



Israel is experiencing one of the most difficult, challenging phases in its history. The events of 2023 cannot merely be reflected in numbers and graphs; ignoring the force of the horrors we were exposed to is impossible.

The monstrous acts of terrorism of October 7 have affected us profoundly, and the hearts of us all are captive, deep in the Gaza Strip, with the 134 Israeli hostages. We take the opportunity to pray for their speedy and safe return home. Our hearts go out to the wounded, the soldiers and their families, and to the hundreds and thousands of people who directly experienced the war and its repercussions: those who were evacuated from their homes in the cities, towns and communities in southern and northern Israel, the women and men called up for reserve service, mothers, fathers, sisters and brothers, business owners, and in fact, every resident of this country.

We would like to thank all our soldiers, reservists, and members of the security forces and rescue services, who have protected, and continue to protect, each and every one of us. We also thank all our people here at Strauss, who did everything in their power to keep on producing food and beverages, and to make sure that our products are always available to consumers in such difficult times.

In the hope of better, more peaceful days,

A handwritten signature in black ink, appearing to be "Shai Babad".

Shai Babad

President & CEO

A handwritten signature in black ink, appearing to be "Ofra Strauss".

Ofra Strauss

Chairperson



Strauss Group Ltd.

Annual Report

as at December 31, 2023



Board of Directors	Ofra Strauss, Chairperson Adi Strauss David Mosevics Galia Maor Dalia Narkys Dorit Salinger Dalya Lev Tzipi Ozer-Armon
Chief Executive Officer	Shai Babad
Company Secretary	Yael Nevo, Adv.
Auditors	KPMG Somekh Chaikin
Registered Office	Hasivim St. 49 Kiryat Matalon Petach Tikva 4959504



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Introduction



Company Profile

Strauss Group is a group of industrial and commercial companies operating in Israel and internationally and active mainly 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, carbonation and purification products for the home and workplace. The Group's purpose is Nourishing a Better Tomorrow. Strauss was established in 1933 and today is listed on the Tel Aviv Stock Exchange 35 Index (TA-35), which comprises Israel's largest public companies. According to the non-GAAP financial statements for FY 2023, Strauss Group's total global annual revenues surpassed NIS 10.5 million. The Group is active in more than 20 countries across the globe and operates 28 manufacturing sites.

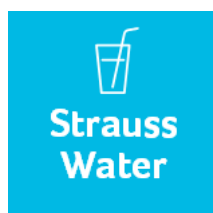
THE GROUP'S AREAS OF ACTIVITY



The second-largest food and beverage group in Israel in terms of sales volumes (according to StoreNext). Strauss Israel encompasses 10 business segments; operates 12 sites, which include manufacturing sites and logistics centers; and has more than 6,000 employees



One of the five largest coffee companies in the world in terms of market share (according to Euromonitor). Strauss Coffee is active in Israel, Brazil, Russia, Ukraine, Poland, Romania and Serbia.

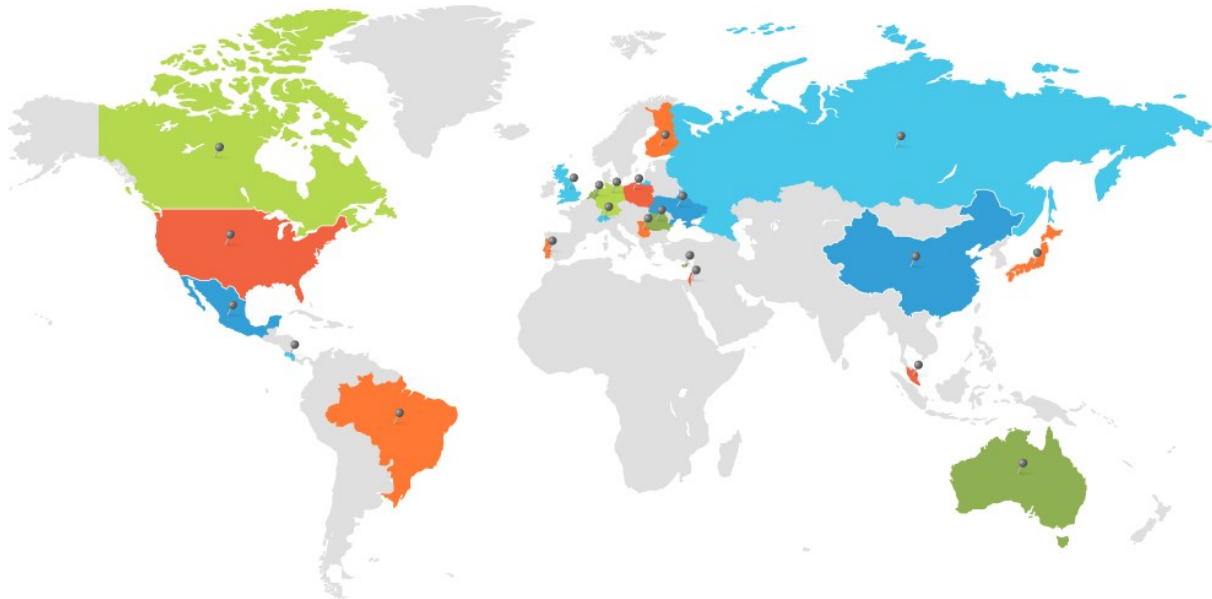


A leading international company specializing in high-quality purified drinking water solutions. Strauss Water's primary markets are Israel, the UK and China.



The segment includes three international brands (Sabra, Obela and Florentin) in a joint venture with PepsiCo, which lead the development and growth of the category. The company is active in North America, Australia, Mexico, Germany, Holland and New Zealand, as well as other countries.

Global presence



Strauss Israel

Israel



Strauss Coffee

Israel
Holland
Brazil
Romania
Switzerland
Poland
Serbia
Germany
Ukraine
Russiaa



Strauss Water

Israel
China
UK



International Dips and Spreads

US
Australia
New Zealand
Mexico
Canada

Collaborations and innovation

Strauss is a party to collaborations with several leading multinational corporations such as Danone, PepsiCo, Haier and Virgin.

In 2015 the Group launched the technology incubator, "The Kitchen", as part of the Israel Innovation Authority's Technological Incubator Program. The incubator's goal is to boost Israeli food tech by investing in early-stage technological ventures, which offer solutions to the global food industry.

Since its establishment, the incubator has invested in 24 startups, some of which have completed product development, commenced initial sales and raised further funds. The Group participated in some of these funding rounds, investing sums that are immaterial to it.

