	All of its members have the ability to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	f.	The members of the FSRC provided a statement prior to their appointment.	√	
	g.	The legal quorum for discussion and decision making on the FSRC was the majority of its members provided that most of those present were independent directors including at least one outside director.	√	
	If your answer is "incorrect" in respect of one or more of the subsections of this question, state in respect of which report (periodic/quarterly) such condition was not fulfilled: ___________		____	____

The Remuneration Committee				
			Correct	Incorrect
28.	The Committee in the reported period consisted of at least three members and external directors constituted a majority (upon the discussion date on the Committee). ☐Irrelevant (no discussion was held)		√	
29.	The terms of office and employment of all the members of the Remuneration Committee during the reporting year are according to the Companies Regulations (Rules in Respect of Remuneration and Expenses of an Outside Director), 2000		√	
30.	The following did not hold office in the audit committee during the reporting year -		_______	_______
	a.	The controlling shareholder or his relative. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
	b.	The chairman of the board.	√	
	c.	A director employed by the Corporation or by the controlling shareholder of the Corporation or by a corporation controlled by him.	√	
	d.	A director who regularly provides services to the Corporation or to the controlling shareholder of the Corporation or a corporation controlled by him.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
31.	The controlling shareholder or his/her relative was not present in the reporting year in meetings of the Remuneration Committee unless if the chairman of the committee determined that any of them is required in order to present a certain issue.		√	
32.	The Remuneration Committee and the board did not exercise their authorities according to Sections 267a(c), 272(c)(3) and 272 (c1)(1)(c) pursuant to approval of the transaction or the remuneration policy, notwithstanding the objection of the general meeting. If you answered "incorrect" it should be indicated – The type of transaction approved, as stated: _________ The number of times that their authority was exercised during the reporting year: ________		√	

Internal Auditor			
		Correct	**Incorrect**
33.	Chairman of the board or the CEO of the corporation is the organizational in charge of the internal auditor in the corporation.	√	
34.	The chairman of the board or the audit committee approved the work plan during the reporting year. In addition, the audit items in which the internal auditor was engaged during the reporting year shall be specified: The subjects of the audit addressed by the internal auditor in the reporting year in the Israel territory (excluding Strauss Water) are sales, procurement, inventory, database management, environmental quality, document management and classification, communications and spokesmanship, regulatory compliance and compliance with company procedures. In Strauss Water – access permission management and customer service. In Strauss Coffee – sales, procurement, customer service, quality control in manufacturing, workplace safety, regulatory compliance and compliance with company procedures, wages and human resources, general financial review of Russia and Ukraine, segregation of duties, DRP, an external quality assessment of the internal audit in the Três Corações joint venture in Brazil, and maintenance. In Sabra – information security and information systems.	√	
35.	The scope of employment of the internal auditor in the corporation during the reporting year: 8,780 hours.	______	________
	During the reporting year, a discussion was held (by the audit committee or the board of directors) on the findings of the internal auditor.	√	
36.	The internal auditor is not an interested party of the corporation, a relative thereof, auditing accountant or anyone on its behalf, nor does he maintain essential business connections with the corporation, its controlling shareholder, his relative or corporations under their control.	√	

Transactions with Interested Parties			
		Correct	**Incorrect**
37.	The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto. If you answer is "incorrect" (i.e. the controlling shareholder or his relative is employed by the Corporation or provides management services thereto) the following shall be stated: - The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled by them and/or management companies): 1 - Have the agreements for such employment and/or management services been approved by the organs specified in the law: ☒Yes ☐ No (Kindly mark x in the appropriate box) ☐Irrelevant (the corporation does not have a controlling shareholder) _______.		X
38.	According to the best knowledge of the corporation, the controlling shareholder has no additional business affairs in the field of operation of the corporation (in one or more areas). If your answer is "incorrect" – it should be indicated whether an arrangement for the setting bounds of activities between the corporation and the controlling shareholder thereof: ☐Yes ☐ No (Kindly mark x in the appropriate box) ☐Irrelevant (the corporation does not have a controlling shareholder) _______.	√	

Chairperson of the Board:
<u>Ofra Strauss</u>

Chairman of the Audit Committee:
<u>Samer Haj-Yehia</u>

Chairman of the FSRC:
<u>Samer Haj-Yehia</u>

STAUSS GROUP LTD.

ISOX DECLARATION

Attached hereto is an annual report on the effectiveness of the internal control over the financial reporting and disclosure pursuant to regulation 9B(a) for 2017:

The management, under the supervision of the board of directors of Strauss Group Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over the financial reporting and disclosure within the Corporation.

For this purpose, the members of management are:

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

Internal control over the financial reporting and disclosure includes controls and procedures existing within the Corporation, which were planned by or under the supervision of the CEO and the most senior financial officer, or by anyone actually performing such functions, under the supervision of the board of directors of the Corporation, which are designed to provide reasonable level of assurance regarding the reliability of the financial reporting and the preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth in the law.

Internal control includes, *inter alia*, controls and procedures which were planned to ensure that information which the Corporation is required to disclose as aforesaid, is gathered and transferred to the management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable the timely making of decisions in reference to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide full assurance that misrepresentation or omission of information in the reports is prevented or discovered.

The management, with the supervision of the board of directors, carried out an examination and evaluation of the internal control over financial reporting and disclosure in the corporation, and the effectiveness thereof. The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by the management with the supervision of the board of directors included: .

Mapping and documentation of the controls and identification of the very material processes in the Company and in the main consolidated companies according to the reporting risks, in respect of each of the Company or the main consolidated companies, as the case may be.

The processes which were defined as very material are: in the Company: revenues from rent in investment property, investment property; in Sonol: the revenues from sales and the trade receivables processes; in Tambour: the revenues from sales and trade receivables, inventory and acquisition processes; in Via Maris: long-term receivables in respect of franchise arrangement.

Examination of the actual performance and documentation of the controls defined in the control processes on the organization level (ELC), the information systems (ITGC), the financial statements preparation process and the processes which were identified as very material to the financial reporting and disclosure.

General evaluation of the internal control effectiveness.

Based on the effectiveness evaluation performed by the management with the supervision of the board of directors as specified above, the board of directors and management of the corporation reached the conclusion that the internal control over the financial reporting and disclosure in the corporation, as of December 31, 2017 is effective.

Attached please find the statements of the CEO and the CFO, who is responsible for the financial reporting in the Company.

Date: March 13, 2018

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 2017 (the "Reports").

(2) To my knowledge, the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in the internal control over the financial reporting and the disclosure;

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Have evaluated the effectiveness of the internal control over the financial reporting and disclosure and presented in this report the conclusions of the board of directors and the management pertaining to the effectiveness of the internal control as aforesaid as of the date of the Reports.

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

March 13, 2018

____

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 2017 (the "Reports");

(2) To my knowledge, the Financial Statements and the other financial information included in the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which are required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial condition, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate;

(4) I have disclosed to the Corporation's auditor and to the Corporation's board of directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure insofar as it relates to the Financial Statements and the other information included in the Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts a doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone reporting to him directly or which involves other employees who play a significant role in the internal control over the financial reporting and the disclosure;

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 5770-2010, insofar that it is relevant to the financial statements and other financial information included in the Reports, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence, of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of the financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP;

c. Have evaluated the effectiveness of the internal control over the financial reporting and disclosure, insofar that it refers to the financial statements and the other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my evaluation as aforesaid were presented to the board of directors and the management and are incorporated in this Report.

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

March 13, 2018

Shahar Florence, EVP & CFO;

STRAUS GROUP LTD.

Inclusion of the financial statements of an investee pursuant to Regulation 44 of the Securities Regulations, 1970

Três Corações Alimentos S.A.

Consolidated financial statements as of and for the years ended 31 December 2017 and 2016 and independent auditors' report on consolidated financial statements

Contents

KPMG Auditores Independentes
Rua Desembargador Leite Albuquerque, 635
Sala 501 e 502 - Aldeota
60150-150 - Fortaleza/CE - Brasil
Telefone +55 (85) 3307-5100, Fax +55 (85) 3307-5101
www.kpmg.com.br

Independent Auditor's Report on Consolidated Financial Statements

To the Directors and Shareholders of the Company
Três Corações Alimentos S.A.
Eusébio - CE

Opinion

We have audited the consolidated financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Três Corações Alimentos S.A. as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), issued by the *International Accounting Standards Board* (IASB).

Basis for Opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and subsidiaries internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with management among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Fortaleza, March 05, 2018

KPMG Auditores Independentes

CRC 2SP014428/O-6

João Alberto da Silva Neto

Accountant CRC RS-048980/O-0 T-CE

Três Corações Alimentos S.A.

Consolidated statements of financial position as of 31 December 2017 and 2016

(In thousand of Brazilian Reais)

Assets	Note	2017	2016
Current			
Cash and cash equivalents	5	113,110	86,524
Deposits	6	3,508	2,418
Trade receivables	7	472,296	393,469
Inventories	8	372,189	377,163
Recoverable taxes	9	32,635	37,798
Income tax receivable		13,268	14,030
Other current assets	10	19,238	14,114
		1,026,244	925,516
Non-current			
Judicial deposits	21	8,655	8,780
Loans to related parties	12	21,479	7,908
Other non-current assets	10	6,198	7,765
Deferred tax assets	22	11,017	14,299
Investments	12	4,236	4,211
Fixed assets	13	284,204	242,291
Intangible assets	14	282,857	268,456
		618,646	553,710
Total assets		1,644,890	1,479,226

Liabilities	Note	2017	2016
Current			
Short term loans	15	224,233	298,804
Trade payables	16	233,675	151,143
Income tax payables		27	1,253
Employees and other payroll related liabilities	17	50,162	42,134
Proposed dividends	23.d	45,704	59,268
Interest on equity payable	18	47,915	43,938
Payable taxes	19	23,976	27,724
Other current liabilities	20	19,856	36,335
		645,548	660,599
Non-current			
Long term loans	15	151,525	134,243
Other non-current liabilities	20	4,043	2,565
Deferred tax liabilities	22	6,816	9,364
Provision for legal proceedings	21	18,166	19,518
		180,550	165,690
Equity			
Share capital	23.a	273,442	272,370
Translation reserve	23.b	(91,917)	(99,228)
Retained earnings	23.e	637,267	479,795
		818,792	652,937
Total liabilities		1,644,890	1,479,226

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 2017 and 2016

(In thousand of Brazilian Reais)

	Note	2017	2016
Revenue	24	3,719,899	3,102,874
Cost of sales	25	(2,717,412)	(2,286,148)
Gross profit		1,002,487	816,726
Selling and marketing expenses	26	(572,188)	(472,701)
General and administrative expenses	27	(109,112)	(89,881)
Equity method	12	25	(394)
Other income (expenses), net		(15)	1,029
Operating profit		321,197	254,779
Finance income	28	11,988	11,326
Finance expenses	28	(40,167)	(32,566)
Profit before income tax		293,018	233,539
Income tax expenses	22	(36,958)	(44,731)
Profit for the year		256,060	188,808

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 2017 and 2016

(In thousand of Brazilian Reais)

	Note	2017	2016
Profit for the year		256,060	188,808
Foreign currency translation differences	23.b	7,311	6,272
Comprehensive income for the year		263,371	195,080

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 2017 and 2016

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments	Accumulated profit	Total
Balance as of 31 December 2015	272,370	32,716	157,782	175,004	(105,500)	-	532,372
Dividends distributed relative to 2015	-	-	-	(1,445)	-	-	(1,445)
Profit for the year	-	-	-	-	-	188,808	188,808
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	6,272	-	6,272
Total other comprehensive loss:	-	-	-	-	6,272	188,808	195,080
Internal equity changes							
State VAT and Federal tax incentives	-	-	36,740	-	-	(36,740)	-
Profit destination:							
Legal reserve	-	9,493	-	-	-	(9,493)	-
Revaluation reserve adjustment in investee	-	-	-	(850)	-	-	(850)
Interest on equity credit	-	-	-	-	-	(47,500)	(47,500)
Dividends proposed	-	-	-	-	-	(24,720)	(24,720)
Reserve for profit to be distributed	-	-	-	70,355	-	(70,355)	-
	-	9,493	36,740	69,505	-	(188,808)	(73,070)
Balance as of 31 December 2016	272,370	42,209	194,522	243,064	(99,228)	-	652,937
Dividends distributed relative to 2016	-	-	-	(12)	-	-	(12)
Profit for the year	-	-	-	-	-	256,060	256,060
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	7,311	-	7,311
Total other comprehensive loss:	-	-	-	-	7,311	256,060	263,371
Internal equity changes							
Capitalization of tax incentive	1,072	-	(1,072)	-	-	-	-
State VAT and Federal tax incentives	-	-	54,730	-	-	(54,730)	-
Profit destination:							
Legal reserve	-	12,479	-	-	-	(12,479)	-
Interest on equity credited	-	-	-	-	-	(51,800)	(51,800)
Dividends proposed	-	-	-	-	-	(45,704)	(45,704)
Reserve for profit to be distributed	-	-	-	91,347	-	(91,347)	-
	1,072	12,479	53,658	91,347	-	(256,060)	(97,504)
Balance as of 31 December 2017	273,442	54,688	248,180	334,399	(91,917)	-	818,792

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 2017 and 2016

(In thousand of Brazilian Reais)

	Note	2017	2016
Cash flows from operating activities			
Profit for the year		256,060	188,808
Adjustments for:			
Depreciation and amortization		34,707	30,859
Provision for legal proceedings		(1,352)	(1,170)
Other income (expenses), net		15	(1,029)
Equity method		(25)	394
Financing expenses, net		28,179	21,240
Income tax expenses		36,958	44,731
Interest paid, net		(31,241)	(26,139)
Income tax paid		(22,998)	(45,855)
		300,303	211,839
Change in:			
Trade receivables		(77,119)	(90,840)
Inventories		4,629	(106,566)
Recoverable and payable taxes, net		(16,160)	(11,194)
Judicial deposits		125	19
Trade payables		82,532	49,963
Employees and other payroll related liabilities		8,028	8,258
Other current and non-current assets and liabilities		(987)	(1,717)
Net cash flows provided by operating activities		301,351	59,762
Cash flows from investing activities			
Change in deposits		(1,029)	759
Payment for acquisition of operations		(30,500)	(53,582)
Share capital increase in joint-venture		-	(4,605)
Proceeds from sales of fixed assets		1,856	2,467
Acquisition of fixed assets		(58,948)	(39,002)
Investments in intangible assets		(10,383)	(5,454)
Long-term loans to related parties		(12,413)	(7,766)
Net cash flows used in investing activities		(111,417)	(107,183)
Cash flows from financing activities			
Proceeds from loans	15.d	503,937	464,656
Repayment of loans	15.d	(564,067)	(389,261)
Interest on equity paid	15.d	(43,938)	-
Dividend paid	15.d	(59,280)	(101,446)
Net cash flows used in financing activities		(163,348)	(26,051)
Net increase (decrease) in cash and cash equivalents		26,586	(73,472)
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents as of beginning of year		86,524	159,996
Cash and cash equivalents as of end of year		113,110	86,524
		26,586	(73,472)

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

Notes to the consolidated financial statements

1 General information

Três Corações Alimentos S.A. and its controlled entities are an industrial and commercial group of companies, which operates in Brazil, in producing and selling branded coffee products, multibeverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports, lending Away-From-Home machines and operation of cafeterias.

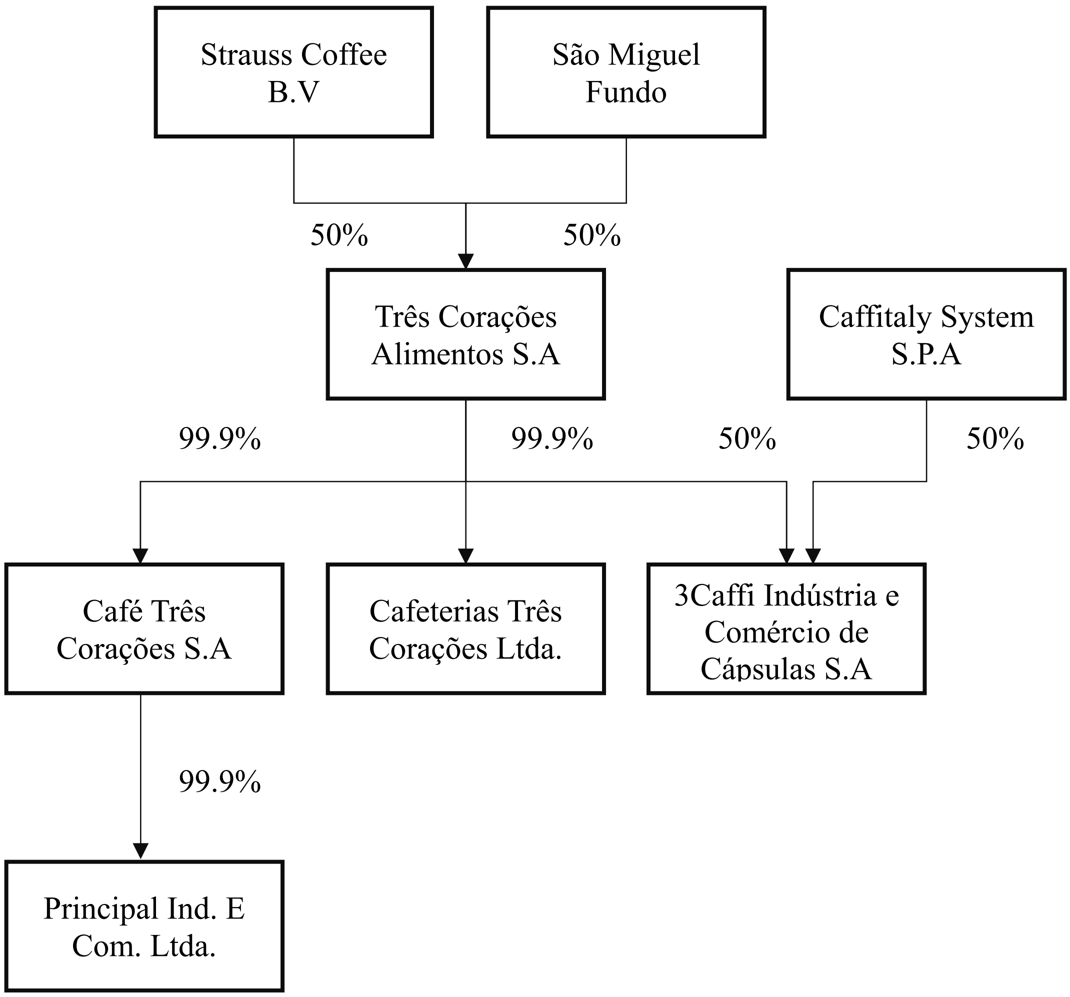
The Company controls the entities Cafeterias Três Corações Ltda. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company is part of a joint-venture with Caffitaly System S.p.A., whereby it holds 50% share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

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

The Group is currently the largest group in roasted and ground coffee business in Brazil, and owns the coffee and other food brands of Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Itamaraty, Londrina, Claralate, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, Cirol, Cirol Real, Realmil, Toko and Astoria. The Apollo brand will be used as a result of a Licence agreement, as mentioned in Note 14 to these consolidated financial statements.

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais and Rio de Janeiro, and its distribution centers are located in almost all states of Brazil. In addition to that, the Group owns green coffee processing plants in the states of Minas Gerais. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in this report, since it is not part of the Group structure presented below. Três Corações Imóveis Armazéns Gerais e Serviços Ltda. is owned by São Miguel Holding e Investimentos S.A. (50%) and Strauss Coffee B.V. (50%).

As of 31 December 2017, the Group had the following structure:



2 Business combination

Companhia Iguaçu de Café Solúvel

In June 2016, the business acquisition contract related to brands of instant coffee and related products with Companhia Iguaçu de Café Solúvel was approved by Administrative Council for Economic Defense (CADE). The official announcement was published on 08 June 2016. As a result of the acquisition, the brands added to Group's portfolio were Iguaçu, Cruzeiro and Amigo, increasing the Company market share mainly in the southern region of Brazil with the brands Iguaçu and Cruzeiro.

a. Consideration transferred

According to the contract, the transaction date was 28 June 2016, in the total amount of R$ 73,582. The amount of R$ 53,582 was paid through an escrow account transferred to Companhia Iguaçu de Café Solúvel and R$ 20,000 was to be paid as follows:

- R$ 17,000 paid in March 2017, with interest of 100% CDI; and
- R$ 3,000 to be paid in 5 installments, with interest, in June of each year starting 2017.

The remaining amount payable as of 31 December 2017 is R$ 2,722 (Note 20).

b. Transferred assets and incurred liabilities

There were no liabilities transferred in the business combination and in the opinion of the Company's legal advisers, there were also no contingent liabilities.

As of 31 December 2016, Management estimated the value of the transferred assets. On 23 June 2017, Management received the purchase price allocation of Iguaçu acquisition performed by Ernst & Young Assessoria Empresarial Ltda. The impact of this independent valuation is presented below:

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

c. Goodwill

	Before independent valuation	Adjustment	After independent valuation
Acquisition cost:			
Transferred resources, paid or to be paid	73,582	-	73,582
Net identifiable assets	(45,400)	(4,690)	(40,710)
Goodwill (Note 14)	28,182	4,690	32,872

All adjustments in items b and c above were recognized in these consolidated financial statements.

3 Basis of preparation

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by management for issuance on 05 March 2018.

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 accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or both in the period of the revision and in future periods, if the revision affects both the current and future periods.

In preparing these consolidated financial statements, significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2016, except for the change in useful life of fixed asset items, as mentioned in Note 4.f.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the years ended 31 December 2017 and 2016 is included in the following notes:

- Note 7 - Provision for doubtful debt accounts;
- Note 13 - Useful life of fixed asset items;
- Note 14 - Impairment test: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- Note 21 - Recognition and measurement of provisions for legal proceedings: key assumptions about the likelihood and magnitude of an outflow of resources.