On February 22, 2022, The Kitchen received a notice that the partnership had won a call for proposals for the establishment and operation of a FoodTech incubator. The five-year concession period began on October 1, 2022, with an option for a further three-year extension. To operate the concession, The Kitchen Hub 2.0 limited partnership was formed. For further information, see section 15 in the chapter Description of the Company's Business in the Company's 2023 Periodic Report.

Strauss Group's Purpose

Strauss Group has always been a purpose-led company.

We have always had a purpose. The Company was founded with the idea of creating a better reality by building and cultivating a food industry, an industry that creates positive value for people and for the country. Our purpose has always been etched on our DNA and part of it. It has charted our path and our strategy. Once every few years, we study the changes that the world has undergone, the changing expectations of businesses and the changes that Strauss Group has experienced, and we redefine the kind of influence we want to create and define Strauss's purpose.

Purpose is our North Star, a prism through which we look at our decisions, and it guides us to the kind of influence we aspire to create in the lives of Strauss's stakeholders. Our purpose is connected to Strauss's roots, while also stretching us to work in a way that creates value and a positive influence.

Making food is a privilege. We love food and what it does for people. As a food and beverage company, we understand the vital role of food in people's lives – in times of joy or in moments of sadness, on special occasions or as part of a family tradition. Food is how we care for people, how we help them live longer, live in a better world, and live together.

This is why we chose
Nourishing a better tomorrow
as our purpose.
It's a promise to all our stakeholders.

We have undertaken a challenging, inspiring mission and commitment: To leave a positive mark on the world through food and beverages and in other ways – to nourish a better tomorrow in which people live longer, live better, live in a society that is inclusive, equal and supportive, live in a sustainable environment that will continue to flourish for future generations.

Better – that is our way of life, always striving to improve. It's an entrepreneurial way of thinking that embraces optimism. One that enables the creation of a better future. We will work to create a long-term positive impact rather than just short-term achievements. We will take responsibility for the entire supply chain, all the way from field to plate.

Our purpose unites us around a shared worldview and goals, expresses our way and our culture. Our purpose will attract the right people, managers and partners, will define our goals, will set us apart and enable us to continue to grow. But first and foremost, our purpose compels us to treat every person, every party that encounters us, in and outside the Company, with respect, honesty and fairness, according to the highest of ethical and moral standards. To nurture and empower all our stakeholders and everyone around us: our people, consumers, shareholders and business partners, communities, the future generation and the planet.



To our consumers

We will cultivate the uniqueness of every person and help everyone live a full and happy life by providing them with food that is safe and sustainable and delivers a response to their needs and offers them choices.



To our shareholders

Striving for a better tomorrow will be expressed in the furtherance of excellence in everything we do. We will maintain our outstanding performance, today and tomorrow, for a sustainable future of growth and success.



To our partners

We will continue to cultivate our relationships and nourish them with respect, integrity and cooperation. We will make sure you continue to feel part of the family, because you really are. We will work together for a better tomorrow.



To our people

We will cultivate and encourage the potential each of you embody. We will invest in people who deliver the promise of today and in those who will assure the promise of tomorrow. We will continue to develop a company that is caring, diverse and inclusive by continuing to treat each other with love and respect, like family.



To the next generation

We promise to leave a positive mark on the society in which we live and on the planet.

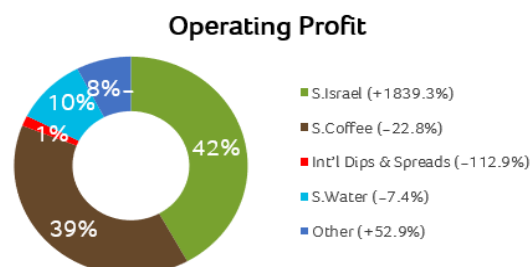
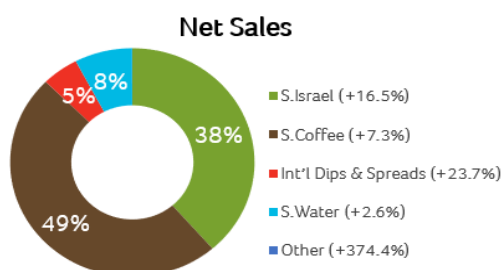
Summary of 2023 Financial Performance

All financial data in this section are based on the Company's non-GAAP financial reports:

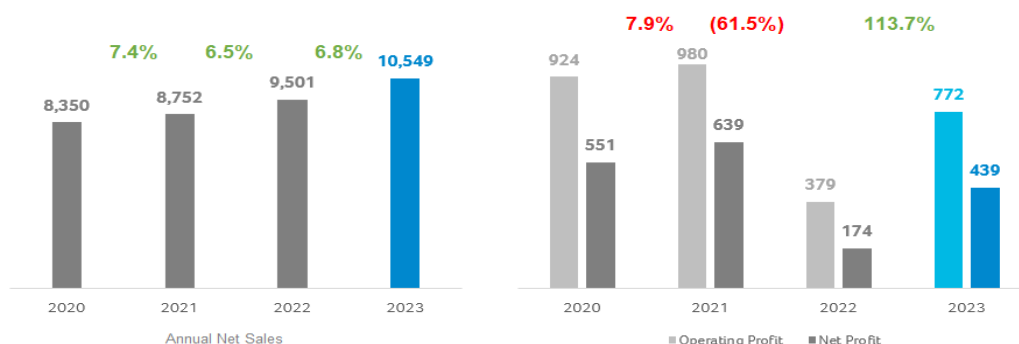
NIS 10,549 million Net sales	6.8% Organic growth (excluding forex effects)	11.0% Gross profit margin
NIS 772 million Operating profit	103.9% Organic change in operating profit (excluding forex effects)	7.3% Operating profit margin
NIS 1,192 million EBITDA	54.0% Change in EBITDA compared to prior year	NIS 861 million Operating cash flow
NIS 354 million Free cash flow	79.7% Decline in net income attributable to shareholders	704.5% Change in free cash flow compared to prior year
NIS 439 million Net income attributable to shareholders	153.7% Decline in EPS	NIS 3.77 Dividend per share