- Note 22 - Recognition of deferred tax assets: availability of future taxable profits against which tax loss carryforwards can be used;

- Note 29 - Financial instrument fair value measurements;

  Fair values have been determined for measurement and/or disclosure purposes based on the methods described in Note 29. 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 29 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 value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The consideration transferred does not include (this means it is net of) amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or in other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as a bargain purchase gain.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iii) Loss of control

When applicable, upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

In case of loss of control, the retained interest would be accounted for based on the level of influence retained by the Company in the relevant entity.

(iv) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b. *Foreign currency*

(i) Foreign currency transactions

Transactions in foreign currency are translated to the functional currency of the Group according to the exchange rate in effect on the date of the transaction. Exchange rate differences arising upon the settlement of monetary items or upon reporting monetary items at exchange rates different from that by which they were initially recorded during the period, or reported in previous financial statements, are charged to specific income or expense items according to the nature of the monetary item (exchange rate differences in respect of trade receivables, trade payables and foreign currency loans are recognized in financing costs, etc.).

Monetary assets and liabilities are translated using the exchange rate at the date of the statement of financial position.

(ii) Foreign operations

The assets and liabilities derived from foreign operations, including goodwill and fair value adjustments arising on acquisition, if applicable, are translated to Brazilian reals using the exchange rates at the reporting date. Income and expenses of foreign operations are translated to Brazilian reals using the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of, so that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation, while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When applicable and the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

c. *Financial instruments*

c.1 Non-derivative financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

Non-derivative financial assets and financial liabilities - Recognition and derecognition

The Group initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or 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, 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.h).

Should it become applicable, non-current receivables would be stated at their present value. The interest rate used in order to calculate the present value is composed of the time value of the receivable according to the currency of the receivable, plus the specific risk component of each customer. Income in respect of interest is recorded over the period of the receivable as financial income.

Non-derivative financial liabilities - Measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

c.2 Derivative financial instruments

The Group routinely uses derivative financial instruments in order to hedge against risks relating to prices of commodities and against foreign currency risks arising from its operating, financing and investing activities. The derivative financial instruments are comprised mainly of forward transactions and ,when applicable, options on currencies and of forward transactions and options on commodities. Nonetheless, derivatives not considered accounting hedges are accounted for as financial assets/liabilities and are presented at fair value through profit and loss as follows:

- Derivative financial instruments are recognized at fair value both initially and subsequent to initial recognition, and are stated at fair value according to the market value of registered instruments and the stated market value of forward currency contracts.

- Changes in fair value are recognized as income or expense as incurred. Gains and losses on commodity forward transactions are presented under cost of sales whereas other gains and losses are presented under financing costs.

d. *Inventories*

Inventory is measured at the lower of the weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to finish the sale.

Inventory includes certain spare parts and maintenance equipment, which will be used in up to one year.

Provision for slow-moving or obsolete inventory is recorded when deemed necessary by Management.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct cost and related production overheads (based on normal operating capacity).

e. *Investments*

The investments in invested companies are valued by equity in the consolidated statement of financial position and in statement of income

f. *Fixed assets*

Recognition and measurement

Fixed assets are measured at cost, less accumulated depreciation (see below) and impairment losses (see Note 4.h).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site), and, when applicable, capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of fixed assets are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", if relevant, in profit or loss.

Subsequent expenditures

Improvements and enhancements are added to the cost of the assets, whereas maintenance and repairs are charged to expense as incurred.

Leasehold improvements

The construction costs on leased property, which will be transferred to the lessor's ownership at the end of the rental period, are amortized over the expected rental period on a straight-line basis.

Depreciation

Depreciation is recognized as an expense on a straight-line basis over the estimated useful lives of each component of an item of fixed assets, other than land that is not depreciated.

Management decided to adopt an annual average rate for the principal depreciation groups as presented below, instead of the depreciation rate ranges, presented until 2016:

	%	
	2017	2016
Buildings	2,01	2,13
Machinery and equipment	6,07	7,23
Vehicles	20,31	20,09
Furniture and other equipment	10,61	9,46
Leasehold improvements	2,02	2,20

Depreciation methods, useful lives and residual values are reassessed on every reporting date and the rates used for tax purposes may differ from the above rates.

In 2017, Management hired an independent assessment of fixed and intangible assets useful lifes. In the table above is presented the depreciation rate used up to 31 December 2016,and the revised rates used prospectively starting 1 January 2017.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by Management.

g. *Intangible assets and goodwill*

Goodwill

Goodwill arises on the acquisition of subsidiaries and jointly controlled entities, and is presented as part of intangible assets. In subsequent periods, goodwill is measured at cost, less accumulated impairment losses. See also Note 4.h.

Other intangible assets

The intangible assets include brands, trademarks, software, distribution networks, list of customers, license agreement, 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.

Management decided to adopt an annual average rate for the principal amortization groups as presented below, instead of amortization rate ranges, presented until 2016:

	%	
	2017	2016
Software	30,68	21,41
Brands and trademarks - specifically those acquired in 3Corações Sul business combination	20,77	21,01
List of customers (presented as other in Note 14)	10	10
Other	23,75	26,20

Amortization methods, useful lives and residual values are reassessed on every reporting date.

In 2017, Management hired an independent assessment of fixed and intangible assets useful lifes. In the table above are presented the amortization rates used up to 31 December 2016, and the revised rates used prospectively starting 1 January 2017.

Goodwill and brands, except for those brands acquired in 3Corações Sul and Iguaçu business combinations, the amortization rate of which is presented above, have an indefinite useful life and are not amortized for reporting purposes. For tax purposes, Goodwill is amortized, according to Brazilian tax legislation.

The Group examines the useful life of an intangible asset that is not periodically amortized, at least once a year, in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

h. *Impairment*

Non-financial assets

(i) Timing of impairment testing

The carrying amounts of the Group's non-financial assets (other than inventories and deferred tax assets - see Notes 4.d and 4.m, respectively) are examined on each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For assets, including intangible assets, that have indefinite useful lives, the Group estimates the recoverable amounts at least once a year. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

For the purposes of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in the statement of income in accordance with the nature of the item that has been impaired. Impairment losses recognized in respect of cash-generating units (CGU) are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Goodwill impairment losses are classified as other expenses in the statement of income.

(ii) *Calculation of the recoverable amount*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) *Reversal of impairment*

Impairment losses recognized in previous periods are reexamined every reporting period in order to determine whether there are any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only if the carrying amount after the reversal of the impairment loss does not exceed the carrying amount net of depreciation or amortization, that would have been determined if no impairment loss had been recognized. Reversals of impairment losses are included in the statement of income. Impairment losses in respect of goodwill are not reversed.

Non-derivative financial assets

The impairment of financial assets, which are not presented at fair value adjusted through profit and loss, including the trade receivables' balance, is examined when objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows from such assets.

The financial statements include special provisions in respect of bad debts, which in management opinion, adequately reflect the loss arising from those debts the collection of which is doubtful. Management determination of the adequacy of the provision is based, inter alia, on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business and an evaluation of the security received from them. Bad debts, which according to management opinion are unlikely to be collected, are written-off.

An impairment loss in respect to the receivables balance, which is measured at amortized cost, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate, and is recognized as selling and marketing expense in the statement of income.

Individually significant receivable balances are tested for impairment on an individual basis. The remaining customer balances are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized, and the reversal is recognized in the statement of income.

i. *Provisions*

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. The Group considers the present value of the liability, to be equivalent to the future value, as the differences are not material.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, disclosure is provided of a contingent liability, except when the possibility of the outflow of economic benefits is considered remote.

j. *Government grants*

Government grants are recorded in profit or loss when there is reasonable assurance that the subsidy will be received or compensated and the conditions established for the subsidy will be achieved by the Group. Afterwards, the revenue recognized in profit or loss is retained in equity.

The types of government grants received by the Group and their respective tax treatment are described in Note 23.e.

k. *Revenue*

Goods sold

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognized by the Group when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no expected continued management involvement with the goods and the revenue can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discounts are recognized as a reduction of revenue as the sales are recognized.

l. *Financial income and expenses*

Financial income comprises interest income on deposits invested, financial income from financial leases, and gains on derivatives (other than commodities) that are recognized in the statement of income.

Financial expenses comprise interest expenses on loans and borrowings and foreign currency variation gains and losses, net.

In the cash flow reports, interests received and interests paid are presented as part of cash flows from operating activities. Dividends paid are presented under financing activities.

m. ***Income tax expenses***

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized in the statement of income, unless they relate to a transaction or event recognized directly in equity.

Current tax

Current tax (in Brazil: "IRPJ" and "CSLL") comprises the expected tax payable or receivable on the taxable income or loss for the year and, when applicable, any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date, considering also the effect of government grants as described in Notes 22.c and 23.e.

Deferred tax

Deferred taxes are recognized in relation to temporary differences between accounting balances of assets and liabilities and the corresponding balance amounts used for tax purposes. Deferred income tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for tax loss carryforwards, tax credits and deductible temporary differences to the extent that it is probable that taxable income will be generated in the future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

n. ***New standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, 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 to add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, and early adoption was permitted.

The impact of IFRS 9 on the Group's financial statements refers only to financial assets impairment tests, which would have changed the estimation of provision for doubtful debts. Management estimated the impact on these consolidated financial statements as if IFRS 9 was effective for the years ended 31 December 2017 and 2016, and the result is presented below:

	Before IFRS 9	**IFRS 9 Impact**	**With IFRS 9**
Provision for doubtful debts:			
Balance as of 31 December 2015	5,901	1,123	7,024
Balance as of 31 December 2016	4,445	3,577	8,022
Expense (reversal) in the year ended 31 December 2016	(1,456)	2,454	998
Balance as of 31 December 2016	4,445	3,577	8,022
Balance as of 31 December 2017	7,207	(627)	6,580
Expense (reversal) in the year ended 31 December 2017	2,762	(4,204)	(1,442)

IFRS 15 Revenue from Contracts with Customers (hereinafter - "IFRS 15")

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after 1 January 2018 and earlier application was permitted.