Selected financial data for FY 2023 and Q4

	12M/ 2023	12M/ 2022	% change	Q4 2023	Q4 2022	% change
Sales	10,549	9,501	11.0%	2,695	2,460	9.6%
Organic growth excluding forex effect	6.8%	6.5%	–	4.6%	3.5%	–
Gross profit – non-GAAP	3,383	2,834	19.4%	852	735	15.9%
% of sales	32.1%	29.8%	–	31.6%	29.9%	–
Total operating expenses	2,615	2,463	6.2%	668	665	0.4%
Share of profit of equity-accounted investees	38	34	14.9%	8	9	(1.7%)
Operating profit before profit of incubator investees	806	405	99.0%	192	79	143.0%
Share of profit (loss) of equity-accounted incubator investees	(34)	(26)	31.6%	(11)	(15)	(24.7%)
Operating profit – non-GAAP	772	379	103.9%	181	64	184.9%
% of sales	7.3%	4.0%	–	6.7%	2.6%	–
Net financing expenses	(133)	(67)	97.3%	(53)	(21)	146.4%
Income before taxes – non-GAAP	639	312	105.3%	128	43	204.7%
Taxes on income	(134)	(85)	57.5%	(10)	(6)	52.6%
Income for the period – non-GAAP	505	227	123.3%	118	37	231.0%
Income attributable to shareholders	439	174	154.0%	100	26	304.4%
% of sales	4.2%	1.8%	–	3.7%	1.0%	–
Income attributable to non-controlling interests	66	53	23.5%	18	11	64.9%
EPS (NIS)	3.77	1.49	153.7%	0.86	0.21	304.2%



* Organic percentage change excluding effect of exchange differences on translation into shekels.



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

Sustainability, CSR, Social Investment and Contributions

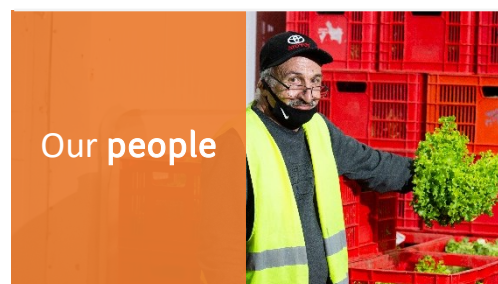
Strauss Group understands its meaningful, profound role in promoting a healthy lifestyle and creating value and trust in the Company, and we are committed to success in this assignment. Even in unsettling times, it is our duty to continue to increase our investment in the scientific aspects of food to enable us to deliver food solutions that are better for people and kinder to the environment.



Through our products, we work to provide a broader variety of food choices for people based on their desires and to meet special dietary needs, and to promote a balanced lifestyle through a broad variety of educational programs for diverse populations.



Our goal is to strengthen the communities in which and with which we work, socially and economically. That is why we chose to invest in the communities around us, in Israel and across the globe. Through partnerships, donations and community development programs, we aspire to create a long-term impact that generates a long-lasting positive change.



As a global food and beverage company, fair and responsible business practices are our way, and our aspiration is that our employees will choose us anew, each and every day. To achieve this, we drive a variety of initiatives to empower our people, emphasizing gender equality and providing opportunities and tools to diverse population groups.



At Strauss Group, we are committed to protecting the environment. Consequently, as part of our long-term strategy, we craft plans and build infrastructure to consistently mitigate our environmental impact, reduce air pollution and our ecological footprint, save energy and water, manage waste and treat wastewater properly.

Key Sustainability Data

An appetite for
better food



71%

Of Strauss Israel's SKUs do not bear a red sticker under Israeli regulation



100%

Of the Group's products are vegetarian



100%

Of food sales in the US are vegan



100%

Of the product portfolio is certified kosher



744

SKUs in Strauss Israel's portfolio were gluten-free during the year

Key Sustainability Data



Our people



48%

Of management positions are filled by women (excluding Brazil)



55%

Of people promoted in Strauss Group are women (excluding Brazil)



47%

Of Strauss Group's employees are women (excluding Brazil)



75%

Of the members of our Board of Directors are women

Key Sustainability Data

Community engagement



NIS **21.9** million

Were donated by Strauss Group in cash and in kind



18,768

Volunteer hours were donated by Strauss employees



~1M

People worldwide were positively affected by Strauss's social engagement activities



89%

Of our suppliers are local



50,000

Coffee farmers participated in our economic and professional support programs

Key Sustainability Data

Environmental responsibility



3.1 million

Disposable single-serve drink bottles (1.5L) were saved thanks to the use of the Group's water purification solutions



100%

Of Strauss Group's cowsheds participate in programs to improve sustainability and animal welfare



NIS **24** million

Environmental investments (not including current expenses)

Definitions

In all of the following chapters, the following terms will have meanings presented below:

“Strauss” / the “Company” / the “Corporation”	Strauss Group Ltd.
“Strauss Group” / the “Group”	Strauss Group Ltd. and companies controlled by it, including joint control.
“Strauss Holdings”	Strauss Holdings Ltd.
“Controlling shareholders”	The late Mr. Michael Strauss and Ms. Ofra Strauss.
“Strauss Coffee”	Strauss Coffee B.V.
“São Miguel”	São Miguel Holding e Investimentos S.A.
“Três Corações (JV)”	A joint venture in Brazil, held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%)
“Sabra”	Sabra Dipping Company LLC.
“Obela”	PepsiCo-Strauss Fresh Dips & Spreads International GmbH.
“Florentin”	Florentin B.V., a wholly-owned subsidiary of Obela.
“Danone”	Compagnie Gervais Danone S.A. of France.
“PepsiCo” / “PepsiCo, Inc.”	The North American multinational food, snack and beverage corporation.
“PepsiCo Europe”	PepsiCo Investments (Europe) I B.V., a PepsiCo subsidiary
“PRB”	PRB Luxembourg, a PepsiCo subsidiary
“Haier”	Haier Group Corporation of China.
“VSW”	A joint venture, Virgin Strauss Water UK Ltd.
“VEL”	Virgin Enterprises Ltd.

“HSW”	Qingdao HSW Health Water Appliance Co. Ltd.
The “Stock Exchange” / “TASE”	The Tel Aviv Stock Exchange Ltd.
The “Financial Statements”	The financial statements of the Company, as defined in section 5 below.
The “Non-GAAP Reports” / “Non-GAAP Management Reports”	The Company’s non-GAAP reports, as defined in section 5 below.
The “Milk Law”	The Milk Sector Planning Law, 2011.
The “Packaging Law”	The Packaging Treatment Regulation Law, 2011.
The “Food Law”	The Promotion of Competition in the Food Sector Law, 2014.
“StoreNext”	StoreNext is engaged in the measurement of the fast-moving consumer goods (FMCG) segment in the barcoded retail market (which includes the large food chains, private barcoded minimarkets and independent retail chains).
“Nielsen”	The American information, data and market measurement firm, which, to the best of the Company’s knowledge, is active in 110 countries, including Israel.
“Euromonitor”	Euromonitor International is a provider of strategic market research, creating data and analysis on products and services around the world.
“ICE”	Intercontinental Exchange, Inc. (ICE) is a provider of commodity data, which generates and provides analyses of commodities. https://www.theice.com/index
Bloomberg	Bloomberg is a private company engaged in the provision of financial services in the fields of software, media and information. Bloomberg encompasses one-third of the global financial information market.
IRI	IRI is a data analytics and market research company focused on the consumer goods market in the US.

AgFunder	AgFunder is a FoodTech and AgTech VC that issues periodic reports on investments in the field.
PitchBook	PitchBook is a data and analysis platform providing comprehensive data on private and public companies and financial information.
Good Food Institute	The Good Food Institute is an international scientific organization that works to expedite research and tech innovation in alternative proteins.
Kroll	Kroll is an independent provider of risk and financial advisory solutions.
Mintel	Mintel is an online information platform that specializes in consumer insights and trends, product launches and BI, mainly in the worlds of FMCG and personal care.

Strauss Group Ltd.

Description of the Company's Business



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Description of the General Development of the Group's Business

1. The Group's Activities and Description of the Development of its Businesses

1.1 The Group's activities

Strauss Group is 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, purification and carbonation of products for home and office use.

The Group is active in some 20 countries worldwide with a strong home base in Israel and focuses on branded products with high added value to the consumer.

According to StoreNext¹, as of December 31, 2023, the Company is the second-largest food and beverage group in the barcoded market in Israel based on total sales and in 2023, the Group's share of the total food and beverage retail market in Israel was 11.8% (by value), compared to 11.1% in 2022. Market share growth is due to the gradual return to market of the products of the confectionery plant in Nof Hagalil (hereinafter: the "**Confectionery Plant**") after the recall (it is noted that the food and beverage market in Israel does not include the business of Strauss Water in Israel). According to Euromonitor², the subsidiary Strauss Coffee B.V. is among the five leading companies in the world coffee industry in terms of market share.

The Group is active in Israel in the development, production, marketing and sale of a variety of food and beverage products. In Brazil³, Russia and in Central and Eastern Europe (Romania, Ukraine, Serbia and Poland)⁴, the Group is engaged in the development, production, marketing and sale of a variety of coffee products. In the United States, Canada, Australia, New Zealand and Mexico, the Group is active in the development, manufacture, marketing and sale of refrigerated dips and spreads. In Israel, the United Kingdom and China, the Group is active in the marketing, sale and servicing of filtration, purification and carbonation products for drinking water, with the water purification and filtration business in China being carried out via a material investment (49%) in an associate⁵. For information, see section 11 below.

The Group collaborates with four multinational corporations, as follows: the French concern Danone (Compagnie Gervais Danone S.A.); the American corporation PepsiCo, Inc.; Haier Group of China; and the global water treatment company, Culligan. The Group also has three local partners: the Lima family in Brazil and Kibbutz Yotvata and Kibbutz Yad Mordechai in Israel.

Strauss Holdings Ltd. ("**Strauss Holdings**") is the direct controlling shareholder of the Company (approximately 57.00% of the equity and voting rights in the Company). The controlling shareholder of Strauss Holdings is Michael Strauss's Assets Ltd. ("**Michael's Assets**") (100% of equity and voting rights in Strauss Holdings). The Company was informed that following the distribution of the shares of Michael's Assets that were included in the estate of the late Mr. Michael Strauss, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss jointly hold approximately 94.6% of the right to dividends and 100% of the voting

¹ StoreNext data are current according to a report published on March 8, 2024.

² Euromonitor data are current according to a report published on November 28, 2023.

³ Through Três Corações (JV) in Brazil – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

⁴ On March 1, 2024, the sale of the coffee company in Serbia was closed. For information, see section 9.1.1 below.

⁵ Through HSW.

rights in Michael's Assets, granting them control of Michael's Assets and, indirectly, control of the Company. The above three members of the Strauss family have an agreement for cooperation in Michael's Assets, by virtue of which they are deemed to jointly hold Michael's Assets. In light of the foregoing, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss are the controlling shareholders of the Company.

There is no arrangement for the demarcation of activities between the Company and the controlling shareholders; however, according to the agreement for the use of the Strauss brand, for as long as a member of the Strauss family directly or indirectly holds shares of the Company or serves as an officer of the Company or a subsidiary, that family member will refrain from competing with the Company. For further information, see section 21.1 below. To the best of the Company's knowledge, the controlling shareholders of the Company have no other business in the Group's area of activity.

1.2 Development of the Group's businesses

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

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 categories. In 1990, the Group began collaborating with PepsiCo in salty snack food.

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 operations through the acquisition of companies active in the business, as well as through the establishment of new businesses. In early 2000, the Group began operating in South America following the acquisition of a coffee company in Brazil - Três Corações (JV)⁶.

In 2004 the Group initiated operations in dairy products and salads following the acquisition of the Strauss family's dairy business, which was founded in the 1930s by Hilde and Dr. Richard Strauss, who opened a family dairy in Nahariya. 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.

In 2005, the Group significantly expanded the international coffee operation through a series of acquisitions in Poland and Serbia and the engagement in Três Corações (JV) in Brazil. The expansion of the international coffee operation continued in the following years through the acquisition of additional companies and brands in Brazil, Russia and Romania; in recent years, most of the acquisitions were made in Brazil through Três Corações (JV)⁷.

In 2005, the Group began operating in the US in the refrigerated dips and spreads market and converged its products under the Sabra brand. In early 2008, the Group entered into a joint venture agreement with PepsiCo to operate in the US and Canada through Sabra. In October 2011, an additional joint venture

⁶ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

⁷ Três Corações (JV) – 50% of the shares of the joint venture are held São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

agreement was signed with PepsiCo for the establishment of a global joint venture in dips and spreads under the Obela brand, which is active in Mexico, Australia and New Zealand.

In 2009, the Company acquired Tana Industries Ltd. (today, Strauss Water), which operates under the Tami4 brand, and initiated operations in the water filtration segment in Israel. In 2010, the Group, together with Haier Group, formed a joint venture in the water business in China, and on the date of the report, Strauss Water holds 49% of the rights in the joint venture. Strauss Water is also active in the UK.