The impact of IFRS 15 on the Group's financial statements refers only to the recognition of promotional campains where the customer purchases a product and is entitled to a certain quantity of another product. The change will have a temporary year-end effect on trade receivables, inventories, revenue and cost of sales balances. Management estimated the impact on these consolidated financial statements as if IFRS 15 was effective for the years ended 31 December 2017 and 2016, and the result is presented below:

	Before IFRS 15	IFRS 15 Impact	With IFRS 15
Financial position impact:			
31 December 2015			
Trade receivables	304,652	-	304,652
Inventories	277,283	-	277,283
Equity	532,372	-	532,372
31 December 2016			
Trade receivables	393,469	(532)	392,937
Inventories	377,163	567	377,730
Equity	652,937	35	652,972
31 December 2017			
Trade receivables	472,296	(1,179)	471,117
Inventories	369,519	1,363	370,882
Equity	812,723	149	812,872
Statements of income impact:			
Year ended 31 December 2016			
Revenue	3,102,874	(532)	3,102,342
Cost of sales	(2,286,148)	567	(2,285,581)
Gross profit	816,726	35	816,761
Year ended 31 December 2017			
Revenue	3,719,899	(1,179)	3,718,720
Cost of sales	(2,717,412)	1,363	(2,716,049)
Gross profit	1,002,487	184	1,002,671

IFRS 16 Leases (hereinafter - "IFRS 16")

The standard replaces IAS 17, Leases, and related interpretations. The provisions of the standard revoke the current requirement that lessees classify leases as either operating leases or financial leases, and instead, introduce a single lessee accounting model. In applying the model, the lessee is required to recognize the asset and liability in respect of the lease in its financial statements. The standard further determines new disclosure requirements that are broader in scope than those that exist today.

IFRS 16 will be applied for annual periods beginning on January 1, 2019. Early adoption is permitted, provided that the company also applies IFRS 15, Revenue from Contracts with Customers. The standard includes different options for applying the transitional provisions, in such manner that, on initially applying the standard, companies may choose to apply a full retrospective approach or to apply the standard commencing on the effective date while adjusting retained earnings for that date.

The Company is yet to assess IFRS 16´s impact, and at this time, no early application is planned.

5 Cash and cash equivalents

	R$	
	31/12/2017	**31/12/2016**
Bank balances	58,436	52,021
Cash on hand	45	41
Short term deposits:		
Deposits in banks (*)	54,629	34,462
	113,110	86,524

(*) Refers to short-term deposits, with high liquidity, classified as financial instruments at fair value through profit and loss, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These deposits refer substantially to overnight deposits, with interest calculated over resources kept in bank account for short periods, with interest currently of 90.6% of the Brazilian Interbank Deposit rate - CDI (in 2016, 37.4% of the Brazilian Interbank Deposit rate - CDI, applicable mainly to investments under repurchase agreements, with immediate liquidity).

6 Deposits

	R$	
	31/12/2017	**31/12/2016**
Deposits with brokers (*)	3,508	2,418
	3,508	2,418

(*) 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$	
	31/12/2017	**31/12/2016**
National customers:		
Third parties	487,516	407,888
Foreign customers	33,228	17,282
Related parties (Note 11)	1,585	892
	522,329	426,062
Less:		
Provision for discounts (a)	(42,826)	(28,148)
Subtotal	479,503	397,914
Provision for doubtful debt accounts (b)	(7,207)	(4,445)
	472,296	393,469

(a) Refers to discounts calculated based on volume rebates. At the end of the year 2017, the Group was in a trend of price decreases, which normally starts with increasing discounts. This trend is due to decrease in green coffee acquisition costs. At the end of the year 2016, the trend was in the opposite direction, and therefore provision for discounts at the end of 2017 increased as presented above.

(b) Provision calculated based on an assessment of past due receivables, adjusted according to an individual analysis of the main customers with overdue debts, considering Management knowledge of the market and collection past record.

The aging of trade receivables at the reporting date was:

	R$	
	31/12/2017	**31/12/2016**
Not past due	432,759	374,220
Past due 1 to 30 days	35,789	16,575
Past due 31 to 60 days	2,413	1,180
Past due 61 to 90 days	1,029	919
Past due 91 to 120 days	166	340
More than 120 days	140	235
	472,296	393,469

In the last month of the year, national chains customers postponed its supplier's payments to the beginning of 2018. Due to that, past due accounts receivables between 1 and 30 days reached amounts above regular average. In the beginning of 2018, the majority of those outstanding accounts receivable was collected.

The movement in the allowance for doubtful debt accounts during the period was:

	R$	
	2017	**2016**
Balance at 1 January	(4,445)	(5,901)
Provision in the year	(3,864)	(5,715)
Write-offs	1,102	7,171
Balance at 31 December	(7,207)	(4,445)

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated, and there is a low level of concentration with the biggest customers. The biggest customer represents 6,06% of 2017 gross revenue (6,27% in 2016).

8 Inventories

	R$	
	31/12/2017	**31/12/2016**
Finished goods	250,103	288,096
Work in progress	291	162
Raw material	51,270	38,967
Packaging and other materials	35,176	28,335
Import in progress	20,237	19,116
Advances to suppliers	15,112	2,487
	372,189	377,163
The individual 31/12/2016 line amounts were re-allocated to better reflect the nature of the inventories, however with the total amount unchanged. The re-allocated amounts are not considered material for quantitative analysis of Financial Statements.		
Carrying amount of inventory pledged as security for financial liabilities (including variable lien)	-	7,175

In 2017 the write-down of inventory to net realizable value amounted to R$ 107 (2016: R$ 818), recorded in the statements of income, as cost of sales.

Inventory includes spare parts and maintenance equipment, which will be used up within one year.

Inventory balances are presented net of provision for obsolescence.

9 Recoverable taxes

	R$	
	31/12/2017	**31/12/2016**
Tax recoverable:		
State VAT - ICMS	22,472	27,068
Federal VAT - PIS and COFINS	7,422	9,172
Other	2,741	1,558
	32,635	37,798

State VAT recoverable is mainly due to operations where advanced VAT was paid at the moment of the goods receipt in the State. However, for those cases where the presumed operation has not taken place due to goods movement to another State, the Company is entitled to a reimbursement of such VAT paid in advance to the State Government (mainly Minas Gerais and São Paulo).

In addition to the above, for green coffee acquisitions in Varginha and Manhuaçu by means of government auctions, where the State VAT of 18% needs to be paid immediately on the purchased amount, it is accumulated as VAT recoverable.

Decrease on State VAT is due to refund from Minas Gerais State Government and higher compensation of VAT credits in the green coffee units of Varginha and Manhuaçu due to the transfer of credits to Montes Claros warehouse and sale of green coffee to the northeast factories.

Federal VAT amounts are due to credits on purchases of packaging materials and freight services linked to local market sales with zero tax rate, as well as presumed credit on green coffee export revenue.

Other refers mainly to IPI (excise tax) credits accumulated at the Frisco factory.

Federal VAT and IPI balances are quarterly compensated with payable amounts due to other taxes managed by Brazilian Federal Revenue.

10 Other current and non-current assets

	R$	
	31/12/2017	**31/12/2016**
Assets:		
Advances to suppliers	300	584
Advances to employees	2,702	2,217
Prepaid expenses	15,156	11,339
Special Bank Deposit for reinvestment	1,919	3,175
Non-current taxes	1,408	1,117
Long-term deposit	2,345	2,865
Sundry	1,606	582
	25,436	21,879
Current assets	(19,238)	(14,114)
Non-current assets	6,198	7,765

Prepaid expenses increased mainly because of marketing and away from home expenses. During the year, the company had marketing expenses as: "Child Hope" (Criança Esperança) campaign, Cirol Coffee Film, Cupids Producers Film, Family Reserve Film, and others. The Away from Home expenses were contracts signed with customers such as Alsaraiva Comércio Empreendimentos and Frans´ Café Franchising Ltda.

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.

The prices and credit terms in respect of transactions with related parties are determined according to customary commercial terms.

	R$	
	31/12/2017	**31/12/2016**
Current assets		
Trade receivables (Note 7)		
3Caffi Indústria e Comércio de Cápsulas S.A.	1,239	-
Strauss Commodities AG	346	892
	1,585	892
Non-current assets		
Loans to related parties		
3Caffi Indústria e Comércio de Cápsulas S.A.	21,479	7,908
	21,479	7,908
Current liabilities		
Trade payables (Note 16)		
Caffitaly System S.p.A. - Foreign supplier	10,229	7,782
3Caffi Indústria e Comércio de Cápsulas S.A. - National supplier	4,291	-
Três Corações Imóveis Arm. Gerais e Serv. Ltda. - National supplier	2,691	4,822
	17,211	12,604
Proposed dividends (Note 23.d)		
Strauss Coffee B.V	22,852	29,634
São Miguel Fundo de Investimento em Participações	22,852	29,634
	45,704	59,268
Interest on equity payable (Note 18)		
Strauss Coffee B.V. (Net of tax withheld)	22,015	20,188
São Miguel Fundo de Participações	25,900	23,750
	47,915	43,938
	110,830	115,810
Profit or loss		
Revenue		
3Caffi Indústria e Comércio de Cápsulas S.A.	8,050	-
Strauss Commodities AG	7,808	4,677
	15,858	4,677
Cost of sales		
3Caffi Indústria e Comércio de Cápsulas S.A.	22,488	-
Caffitaly System S.p.A.	42,406	48,659
Strauss Commodities AG	7,496	4,388
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	2,146	1,993
	74,536	55,040
Sales and general and administrative expenses		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	3,128	2,966
	3,128	2,966

a. Trade receivables, trade payables, and sales

Trade receivables, trade payables and sales balances with related parties are due to operations of purchase and sale of goods. Part of the facilities used by the Group is leased from Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

b. Loans to related party

Refers substantially to loans to 3Caffi Indústria e Comércio de Cápsulas S.A., for the construction of the capsule factory. These loans have due date of 181 days, with interest of 100% of the Brazilian Interbank Deposit rate - CDI.

12 Investments

a. Societary structure

The previously directly controlled 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi") became a joint-venture in 2016, with the participation of shareholder Caffitaly System S.p.A., which started to share the Company control, both Companies with 50% share.

b. Investment balance composition

	R$	
	31/12/2017	**31/12/2016**
3Caffi Indústria e Comércio de Cápsulas Ltda.	4,236	4,211
	4,236	4,211

Investment movement

	R$	
	31/12/2017	**31/12/2016**
Balance at 1 January	4,211	-
New investments	-	4,605
Equity method	25	(394)
Balance at 31 December	4,236	4,211

c. Joint-venture information

	R$	
	3Caffi	
	31/12/2017	31/12/2016
Assets		
Current	21,745	2,140
Non-current	52,261	35,917
	74,006	38,057
Liabilities		
Current	23,673	20,017
Non-current	41,861	9,618
Equity	8,472	8,422
	74,006	38,057
Profit and Loss		
Revenue	28,422	-
(-) Cost of sales	(23,803)	-
(=) Gross profit	4,619	-
Other expenses, net	(4,060)	(701)
(=) Profit before income tax	558	(701)
(-) Income tax expenses	(508)	(87)
(=) Profit for the year	50	(788)

d. Endorsements, guarantees and mortgages, granted in favor of joint venture

The Company granted endorsements in favor of the joint venture, with balances on 31 December, 2017 and 2016 listed below:

	R$	
	3Caffi	
Type of endorsement	31/12/2017	31/12/2016
Legal entity endorsement	8,322	8,648
	/8,322	8,648