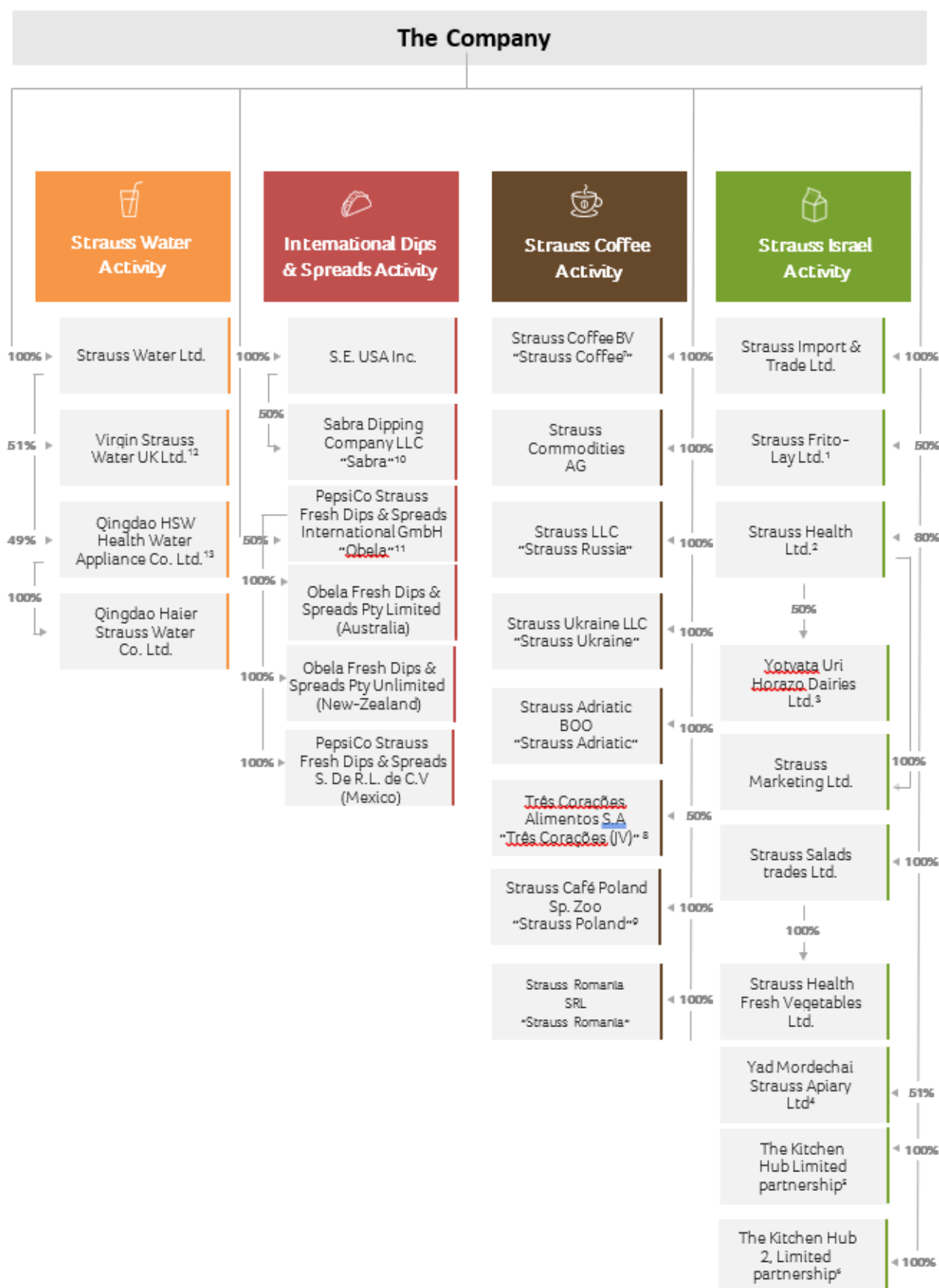
In 2015, the Group launched the technology incubator, The Kitchen (as part of the Israel Innovation Authority's Technological Incubator Program), in which the Company invests in early-stage FoodTech startups that offer solutions for the global food industry (the "**Incubator**"). In early 2022, The Kitchen 2.0, a limited partnership in which the Company is a shareholder of the general partner and the limited partner (the "**Partnership**"), received a notice that the Partnership had won a call for proposals for the establishment and operation of a FoodTech incubator at the decision of the Israel Innovation Authority's Research Committee. The Kitchen 2.0 began operating in October 2022. For further information, see section 15 below.

In 2022, the Group established the Strauss NEO unit, a new business incubator, at corporate headquarters. For further information, see section 15 below.

On March 1, 2024, the sale of the coffee company in Serbia was closed. For information, see section 9.1.1 below.

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

THE HOLDING STRUCTURE DIAGRAM



Notes to the Company's holding structure chart 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 8.3.14 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 8.2.14.1 below.
 - ³ 50% of the shares of Yotvata are held by Kibbutz Yotvata. For a description of the agreements with Yotvata, see section 8.2.14.2 below.
 - ⁴ 49% of the shares of Strauss Yad Mordechai are held by Kibbutz Yad Mordechai.
 - ⁵ The Kitchen Hub Limited Partnership is a limited partnership in which the Company is the shareholder of the general partner (The Kitchen Innovation Ltd.) and the limited partner.
 - ⁶ On the date of this report, The Kitchen Hub 2 Limited Partnership is a limited partnership in which the Company is the shareholder of the general partner (The Kitchen Innovation 2 Ltd.) and the limited partner. For information on The Kitchen Hub 2 winning a concession in a competitive proceeding held by the Innovation Authority, see section 15 below.
 - ⁷ 25.1% of the shares of Strauss Coffee are dormant shares.
 - ⁸ 50% of the shares of Três Corações (JV) are held by São Miguel. For a description of the joint venture (50/50) with São Miguel Group, see section 9.3.14 below. To clarify, the Group's operations in Brazil described in this report refer to the Company's activity through Três Corações (JV), the Company's joint venture in Brazil, which includes production, marketing and sale of coffee and other products, including the export of green coffee. For further information, see section 9 below.
 - ⁹ 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 claims will be brought on 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 abovementioned 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.
 - ¹⁰ 50% of the shares of Sabra are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see section 10.14.1 below.
 - ¹¹ 50% of the shares of Obela are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see section 10.14.2 below.
 - ¹² 49% of the shares of Virgin Strauss Water UK Ltd. are held by Culligan. See section 11.8 below.
 - ¹³ 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 11.13 below.
 - ¹⁴ 49% of the shares of Qingdao Haier Strauss Water Sino-German Co. Ltd. are held by Strauss Water and 51% of the shares are held by Haier Group of China. See section 11.13 below.
-