13 Fixed assets

Cost	Land and buildings	Machinery and Equipment	Vehicles	Furniture and other equipment	Leasehold improvements	Total
	R$					
Balances as of 31 December 2015	56,138	178,330	49,924	53,969	32,214	370,575
Additions	2,531	14,084	2,910	10,863	6,983	37,371
Interest capitalization	930	-	-	-	-	930
Disposals	-	(45)	(811)	(1,752)	(54)	(2,662)
Transfer between classes of assets	129	(60)	(15)	3,140	557	3,751
Effect of changes in exchange rates	(3,659)	(941)	(10)	(4)	(191)	(4,805)
Balances as of 31 December 2016	56,069	191,368	51,998	66,216	39,509	405,160
Additions	692	33,903	4,458	11,236	10,372	60,661
Interest capitalization	-	-	-	-	1,681	1,681
Disposals	(77)	(149)	(1,002)	(738)	(2,161)	(4,127)
Transfer between classes of assets	(853)	(48)	(54)	6,379	998	6,422
Effect of changes in exchange rates	287	70	1	4	15	377
Balances as of 31 December 2017	56,118	225,144	55,401	83,097	50,414	470,174
Accumulated depreciation						
Balances as of 31 December 2015	(9,428)	(73,337)	(27,789)	(23,229)	(5,658)	(139,441)
Additions	(879)	(11,416)	(5,455)	(6,296)	(1,029)	(25,075)
Disposals	-	12	780	388	44	1,224
Transfer between classes of assets	(23)	(18)	(91)	(106)	(44)	(282)
Effect of changes in exchange rates	521	94	-	2	88	705
Balances as of 31 December 2016	(9,809)	(84,665)	(32,555)	(29,241)	(6,599)	(162,869)
Additions	(1,096)	(9,225)	(6,002)	(8,075)	(1,004)	(25,402)
Disposals	1	28	827	153	1,247	2,256
Transfer between classes of assets	19	22	(62)	273	40	292
Effect of changes in exchange rates	(206)	(16)	1	(6)	(20)	(247)
Balances as of 31 December 2017	(11,091)	(93,856)	(37,791)	(36,896)	(6,336)	(185,970)
Balance net as of						
31 December 2016	46,260	106,703	19,443	36,975	32,910	242,291
31 December 2017	45,027	131,288	17,610	46,201	44,078	284,204

The cost of significant machine overhauls, which prolongs the useful life of the machine, is capitalized.

Leasehold improvements to leased premises are depreciated over the shorter of the expected lease period or the estimated useful life of the asset.

The balance of the trade payables due to fixed assets purchased as of 31 December 2017 is R$ 1,463 (R$ 1,857 as of 31 December 2016), and the balance of loans and borrowings due to fixed assets purchased, including interests, as of 31 December 2017 is R$ 31,128 (R$ 28,886 as of 31 December 2016).

In the year ended 31 December 2017, the amount of R$ 6,714 (R$ 3,454 in the year ended 31 December 2016), regarding TRES machines lent to customers, was transferred from inventories to fixed assets.

The Group did not lease any land or buildings as of 31 December 2017 or 31 December 2016, except for operational leases with Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

14 Intangible assets and goodwill

	R$				
Cost	**Brands and trademarks (*)**	**Computer software**	**Goodwill**	**Other**	**Total**
Balances as of 31 December 2015	3,297	20,517	175,581	14,376	213,771
Additions	113	4,166	-	1,175	5,454
Iguaçu acquisition (Note 2)	11,000	-	28,182	34,400	73,582
Transfer between classes of assets	-	(2)	-	-	(2)
Balances as of 31 December 2016	14,410	24,681	203,763	49,951	292,805
Additions	7,723	5,513	-	10,470	23,706
PPA Iguaçu acquisition (Note 2)	7,330	-	4,690	(12,020)	-
Transfer between classes of assets	37	(590)	159	23	(371)
Balances as of 31 December 2017	29,500	29,604	208,612	48,424	316,140
Accumulated amortization					
Balances as of 31 December 2015	(300)	(11,356)	-	(6,896)	(18,552)
Additions	(360)	(2,887)	-	(2,537)	(5,784)
Transfer between classes of assets	(13)	-	-	-	(13)
Balances as of 31 December 2016	(673)	(14,243)	-	(9,433)	(24,349)
Additions	(433)	(4,680)	-	(4,192)	(9,305)
Transfer between classes of assets		357	-	14	371
Balances as of 31 December 2017	(1,106)	(18,566)	-	(13,611)	(33,283)
Balance net as of					
31 December 2016	13,737	10,438	203,763	40,518	268,456
31 December 2017	28,394	11,038	208,612	34,813	282,857

(*) Only brands and trademarks acquired as a result of 3Corações Sul (incorporated by the controlled company Café Três Corações S.A.) acquisition have definite useful life.

Additions to computer software refer to software acquired by the Company for use in automated process and software licenses acquired, such as:

- In 2017, mainly SAP licenses, Microsoft licenses, Elaw (legal controlling system), Warehouse Management System (implementation in other distribution centers) and ARMS project (accounts receivable reconciliation software).
- In 2016, mainly SAP licenses, Microsoft licenses, SAP business planning and consolidation (BPC), SAP QM module (quality), Warehouse Management System, and the SAP GRC access control update.

Additions to brands and trademarks refer mainly to contracts with Toko in order to buy its brands: Toko, Apollo and Astoria.

The negociation happened as explained bellow:

Description	Toko	Astoria	Apollo	Total
Acquisition of Brands	3,612	400	-	4,012
Non-compete	1,400	-	600	2,000
License Agreement	-	-	2,000	2,000
Purchase Option	-	-	3,000	3,000
Total	5,012	400	5,600	11,012

The Toko brand acquisition was done via Judicial Alienation. The amount of R$ 3,612 was deposited on 29 August 2017 in Minas Gerais Court bank account.

The amount of R$ 400 related to Astoria brand was paid on 28 September 2017.

The amount of R$ 4,000 related to the non-compete and license agreements, and R$ 1,000 related to part of the purchase option were paid on 19 October 2017.

The Group has to make additional payment of R$ 2,000 if, at the end of 5 (five) years from the Toko acquisition, the Group exercises its option to purchase the Apollo brand. The Group has the intention to purchase the brand if there are no contingent problems and the pending issues related to it are resolved. Management understands that, in essence, all amounts above are part of one single acquisition value, even though from a legal perspective, there are different contracts with different legal terms. The whole acquisition value is presented as intangible asset, and the remaining payable amount is presented as Other payables (Note 20).

- Impairment assessment

- As of 31 December 2017 intangible assets include an amount of R$ 236,199 that is attributable to brands (except for those acquired in 3Corações Sul business combination) and goodwill, having an indefinite useful life (31 December 2016 - R$ 216,103). 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 2017 and of 3.0% in 2016. The projected cash flows were discounted according to pre-tax discount rates of 9.7% in 2017 and of 9.6% in 2016.

Both 2017 and 2016 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 2017 and 2016, the Group did not recognize any impairrment loss from the operation. Short and long term loans

a. Loans schedule

	Annual interest rate			R$	
	31/12/2017	**31/12/2016**		**31/12/2017**	**31/12/2016**
Brazilian reals loans and borrowings					
Loans for acquisition of machines and vehicles	7.22	5.94	TJL	31,128	28,886
Incentivized loan for projects in development regions (FNE)	7.50	7.50	-	1,383	6,883
Working capital loans *	6.93	14.22	CDI	267,297	180,873
Loans for acquisition of green coffee *	-	9.88	-	-	67,261
(*) The 2016 amounts were re-allocated to better reflect nature of the loans, with the total remaining unchanged. The re-allocated amounts are not considered material for quantitative analysis of Financial Statements.					
				299,808	283,903
United States dollar loans and borrowings					
Loans for acquisition of inventories (ACC)	2.27	2.26	-	75,950	116,331
Loans for acquisition of inventories (PPE)	-	3.15	-	-	32,813
				75,950	149,144
Total loans and borrowings				375,758	433,047
(-) Current liabilities				(224,233)	(298,804)
(=) Non-current liabilities				151,525	134,243

There are no debt covenants on the Group's loans and borrowings contracts with the banks.

b. Non-current payment schedule

	R$	
	31/12/2017	**31/12/2016**
13 to 24 months	39,706	116,317
25 to 36 months	102,034	5,290
37 to 48 months	5,738	4,923
49 to 60 months	2,019	3,854
Thereafter	2,028	3,859
	151,525	134,243

c. Guarantees

The following liens have been provided as security for the liabilities of the Group:

	R$	
	31/12/2017	**31/12/2016**
Pledges registered in favor of the banks	65,853	57,413
Mortgages registered in favor of the banks	29,263	29,263
	95,116	86,676

d. Reconciliation between financial position movement and cash flows from financing activities

R$

	Note	Short and long term loans (2017)	Proposed dividends (2017)	Interest on equity payable (2017)	Total (2017)	Short and long term loans (2016)	Proposed Dividends (2016)	Interest on equity payable (2016)	Total (2016)
Balance as of 31 December of Prior Year		433,047	59,268	43,938	536,253	378,789	134,549	-	513,338
Cash flows from financing activities items:									
Proceeds from loans		503,937	-	-	503,937	464,656	-	-	464,656
Repayment of loans		(564,067)	-	-	(564,067)	(389,261)	-	-	(389,261)
Interest on equity paid	18	-	-	(43,938)	(43,938)	-	-	-	-
Dividend paid	23.d	-	(59,280)	-	(59,280)	-	(101,446)	-	(101,446)
Total cash flows used in financing activities		(60,130)	(59,280)	(43,938)	(163,348)	75,395	(101,446)	-	(26,051)
Other items:									
Interest and exchange rate variation expenses		36,143	-	-	36,143	10,096	-	-	10,096
Interest and exchange rate variation payments		(35,409)	-	-	(35,409)	(29,851)	-	-	(29,851)
Proceeds from investment loans		7,635	-	-	7,635	3,974	-	-	3,974
Repayment of investment loans		(5,528)	-	-	(5,528)	(5,356)	-	-	(5,356)
Dividend provisioned	23.d	-	45,716	-	45,716	-	26,165	-	26,165
Interest on equity credited	18	-	-	51,800	51,800	-	-	47,500	47,500
Withholding income tax	18	-	-	(3,885)	(3,885)	-	-	(3,562)	(3,562)
Total other items		2,841	45,716	47,915	96,472	(21,137)	26,165	43,938	48,966
Balance as of 31 December of the Year		375,758	45,704	47,915	469,377	433,047	59,268	43,938	536,253

15 Trade payables

	R$	
	31/12/2017	31/12/2016
National suppliers	186,147	116,811
National Related party suppliers (Note 11)	6,982	4,822
Foreign suppliers	30,317	21,728
Foreign Related party suppliers (Note 11)	10,229	7,782
The individual 31/12/2016 line amounts were re-allocated to better reflect the nature of the trade payables, however with the total amount unchanged. The re-allocated amounts are not considered material for quantitative analysis of Financial Statements.	233,675	151,143

The main reason of the variation in National suppliers balance is the renegotiation of payment of packaging and green coffee purchases (R$ 39,622).

16 Employees and other payroll related liabilities

	R$	
	31/12/2017	31/12/2016
Payroll and related charges	7,905	6,814
Provision for vacation	27,486	22,426
Provision for variable remuneration	13,312	12,081
Other	1,459	813
	50,162	42,134

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 Interest on equity payable

The Company, in Extraordinary Shareholders´ Meeting held on a monthly basis through 2017, approved recommendation of the Board of Directors for the distribution of Interest on equity for the year ended 31 December 2017, in the total amount of R$ 51,800, to be paid before the end of 2018 (R$ 47,500 for the year ended 31 December 2016).

On the amount mentioned above, there is shareholders´ income tax to be withheld at source, in the amount of R$ 3,885 (R$ 3,563 in the year ended 31 December 2016), already reduced from the Interest on equity payable balance.

18 Payable taxes

	R$	
	31/12/2017	**31/12/2016**
Tax payable:		
State VAT - ICMS	20,354	21,824
Federal VAT - PIS and COFINS	375	95
IRRF	-	3,563
Other	3,247	2,242
Total	23,976	27,724

19 Other current and non-current liabilities

	R$	
	31/12/2017	**31/12/2016**
Liabilities:		
Advances from customers	907	1,122
Accounts payable for acquisition of operations - Iguaçu	2,722	21,535
Accounts payable for acquisition of operations - Fino Grão	3,026	2,799
Accounts payable for acquisition of operations - Cyrol	225	-
Accounts payable for acquisition of operations - Toko (note 14)	2,000	-
Other provision - marketing services	423	1,945
Payable for acquisition of fixed assets	1,463	1,857
Handling commission	527	522
Provision for freights	3,153	2,091
Provision for lawyers' fees	2,646	1,942
Sundry	6,807	5,087
Total	23,899	38,900
Current liabilities	(19,856)	(36,335)
Non-current liabilities	4,043	2,565

20 Provision for legal proceedings

Based on information from its legal advisors, an analysis of the pending legal proceedings, and previous experience with regards to amounts claimed, the Group recorded provisions for amounts considered sufficient to cover probable losses from current legal actions. The amounts of probable and possible losses with respect to legal and administrative actions against the Group are as follows:

	R$					
	31/12/2017			31/12/2016		
	Probable loss	**Possible loss**	**Remote loss**	**Probable loss**	**Possible loss**	**Remote loss**
Labor*	14,006	91,007	168,342	14,748	52,559	121,446
Tax**	3,544	50,629	162,610	4,255	22,120	149,971
Civil	616	6,368	8,757	515	8,139	8,475
	18,166	148,004	339,709	19,518	82,818	279,892

(*) The company and its subsidiaries are parties to a number of labor claims filed by former employees and service providers challenging, among other things, unpaid overtime, night shift premiums and risk premiums, employment guarantees, and the reimbursement of withholdings from payroll such as social contributions and trade union charges, among others. As of 31 December 2017, total quantity of labor claims was 478 (476 as of 31 December 2016).

(**) Tax claims details by type are demonstrated in the following table:

	R$					
	31/12/2017			31/12/2016		
	Probable loss	**Possible loss**	**Remote loss**	**Probable loss**	**Possible loss**	**Remote loss**
State VAT - ICMS	1	11,219	25,004	1	10,525	16,654
Federal VAT - PIS/COFINS/IPI	2,749	4,735	118,409	3,931	4,449	103,310
Income taxes (IRPJ/CSLL)	348	29,302	11,460	-	(2,227)	25,856
Social contribution (INSS)	-	5,224	3,837	-	4,781	3,542
Other	446	149	3,900	323	138	609
	3,544	50,629	162,610	4,255	22,120	149,971

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. As of 03 October 2017 the Goodwill Amortization process was judged in the Superior Chamber of Tax Appeals of CARF (Federal Administrative Court). After prevailing at the first administrative level, the Group lost the process on appeal, but only by a quality vote, which provides good basis for taking the issue to the judicial level. The quality vote occurs when there is a tie (4 x 4), and the final decision is left to the president of the session (always a judge on the Government side). The Group and its tax advisors are still of the opinion that the there is no need to record any liability. The Group obtained an updated Legal Opinion from an independent legal office that classified this process as possible loss. As of 31 December 2017 the amount of the legal claim was R$ 27,414 (R$ 25,856 as of 31 December 2016). The claim amount increased due to interest incurred;

- Federal VAT (PIS/COFINS) credits - tax authorities claim that the Group (together with most of other coffee companies in Brazil) had purchased green coffee from de facto, but not legally constitutedcompanies 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 2017 to R$ 60,957 (R$ 57,702 as of 31 December, 2016). Part of the total amount, R$ 1,849 (R$ 1,751 as of 31 December 2016), had its risk of loss reviewed to probable, and it is provisioned in December 2017. Another part of the total amount, R$ 3,694 (R$ 3,496 as of 31 December 2016) was classified as possible loss. For the remaining amount, the Group and its tax advisors are of the opinion that there is no need to record any liability. The increase is due to the interest incurred.

- Federal excise tax (IPI) - tax authorities claim the tax treatment applied, in respect to federal tax IPI - imposed on certain industrialized goods (powder juice) was incorrect. According to the Company's understanding of the regulation, powder juice is a product classified as entitled to zero IPI tax. According to the tax authorities, the Company should have used tax rates of 27% for the period from January 2011 to December 2011, 20% for the period from January 2012 to May 2012 and 10% since June 2012. The total updated claim, as of 31 December 2017 is R$ 59,910 (R$ 37,537 as of 31 December 2016). The Group and its tax advisors are of the opinion that there is no need to record any liability. There increase is mainly related to a new claim received in 2017, regarding the period from April 2014 until December 2014, in the amount of R$ 16,208. The remaining increase is due to interest incurred.

The legal claims detailed above, except for the mentioned part of the Federal VAT (PIS/COFINS) and Goodwill claims, are classified as remote loss as of 31 December 2017 and 2016 (Goodwill claim was classified as remote loss in 2016).

Changes in provision for legal proceedings during the year

	R$	
	2017	**2016**
Balance as of 1 January	19,518	20,688
Provisions made during the year	2,260	1,577
Legal proceedings closed during the year	(3,612)	(2,747)
Balance as of 31 December	18,166	19,518

Judicial deposits

The Group has, as of 31 December 2017, the amounts of R$ 8,655 of judicial deposits (R$ 8,780 as of 31 December 2016). These deposits are required by courts associated with various open legal proceedings and comprise a number of individual case deposits of smaller amounts.

21 Income taxes and social contribution

a. Amounts recognized in profit and loss

	R$	
	31/12/2017	**31/12/2016**
Current taxes	36,224	38,616
Deferred taxes	734	6,115
Tax in income statement as of 31 December	36,958	44,731

b. Reconciliation of effective tax rate

	R$	
	31/12/2017	**31/12/2016**
Income before taxes on income	293,018	233,539
Income tax expenses (34%)	99,626	79,403
Adjustments to reconcile to effective tax rate:		
State VAT incentives	(23,121)	(18,483)
Foreign exchange effects of foreign operation	209	4,778
Benefit of Goodwill amortization for tax purposes	(3,999)	(2,401)
Federal incentive - "Exploration profit"	(20,024)	(7,986)
Federal incentive - "Re-investment"	(984)	(480)
Interest on equity credited	(17,612)	(16,150)
Incineration of goods and inventory write-offs	2,457	2,638
Other	406	3,412
Tax in Income Statement	36,958	44,731
Effective tax rate	12.61%	19.15%

At the end of the year 2017 Management changed the calculation of the federal incentive of "Exploration profit". Based on the analysis of the legislation, there is no need to exclude interest on equity declared from the calculation basis. The Group and its tax advisors are of the opinion that there is no tax risk related to this change of procedure.

c. Deferred income tax assets and liabilities

Temporary differences	Basis	Income tax (*)	Social contribution (9%)	R$ 31/12/2017	R$ 31/12/2016
Provision for legal proceedings	18,164	3,894	1,635	5,529	5,693
Inventory adjustments	5,513	1,030	496	1,526	1,353
Provision for doubtful debt accounts	7,210	1,311	649	1,960	1,217
Derivatives transactions	12,681	2,354	1,141	3,495	6,990
Provision for discounts	42,376	7,472	3,814	11,286	7,677
Provision for variable remuneration	17,825	3,325	1,604	4,929	4,044
Provision for revenue recognition	2,881	503	259	762	844
Fixed assets revaluation	(5,824)	(1,456)	(524)	(1,980)	(2,091)
Goodwill amortization	(92,263)	(12,151)	(8.304)	(20,455)	(20,455)
Carryforward tax losses	-	-	-	-	5,711
Exchange rate variation cash basis	(12,515)	(2,138)	(1,126)	(3,264)	(6,530)
Profit elimination on inventory	3,009	752	271	1,023	1,206
Other	(558)	(559)	(50)	(610)	(724)
Total net deferred tax	(1,501)	4,336	(135)	4,201	4,935
Non-current assets				11,017	14,299
Non-current liabilities				(6,816)	(9,364)

(*) Income tax rate (excluding the Social contribution) is 25%, applicable to all Group's subsidiaries. However, as the Company has tax incentives (see Note 23.e), the Group´s future average income tax rate expected to be applied when the deferred tax is realized or settled, is 13.17%.

In assessing the recoverability of deferred tax assets, Management estimates future taxable income and the timing of reversal of the temporary differences. When it is more likely than not that a part or all of the deferred tax assets are not recoverable, such a portion is not recorded by the Company. Under Brazilian tax law, tax loss carry forwards (including those of the Social contribution) do not expire, however, their use is limited to up to 30% of annual taxable income and they do not benefit from any interest or monetary correction.

Considering the occurrence of taxable profit in recent years, the Group assessed the future taxable profits in order to calculate deferred tax asset on accumulated losses. One of the Group subsidiaries, Café Três Corações S.A., has no accumulated losses as of 31 December 2017 (31 December 2016, R$ 16,796).

Other subsidiary, Principal Comércio e Indústria de Café Ltda. has, as of 31 December 2017, R$ 9,436 (31 December 2016, R$ 7,945) of accumulated losses. However, due to history of recent losses, it is more probable than not that in the foreseeable future the accumulated losses will not be used.

22 Equity

a. Share capital

As of 31 December 2017 and 2016, Três Corações Alimentos S.A.´s share capital is comprised of the following:

	R$		
Shareholders	**31/12/2017**	**31/12/2016**	**%**
Strauss Coffee B.V.	136,721.18	136,184.9	50%
São Miguel Fundo de Investimento em Participações	136,721.18	136,184.9	50%
	273,442.36	272,369.8	

Share capital as of 31 December 2016 was comprised of 27,236,985,298 shares with a nominal value of R$ 0.01 (one cent) each. On 24 February 2017, an increase in share capital with resources from tax incentive of re-investment, in the amount of R$ 1,072 took place. As a result, 107,250,938 shares with a nominal value of R$ 0.01 (one cent) were issued.

b. Translation adjustments

Management decided to use two different functional currencies, according to IAS 21 - Effects of changes in foreign exchange rates. For internal market operations, the functional currency is the Brazilian real (R$). For the green coffee export activity, the functional currency is the United States dollar (US$).