2. Operating Segments

As of the reporting date, the Group is engaged in six key areas of activity that are reported as segments, as described in Note 27 to the Financial Statements of the Company as of December 31, 2023. Four of the areas of activity are concentrated under two key frameworks: the Israel Operation and the Coffee Operation, as described below:

The Israel Operation – in the Israel Operation, 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 provide a response to two consumption trends, "Health & Wellness" and "Fun & Indulgence". Accordingly, the Company's activities in the Israel Operation are divided into the two following operating segments:

- a. **The Health & Wellness segment:** In this operating segment, the Group manufactures and markets yogurts, dairy desserts, soft cheeses, flavored milk beverages, chilled salads (hummus, tahini, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and confitures. The Group also markets the products of Alpro (of Groupe Danone) in Israel, which include plant-based dairy alternative drinks, desserts and cream. Additionally, the Group sells and distributes other product categories besides the product portfolio manufactured by the Group, such as **Zehavi** Zhug, a series of sauces, dressings and spreads manufactured by **Alalechem**, natural juices under the Primor brand, manufactured by **Ganir**, dry yeast and margarine manufactured by **Shimrit**, goat's milk yogurt from **Halav Ha'Aretz**, **Wylar Farm** tofu, and **Arla** butter spreads and cream cheeses.
- b. **The Fun & Indulgence segment:** In this segment, the Group manufactures, markets, sells and distributes, among others, sweet snack bars, chocolate tablets, sweet spreads, candies, chewing gum, wafers and salty snacks.

The Coffee Operation – in the Coffee Operation, the Group primarily develops, manufactures, sells, markets and distributes a variety of branded coffee products. The Coffee Operation is divided into two segments, Israel Coffee and International Coffee:

- c. **The Israel Coffee segment:** In this segment, the Group develops, manufactures, sells, markets and distributes in Israel assorted coffee products, chocolate powders and other drink powders, including cocoa powders for baking; markets and distributes coffee machines and freshly roasted coffee beans direct-to-consumer (D2C) online; and is engaged, through the Elite Café chain, in the sale of coffee products, pastries and soft drinks at points of sale in public places countrywide. The Israel Coffee segment also includes Strauss Coffee's headquarters (except for identified costs of Strauss Coffee's subsidiaries, which are fully allocated to each subsidiary).
- d. **The International Coffee segment:** In the International Coffee segment the Group develops, manufactures and markets a broad range of assorted coffee products, including ready-to-drink, and drink powders in Brazil (through Três Corações (JV)⁸), as well as in Poland, Russia, Ukraine, Romania

⁸ Três Corações (JV) – 50% of the shares of the joint venture are held São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

and Serbia⁹, and also markets and distributes coffee machines for home use in Brazil (through Três Corações (JV)¹⁰). Additionally, as part of its activity in Brazil (through Três Corações (JV)), the Group purchases and processes green coffee, corn products, plant-based dairy alternatives and juice powders. For information on the effects of the fighting between Russia and Ukraine on the Group, see section 5 in the Board of Directors' Report as of December 31, 2023.

In addition to the above, the Group has two other operating segments – International Dips & Spreads and Strauss Water:

- e. **The International Dips & Spreads segment:** In this segment, the Group manufactures, markets and sells refrigerated dips and spreads through joint ventures with the international PepsiCo corporation in the US and Canada (through Sabra, under the “Sabra” brand); in Mexico, Australia and New Zealand (through Obela, under the “Obela” brand).
- f. **The Strauss Water segment:** In this segment, the Group develops, manufactures (through subcontractors), sells, markets and distributes filtration, purification and carbonation systems for drinking water in Israel and the UK. In addition, Strauss Water has a material investment (49%) in an associate (HSW) that is a joint venture with the Haier Group, which is active in China, mainly in the purification and filtration of drinking water at the point of use (POU systems) as well as systems that treat the water at the point of entry to the home (POE systems).

In addition to the segments described above, the Group has various other activities that are immaterial to its business, which do not meet the quantitative threshold for disclosure in the financial statements as reportable segments or as aggregation criteria for separate presentation as reportable segments. These operations are included in the Company's Financial Statements as of December 31, 2023, as the “Other Operations” segment, and mainly include the activity of the Incubator (for further information, see section 15 below) and Group Headquarters activities.

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

To the best of the Company's knowledge, in 2022, 2023 and through to the publication date of this report, there were no investments in the Company's equity or off-exchange transactions by interested parties in the Company's shares.

⁹ On March 1, 2024, the sale of the coffee company in Serbia was closed. For information, see section 9.1.1 below.

¹⁰ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

4. Dividend Distribution

Decisions regarding dividend payouts are made by the Company's Board of Directors. The frequency and amounts of distributions are based on the Group's business results and according to its needs.

For information on dividends per share paid by the Company in the years 2011 to 2023, see Note 24.3 to the Financial Statements of the Company as of December 31, 2023, and also section 2.3 in the Board of Directors' Report as of December 31, 2023.

For information on approval by the Board of Directors of a dividend distribution on March 25, 2024, see section 2.3 in the Board of Directors' Report as of December 31, 2023 and Note 36.3 to the Financial Statements of the Company as of December 31, 2023.

The balance of retained earnings on the date of the statement of financial position is NIS 3,784 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 Note 19.5 to the Financial Statements of the Company as of December 31, 2023.

For information on causes for the immediate redemption of debentures issued by the Company, see Note 19.4 to the Financial Statements of the Company as of December 31, 2023.

According to the terms and conditions of the Series E Debentures, the Company has undertaken not to effect 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 are established for immediate repayment; (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 after the date of issue of the Series E Debentures, is less than NIS 700 million. The Company's satisfaction of this condition will be computed as described in Note 19.5 to the Financial Statements of the Company as of December 31, 2023. For further information, see section 17.2 below.

According to the terms and conditions of the Series F Debentures, the Company has undertaken not to effect 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 are established for immediate repayment; (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 after the date of issue of the Series F Debentures, is less than NIS 800 million. The Company's satisfaction of this condition will be computed as described in Note 19.5 to the Financial Statements of the Company as of December 31, 2023. For further information, see section 17.2 below.