Management assessed the Company operations in order to present its green coffee export activity as a "foreign operation", as established by IAS 21 - Effects of changes in foreign exchange rates, and, thereby, could apply separate accounting for the purposes of consolidation.

The main reasons to treat the green coffee export activity as a separated operation were:

- The export activity has its own management, which is considered independent in terms of decisions about green coffee purchases and sales (export entity).

- The exchange rate effects recorded in the translation adjustments arise from the following assets and liabilities, for the years ended on 31 December 2017 and 2016:

	R$		
31/12/2017	**Três Corações Alimentos**	**Café Três Corações**	**Total**
Inventories	-	6,565	6,565
Fixed assets	81	49	130
Trade receivables	-	1,708	1,708
Derivatives	11	50	61
Cost of sales	-	(196)	(196)
Loans and borrowings	-	(957)	(957)
Total	92	7,219	7,311

	R$		
31/12/2016	**Três Corações Alimentos**	**Café Três Corações**	**Total**
Inventories	-	(3,682)	(3,682)
Fixed assets	(3,231)	(869)	(4,100)
Trade receivables	-	(2,023)	(2,023)
Derivatives	(90)	(211)	(301)
Cost of sales	-	450	450
Loans and borrowings	-	15,928	15,928
Total	(3,321)	9,593	6,272

c. Revaluation reserve (subsidiary)

Created at the subsidiary Café Três Corações S.A., based upon valuation report issued by independent specialists, the revaluation reserve is being realized through depreciation or disposal of the revalued assets against retained earnings, net of tax effects.

Management decided to maintain the revaluation reserve balance until its full realization, according to Brazilian Law 11,638/07.

d. Dividends

Dividends are calculated in accordance with the terms agreed upon in the Shareholders´ Agreement, with rate of 35% over net income, adjusted by financial results. This amount is provisioned as proposed dividend in the balance sheet, subject to the approval by the General shareholders meeting.

On 28 April 2017, the dividends related to 2016 profit were approved by the General shareholders´ meeting in the amount of R$ 72,232, which represents additional R$ 12 when compared to the original provision, made in December of 2016 based upon Management's proposal. The amount of R$ 72,232 includes the amount of R$ 47,500 payable as interest on equity, with the remaining R$ 24,732 to be paid as dividends.

In June 2017, the second half of the remaining dividends from the year ended on 31 December 2014, in the amount of R$ 34,548 was paid.

The approved dividends of R$ 24,732 and interest on equity of R$ 47,500 were both paid in December 2017.

The Management's proposal for 2017 profit destination is to pay dividend in the amount of R$ 45,704 in December 2018, after the credit of interest on equity, in the amount of R$ 51,800 (over this amount there is the shareholders´withholding income tax of R$ 3,855 - Note 18).

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$	
	31/12/2017	**31/12/2016**
Profit for the year (*)	256,130	189,852
	5%	5%
Legal reserve (*)	12,806	9,493
Legal reserve balance as of 1 January	42,209	32,716
Addition in the period	12,806	9,493
Legal reserve balance as of 31 December, before limit check	55,015	42,209
Legal reserve limit - 20% of share capital	54,688	54,474
Legal reserve addition, before limit check	12,806	9,493
Legal reserve not created due to limit check	(327)	-
Legal reserve addition, after limit check	12,479	9,493

(*) 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$ 70 in 2017. In 2016, the amount of un-realized profit in intercompany transaction eliminated was R$ 1,044.

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 2017, the Company received government grants in the amount of R$ 54,730 (R$ 36,740 in the year ended 31 December 2016). The tax incentive reserve cannot be distributed as dividends. If the Company distributes it in the future, the amounts have the following treatment depending on the incentive:

- Federal incentives - the amount of income taxes not paid and distributed as dividends, must be paid as back taxes, as if there was no incentive;
- Other incentives - the amount distributed must be added back to the taxable income used for calculating income tax and social contribution, under a combined rate of up to 34% in the period of the distribution, and will be also subject to PIS and COFINS taxes (currently 9.25%) on the distributed amount.

These government incentives are as follows:

PROVIN - Ceará State

The Government of the State of Ceará, in accordance with the state public policies geared towards promoting the industrial development of Ceará, decided to provide financial assistance for the investments necessary for installation of the industrial unit in the city of Eusébio, State of

CE. The incentive consists of the postponement of payment of the ICMS state VAT tax and the deduction of 56.25% of total sales of roasted and ground coffee. The incentive is valid until July 2018. In order to maintain the incentive, the Company committed to: (a) finalize appropriately the investment project; (b) utilize the incentives exclusively for the project; (c) have no overdue tax and labor obligations; (c) keep the headquarters in the State of Ceará and have no changes in the Company's ownership involving third parties for the duration of the incentive contract, currently until July of 2018.

The Group has already started the renewal process of the State incentive for another 10 years.

PROADI - Rio Grande do Norte State

The government of the State of Rio Grande do Norte, in the interest of the development of this State, decided to grant financial assistance to the investments necessary for the Group industrial units in the cities of Natal and Mossoró. The benefit consists of the postponement of payment of the tax and the subsequent deduction of up to 75% of ICMS state VAT payable. In order to maintain the incentive, the Company committed to having no overdue tax and labor obligations and keeping the plants related to the project in the State of Rio Grande do Norte.

The incentives are valid at least until March 2020 (Mossoró unit) and October 2018 (Natal unit).

The group has already started the renewal process of the State incentive of Natal unit for another 10 years.

Other

The Group has received certain tax incentives and special tax regimes also in other Brazilian states.

State Tax Stability Funds (FEEF)

A requirement of maintaining the necessary tax balance, considering Brazilian economic scenario, led the Federal Government to provide for establishment of the State Tax Stability Funds (FEEF). The funds establish temporary additional VAT tax payments, to be made by companies with existing tax incentives granted by the individual states.

Considering state tax incentives applicable to the Group, only Ceará and Paraíba States' regulations are applicable at this time. The Ceará FEEF is applicable during 24 months, from 1 September 2016 to 31 August 2018 and the Paraíba FEEF during 30 months, starting 1 October 2016 to February 2019, and may be extended for thirty more months. On the other side, both states extend the subject tax incentives for an additional period equal to the period of this temporary collection - in case of Paraíba - and for double of such period in case of Ceará.

From January, 2018, the State of Rio Grande do Norte will also have a fund called FUNDERN. It is similar to Ceará FEEF. FUNDERN is applicable during 24 months, from 1 January 2018 to 31 December 2019 and may be extended for twenty and four more months in case of a permanent fiscal imbalance of the State.

The Fund's purpose is to assure a minimum increase of 10% in VAT payments of incentivized companies. This way, in case VAT payable amount of a specific month has increased less than 10% compared to the same month in previous year, an additional payment must be made in order to achieve the minimum 10% of total increase.

In the year ended 31 December 2017, total contributions to FEEF were R$ 279 (R$ 256 in the year ended 31 December 2016).

Federal incentive - "Re-investment"

The Group is allowed to allocate part of its income tax payable to capital investments. The projects associated with these investments are submitted to the authorities' approval.

The allocated amount is recognized in profit or loss at the moment of the Group's decision to proceed, since there is reasonable assurance the grant will be approved.

Federal incentive - "Exploration profit"

The Group benefits from the income tax exemption of 75% of the operating income derived from its main activities at the units of Eusébio (State of Ceará), Natal and Mossoró (State of Rio Grande do Norte).

According to the rules for income tax government grants, until 2007 the amount, for local purposes, was charged directly to capital reserve - investment subsidy. Starting 2008, due to the effects of Law 11,638/07, the amount is charged to profit or loss, and then set aside from profit for the year to retained earnings - tax incentives.

Reserve for profit to be distributed

Management decided to create reserve for profit to be distributed, for the remaining profit after all destinations above.

23 Revenue

	R$	
	2017	**2016**
Gross revenue:		
Products - domestic	4,152,661	3,399,576
Products - foreign	259,381	236,143
Services	272	343
Other	205	217
Taxes on sales	(319,337)	(254,832)
Deductions	(373,283)	(278,573)
	3,719,899	3,102,874

24 Cost of sales by nature

	R$	
	2017	**2016**
According to source		
Cost of sales - domestic	(2,467,539)	(2,074,464)
Cost of sales - foreign	(249,873)	(211,684)
	(2,717,412)	(2,286,148)

	R$ 2017	R$ 2016
According to components		
Materials consumed	(2,615,825)	(2,194,609)
Wages, salaries and related expenses	(47,313)	(42,238)
Depreciation and amortization	(13,362)	(11,479)
Services contracted	(11,455)	(8,311)
Maintenance	(6,255)	(5,556)
Other	(23,202)	(23,955)
	(2,717,412)	(2,286,148)

25 Selling and marketing expenses by nature

	R$ 2017	R$ 2016
Wages, salaries and related expenses	(256,073)	(212,828)
Depreciation and amortization	(16,726)	(13,954)
Transport expenses	(102,340)	(82,428)
Export expenses	(6,420)	(4,853)
Services contracted	(38,531)	(35,653)
Marketing	(110,751)	(90,840)
Travel expenses	(8,632)	(7,524)
Other	(32,715)	(24,621)
	(572,188)	(472,701)

26 General and administrative expenses by nature

	R$ 2017	R$ 2016
Wages, salaries and related expenses	(54,579)	(46,158)
Tax expenses	(6,713)	(4,488)
Depreciation and amortization	(4,619)	(5,869)
Services contracted	(25,923)	(20,568)
Provision for legal proceedings	1,352	1,170
Travel expenses	(4,744)	(3,514)
Other	(13,886)	(10,454)
	(109,112)	(89,881)

27 Finance expenses, net

	R$	
	2017	**2016**
Finance expenses		
Interest expenses	(1,822)	(3,332)
Interest on loans and borrowings	(32,990)	(28,120)
Exchange rate effect	(1,801)	3,288
Other	(3,554)	(4,402)
	(40,167)	(32,566)
Finance income		
Interest income	5,091	4,504
Interest from deposits	6,848	6,800
Sundry	49	22
	11,988	11,326
	(28,179)	(21,240)

28 Financial instruments and risk management

Financial instruments by category

	R$	
	31/12/2017	**31/12/2016**
Financial assets		
Financial instruments at fair value through profit or loss		
Short term deposits - Deposits in banks (Note 5)	54,629	34,462
Deposits with brokers (Note 6)	3,508	2,418
Loans and receivables		
Cash and cash equivalents (Note 5)	58,481	52,062
Trade receivables with third parties (Note 7)	470,711	392,577
Trade receivables with related parties (Note 7)	1,585	892
Loans to related parties (Note 11)	21,479	7,908
Other	32,383	28,958
Financial liabilities		
Financial liabilities measured at amortized cost		
Trade payables (Note 16)	233,675	151,143
Loans and borrowings (Note 15)	375,758	433,047
Distribution to shareholders (Notes 23.d and 18)	93,619	103,206
Payables for acquisition (Note 20)	7,973	24,334
Other	15,019	13,444

Risk management

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk
- Commodity price risk

- Interest rate risk
- Foreign currency risk
- Liquidity risk
- Capital structure risk.

This note provides information regarding the exposure of the Group to these risks and regarding the policy of the Group for management of such risks.

Forward transactions sensitivity analyses are determined according to the changes in the price of the relevant underlying asset and interest differences deriving from interest rates and storage costs (for green coffee).

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 and cash and cash equivalents balances held at financial institutions. In order to mitigate this risk, the Group assesses the financial situation of its customers or counterparties, as well as defines credit limits and monitors outstanding debts and operates with first line financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	R$	
	31/12/2017	**31/12/2016**
Cash and cash equivalents (Note 5)	113,110	86,524
Deposits with brokers (Note 6)	3,508	2,418
Trade receivables (Note 7)	472,296	393,469
Other receivables	6,653	5,664
Other	10,574	11,955
	606,141	500,030

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated. The biggest customer represents 6.06% of 2017 gross revenue (6.27% in 2016).

In addition, provision for doubtful debt accounts amounts to R$ 7,207 as of 31 December 2017 (R$ 4,445 as of 31 December 2016), which represents 1.53% (1.12% as of 31 December 2016) 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 it fixed future sales agreements by both physical inventory, fixed future purchase agreements and uses financial derivatives to a limited extent. Below is a table with the quantities of bags (60 kg each) which the Group was committed to purchase or sell in the future, as of 31 December 2017 and 2016:

	31/12/2017	**31/12/2016**
Purchase agreements:		
Fixed price	42,897	88,850
Sales agreements:		
Fixed price	40,440	117,987
Price to be fixed	103,320	160,360

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 2017 and 2016, there were no open derivatives positions and no sensitivity analysis was required. Management has focused its hedging for green coffee prices variations in purchase and sales agreements, presented above.

c. *Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group does not normally use derivative financial instrument in order to reduce exposure to risks arising from changes in interest rates.At the reporting date the interest rate profile of the Group's interest bearing financial instrument was:

	Carrying amount	
	31/12/2017	**31/12/2016**
	R$	
Fixed rate instruments		
Financial liabilities	(27,573)	(138,700)
Variable rate instruments		
Financial assets	58,137	36,880
Financial liabilities	(348,185)	(294,347)
Net exposure	(317,621)	(396,167)

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 2017				
	Decrease of 2%	**Decrease of 1%**	**Annual weighted interest**	**Increase of 1%**	**Increase of 2%**
			R$		
Total	5,801	2,900	(24,735)	(2,900)	(5,801)

	31 December 2016				
	Decrease of 2%	**Decrease of 1%**	**Annual weighted interest**	**Increase of 1%**	**Increase of 2%**
			R$		
Total	5,149	2,575	(12,313)	(2,575)	(5,149)

Fair value sensitivity analysis for fixed rate instruments

Fixed interest assets and liabilities of the Group (such as deposits and loans) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as of the report date would not have an effect on the statement of income.

Inflation rate

Brazilian inflation was 2.95% for the year ended 31 December 2017 as measured by the IPCA consumer price index of the independent Fundação Getúlio Vargas, which represents significant reduction from the 6.29% in 2016 and the Brazilian economy is not considered as hyperinflationary according to IAS 29 - financial reporting on hyperinflationary economies. However, Management is aware of the high inflation rates impact on the Group´s financial statements.

d. Foreign currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	Exposure to US$	
	R$	
	31/12/2017	31/12/2016
Financial liabilities		
Short term loans and credit	(75,950)	(149,144)
Total exposure	(75,950)	(149,144)

Sensitivity analysis to currency risk

Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December would have increased (decreased) equity and the income or loss by the amounts presented below. This analysis was performed assuming that all the other variables remain the same and disregards use of hedging instruments and tax effects.

The sensitivity analysis relates to foreign currency risk arising from financial items denominated in foreign currency that is not the functional currency of the Group and its investee companies. Therefore, the foreign currency risk arising from the translation of financial statements of foreign operations, which is reflected in a translation reserve, is not included in this sensitivity analysis.

31 December 2017	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
			R$		
Functional currency BRL/USD exchange rate	2.9772	3.1426	3.3080	3.4734	3.6388
Effect in R$ Thousand	7,595	3,798	(75,950)	(3,798)	(7,595)

31 December 2016	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
			R$		
Functional currency BRL/USD exchange rate	2.9332	3.0961	3.2591	3.4221	3.5850
Effect in R$ Thousand	14,914	7,457	(149,144)	(7,457)	(14,914)

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 2017, the derivative financial instruments of the Group were as follows:

	Currency receivable	**Currency payable**	**Expiration/ Maturity/ sale**	**Face value R$**
Forward currency contracts	US$	R$	February/2018	38,119

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as of 31 December 2017 and 31 December 2016 in R$. Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December, would have increased (decreased) the income or loss and the equity by the amounts presented below (in R$). This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

31 December 2017

	Decrease of 10%	**Decrease of 5%**	**Exchange rate carrying amount**	**Increase of 5%**	**Increase of 10%**
			R$		
Functional currency BRL/USD exchange rate	2.9772	3.1426	3.3080	3.4734	3.6388
Effect of forwards	(3,804)	(1,902)	(92)	1,902	3,804

31 December 2016

	Decrease of 10%	**Decrease of 5%**	**Exchange rate carrying amount**	**Increase of 5%**	**Increase of 10%**
			R$		
Functional currency BRL/USD exchange rate	2.9332	3.0961	3.2591	3.4221	3.5850
Effect of forwards	(2,200)	(1,100)	(10)	1,100	2,200

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 2017							
	Carrying amount	Contractual cash flow	2017	2018	2019	2020	2021	Thereafter
				R$				
Non-derivative financial liabilities:								
BRL long term loan	151,525	166,014	-	10,217	43,437	102,366	5,860	4,134
BRL credit from bank	148,283	152,877	152,877	-	-	-	-	-
USD credit from bank	75,950	76,808	76,808	-	-	-	-	-
Trade payables	233,675	233,675	233,675	-	-	-	-	-
Other payables	73,154	73,154	73,154	-	-	-	-	-
Total	682,587	702,528	536,514	10,217	43,437	102,366	5,860	4,134

	31 December 2016							
	Carrying amount	Contractual cash flow	2016	2017	2018	2019	2020	Thereafter
				R$				
Non-derivative financial liabilities:								
BRL long term loan	134,243	150,264	-	131,551	5,659	5,141	3,966	3,947
BRL credit from bank	149,660	156,405	156,405	-	-	-	-	-
USD credit from bank	149,144	150,964	150,964	-	-	-	-	-
Trade payables	151,143	151,143	151,143	-	-	-	-	-
Other payables	79,912	79,912	79,912	-	-	-	-	-
Total	664,102	688,688	538,424	131,551	5,659	5,141	3,966	3,947

f. _Capital structure management_

Management policy is to maintain a solid capital base in order to maintain investors´ and market trust, as well as to maintain the future development of the business. Management monitors returns on capital, which the Group defines as the relation between operational profit and total equity. Management monitors as well the dividend amounts distributed to the shareholders.

Management seeks to maintain a balanced level of returns to the shareholders with low risk level of net debt and a healthy capital structure.

The Group's equity and working capital versus net debt at the end of each year are presented below:

	R$	
	31/12/2017	**31/12/2016**
Debt (Note 15)	375,758	433,047
Less: cash and cash equivalent (Note 5)	(113,110)	(86,524)
Net debt	262,648	346,523
Total equity	818,792	652,937
Equity/net debt ratio as of 31 December	3.12	1.88
Trade receivables (Note 7)	472,296	393,469
Inventories (Note 8)	372,189	377,163
Trade payables (Note 16)	(233,675)	(151,143)
Total working capital	610,810	619,489
Working capital/net debt ratio as of 31 December	2.33	1.79

Fair value

As of 31 December 2017 and of 2016, the fair value of financial instruments, as well as the carrying amounts presented in the financial statements are identified below:

	R$			
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	31/12/2017	**31/12/2017**	**31/12/2016**	**31/12/2016**
Financial assets				
Short term deposits - Deposits in banks (Note 5)	54,629	54,629	34,462	34,462
Deposits with brokers (Note 6)	3,508	3,508	2,418	2,418
Cash and cash equivalents (Note 5)	58,481	58,481	52,062	52,062
Trade receivables with third parties (Note 7)	470,711	470,711	392,577	392,577
Trade receivables with related parties (Note 7)	1,585	1,585	892	892
Loans to related parties (Note 11)	21,479	21,479	7,908	7,908
Other	32,383	32,383	28,958	28,958
Financial liabilities				
Trade payables (Note 16)	233,675	233,675	151,143	151,143
Loans and borrowings (Note 15)	375,758	317,393	433,047	364,032
Distribution to shareholders (Notes 23.d and 18)	93,619	93,619	103,206	103,206
Payables for acquisition (Note 20)	7,973	7,973	24,334	24,334
Other	15,019	15,019	13,444	13,444

The fair value of financial assets and liabilities is determined by reference to price at which they could be exchanged in a current transaction between parties willing to negotiate, and not in a forced sale or liquidation. The following methods and assumptions were used to estimate the fair value:

- Regarding derivative balances, the Group used the fair value reported in the brokers' statements, which is identified in the Fair value hierarchy as the Level 2 of source of information.
- The amounts of deposits presented in the financial statements as cash and cash equivalents are close to its realizable value because the operations are performed at variable interest rate and are immediately convertible to a determined amount of cash.
- The fair value of non-negotiable instruments, bank loans and other debts, as well as other non-current financial liabilities, are estimated using discounted future cash flows at the rates currently available for similar instruments.

Fair value hierarchy

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

- **Level 1:** quoted prices in an active market for identical assets and liabilities;
- **Level 2:** other techniques for which all of the data having a significant effect on the fair value recorded are observable, directly or indirectly;
- The fair value of assets and liabilities that are not quoted in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is considered as valued from Level 3 source of information.

  Specific valuation techniques that might be used to value financial instruments in general include:

(i) Quoted market prices or dealer quotes for similar instruments;

(ii) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

(iii) Other techniques, such as discounted cash flow analysis, are used to determine fair value of 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 2017 and 2016, the Group had no financial instruments classified at Level 3.

29 Insurance

The Group hires insurance coverage for assets exposed to risks. The Management believes the coverage is in an amount sufficient to cover eventual losses, considering the nature of the Group's activities.

On 31 December 2017, insurance coverage against operational risk comprised R$ 81,208 (R$ 79,190 on 31 December 2016) for material damage, R$ 147,103 (R$ 128,348 on 31 December 2016) for lost profits, R$ 6,000 (R$ 3,500 on 31 December 2016) for civil responsibility and R$ 15,000 (R$ 15,000 on 31 December 2016) for directors and members of the executive team civil responsibility.