Other Information

5. Financial Information on the Company's Operating Segments

5.1 Method of consolidating the operations of the subsidiaries in the management (non-GAAP) reports

The Group has a number of jointly controlled companies in which the Company (directly or through subsidiaries) holds a 50% stake:

- Três Corações (JV)¹¹ (3C) (the coffee business in Brazil);
- Sabra Dipping Company (the dips and spreads business in the US and Canada);
- Strauss Frito-Lay Ltd. (the salty snacks business in Israel);
- PepsiCo Strauss Fresh Dips & Spreads International (the dips and spreads business under the Obela brand in Australia, New Zealand and Mexico).

According to generally accepted accounting principles, in the audited consolidated financial statements of the Company (the statements of income and statements pertaining to financial position, comprehensive income, changes in equity and cash flows) ("**Financial Statements**"), businesses which are jointly controlled by the companies in the Group (together with other partners) are presented in one separate row ("Profit of equity-accounted investees", and in other reports in the relevant section). Notwithstanding the foregoing and in light of the reports to Group Management and the method in which Group Management measures the results of the subsidiaries and jointly owned companies, the Group maintains management (non-GAAP) reports in which it presents the activity segments by presenting the Group's relative share of the income and expenses of the jointly controlled companies (50%) as well as other adjustments, as described in section 14 in the Board of Directors' Report as of December 31, 2023 (hereinafter: the "**Management (Non-GAAP) Reports**", the "**Management 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.

The chapter Description of the Company's Business in the Periodic Report is presented according to the Company's operating segments, and all data presented in this chapter are in accordance with the Company's Management Reports, unless expressly stated otherwise.

For information on the Company's Management Reports, see section 17 in the Board of Directors' Report as of December 31, 2023.

To clarify, the amounts of income, expenses, assets (including inventory, fixed assets and other assets) and liabilities of the various activities that are directly attributable to the 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 directly attributed – were allocated according to the economic models implemented by the Group as of the date of the Periodic Report.

¹¹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

Following are the Company's financial data (consolidated and according to the Management Reports), presented according to activity segments. For further information, see Note 25 to the Financial Statements of the Company as of December 31, 2023.



5.2 Financial data for 2023

2023 (based on the Management Reports)												
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Water	Other	Adjustments for Consolidation ⁽²⁾	Consolidated
Income	From external entities	3,066	1,008	4,074	793	4,361	5,154	513	805	3	-	10,549
	From other operating segments	8	6	14	2	1	3	-	-	-	(17)	-
	Total	3,074	1,014	4,088	795	4,362	5,157	513	805	3	(17)	10,549
Total attributable costs	Costs not constituting income in another segment:											
	Fixed	641	302	943	147	1,161	1,308	152	169	63	(58)	2,577
	Variable ⁽¹⁾	2,077	682	2,759	537	2,953	3,490	347	545	2	-	7,143
	Costs that constitute income in other segments	1	3	4	4	-	4	-	1	7	(17)	(1)
	Total	2,719	987	3,706	688	4,114	4,802	499	715	72	(75)	9,719
Income from ordinary operations:												
Attributable to majority interest		262	27	289	107	248	355	14	93	(69)	58	740
Attributable to minority interests		93	-	93	-	-	-	-	(3)	-	-	90
Total assets		1,540	1,602	3,142	842	3,144	3,986	638	1,352	416	-	9,534
Total liabilities		761	693	1,454	833	1,340	2,173	262	562	1,768	-	6,219

According to the Management Reports. Figures are in NIS millions.

(1) 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 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.

(2) The adjustment of revenues and costs to consolidated data arises from inter-segmental sales of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

For an explanation regarding developments occurring in the past year, see the Board of Directors' Report as of as of December 31, 2023.



5.3 Financial data for 2022

2022 (based on the Management Reports)												
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Water	Other	Adjustments for Consolidation ⁽²⁾	Consolidated
Income	From external entities	2,784	712	3,496	778	4,026	4,804	415	785	1	-	9,501
	From other operating segments	5	5	10	2	1	3	-	-	-	(13)	-
	Total	2,789	717	3,506	780	4,027	4,807	415	785	1	(13)	9,501
	Costs not constituting income in another segment:											
Total attributable costs	Fixed	561	519	1,080	136	850	986	236	138	37	132	2,609
	Variable ⁽¹⁾	1,946	497	2,443	544	2,814	3,358	290	549	-	-	6,640
	Costs that constitute income in other segments	2	3	5	3	-	3	-	1	9	(13)	5
	Total	2,509	1,019	3,528	683	3,664	4,347	526	688	46	119	9,254
Income from ordinary operations:												
Attributable to majority interest		206	(302)	(96)	97	363	460	(111)	100	(45)	(133)	175
Attributable to minority interests		74	-	74	-	-	-	-	(3)	-	1	72
Total assets		1,386	1,417	2,803	833	2,845	3,678	596	1,210	397	-	8,684
Total liabilities		675	610	1,285	852	1,219	2,071	241	586	1,812	-	5,995

According to the Management Reports. Figures are in NIS millions.

(1) 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 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.

(2) The adjustment of revenues and costs to consolidated data arises from inter-segmental sales of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

For an explanation regarding developments occurring in the past year, see the Board of Directors' Report as of as of December 31, 2022.



5.4 Financial data for 2021

2021 (based on the Management Reports)												
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Water	Other	Adjustments for Consolidation ⁽²⁾	Consolidated
Income	From external entities	2,688	1,149	3,837	728	2,771	3,499	680	736	-	-	8,752
	From other operating segments	6	8	14	2	2	4	-	-	-	(18)	-
	Total	2,694	1,157	3,851	730	2,773	3,503	680	736	-	(18)	8,752
Total attributable costs	Costs not constituting income in another segment:											
	Fixed	656	321	977	113	829	942	222	179	(62)	34	2,292
	Variable ⁽¹⁾	1,693	723	2,416	459	1,747	2,206	428	464	-	-	5,514
	Costs that constitute income in other segments	4	3	7	3	(0)	3	1	1	6	(18)	(0)
	Total	2,353	1,047	3,400	575	2,576	3,151	651	644	(56)	16	7,806
Income from ordinary operations:												
Attributable to majority interest		240	110	350	155	197	352	29	95	56	(35)	847
Attributable to minority interests		101	-	101	-	-	-	-	(3)	-	1	99
Total assets		1,212	1,448	2,660	692	2,122	2,814	618	1,131	356	-	7,579
Total liabilities		588	607	1,195	678	809	1,487	206	583	1,433	-	4,904

According to the Management Reports. Figures are in NIS millions.

(1) 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 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.

(2) The adjustment of revenues and costs to consolidated data arises from inter-segmental sales of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

6. General Environment and Effects 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 (see section 7 below), 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 sections 5-11, respectively, in the Board of Directors' Report as of December 31, 2023.

Description of the Company's Business by Operating Segment

7. General – the Food and Beverage Industry

The Group operates in the food and beverage industry, which is a key industry in the fast-moving consumer goods (FMCG) sector and among the most competitive and mature industries in the world, including Israel. It is a dynamic industry that responds to the diverse needs, demands and changing tastes of the consumer public in Israel and worldwide. The food and beverage industry is impacted by macroeconomic changes, consumer trends, technological development and the competitive environment.

Macroeconomic and geopolitical effects

For information on inflation rates in the reporting period, see section 9 in the Board of Directors' Report as of December 31, 2023. The high price levels of raw materials are the result, among other things, of high fertilizer prices, an increase in the employment rate and climate volatility¹².

Consequently, in 2023 there were changes in raw material prices compared to 2022. For further information, see section 6 in the Board of Directors' Report as of December 31, 2023.

From a global perspective, in many geographies price increases were recorded in the food and beverage sector in the barcoded market due to the high prices of raw materials and inflation, as described below. In Israel, the food price index rose by 6.6%, leading to financial growth of 7.7% compared to the prior year. In Europe, food and beverage prices also rose, leading to financial growth of 12.9% but also to a decline in demand and a volume decline of -2.4%¹³. In the US as well, financial growth of 12% was recorded compared to 2022, accompanied by a volume decline of 2%¹⁴.

Consumer trends

Numerous consumer trends are shaping the food and beverage industry. Firstly, the composition of the consumer public is changing as the purchasing power of Gen Y (ages 28-45) and Gen Z (ages 12-27) grows stronger, and each has a different lifestyle and consumption habits. For example, Gen Y places emphasis on environmental considerations and is willing to pay more for consumption experiences, and Gen Z is a generation fueled by trends and receives a great deal of information via digital channels. Gen Z is also less loyal to brands and will switch brands easily for better prices. Furthermore, Gen Z considers authenticity a highly important value, since its technology-oriented members are exposed to a lot of information and want brands and companies to optimally – and digitally – reflect their production processes, raw materials and what happens behind the scenes in manufacturing and marketing operations. Despite the difference between the generations, both share the practice of online shopping

¹² According to UN Department of Economic and Social Affairs data published on August 1, 2023.

See <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-august-2023-briefing-no-174/>

¹³ According to the Demand Signals Report published by Circana (formerly IRI) in November 2023. See <https://www.circana.com/wp-content/uploads/2023/11/Demand-Signals-Report-November-2023.pdf>

¹⁴ According to Circana's Declining Volume Sales ≠ Less Consumption Report, published in August 2023.

to maximize their convenience^{15, 16}. Population aging is also shaping the food market and requires that dietary solutions for the aging population, which is growing steadily, be found.

Among the master consumer trends are physical health, a healthy lifestyle, protecting the environment, the cost of living, the tech transformation and the desire for unique experiences. These, together with the change in population composition and lifestyle, have led to the following key trends in the food and beverage industry:

1. Care for health

- a. **Needs-based nutrition (lifestyle diet):** A diet tailored to meet unique dietary needs, whether by necessity, choice or belief. In light of specific needs, different “food communities” have emerged, such as the celiac community, whose members consume a gluten-free diet, the food allergy community, the low-carb or high-protein community, the plant-based community and the vegan community.
- b. **Functional nutrition (added value):** Enrichment of the consumer’s diet with functional foods that help strengthen and maintain a healthy body and mind. Of note is the ongoing rise in the demand for high-protein products, fiber-rich foods, vitamins, etc.
- c. **A diet based on natural products (plain and natural):** Consumption of foods from natural sources that consist of unprocessed raw materials and contain a small number of ingredients.

2. Lifestyle and experience

- a. **Snackification:** A growing trend in response to the consumer’s busy lifestyle, such as consumption of single-portion products designed for snacking and portion-controlled light meals, as well as snack products that are an indulgent treat.
- b. **Unique experience:** Products that deliver a unique experience in terms of taste, texture and unusual combinations and is reflected in the manner of consumption, preparation and purchase.
- c. **Heritage and nostalgia:** Reliving the past, expressed in a return to one’s roots, to a time associated with joy or comforting familiarity that brings back cherished memories.
- d. **Shared meals, shared experiences:** Creating enjoyable shared experiences, physical and virtual, that boost feelings of familiness, friendship, closeness and belonging.

¹⁵ According to a publication on the Nasdaq website: The 4 Biggest Differences Between Gen Z and Millennial Spending Habits, October 31, 2022. See <https://www.nasdaq.com/articles/the-4-biggest-differences-between-gen-z-and-millennial-spending-habits>

¹⁶ According to a publication by Innova, Decoding Generation Z: Unveiling Global Insights into Their Lifestyles and Attitudes, August 2023.

3. Home-centric living

- a. **Hyper-convenience:** As technology evolves, many consumers want convenience, ease and experiences delivered to their doorstep. There is a growing demand for the fastest and easiest ways to perform simple tasks; for example, making food preparation easier and less time consuming.
- b. **Cooking and baking** enable self-expression and experiences, as well as control over the ingredients and cost of the dish. This arena is greatly influenced by social media, which deliver inspiration to the consumer and enlarge the variety of raw materials and culinary aspects to which he or she is exposed.

4. Care for the planet

The desire to protect the environment and its various resources for a better, more sustainable future, and to advance processes that contribute to better society. Public awareness of climate change and the need for proactive initiatives to further environmental and social goals is growing. This trend is directly impacting the food industry as consumers, for example, want biodegradable packaging, sustainable agriculture, less meat consumption, a reduction in environmental pollution, etc.

5. Polarization of spend

With the high cost of living and growing inflation, numerous consumers have become sensitive to food and beverage prices. Nevertheless, they still look for ways to maximize the buying and taste experience, as well as for premium products that deliver added value.

6. Digital consumers

Gen Z and Gen Y are rapidly adopting digital shopping habits, such as the use of social media platforms and social commerce, a seamless omnichannel experience and DTC brands.

The competitive environment

The food industry is very active in mergers and acquisitions, with large companies occasionally finding opportunities to acquire high-growth, innovative small companies alongside the divestiture of non-core businesses. In 2023, the downtrend in the scope and value of acquisitions, which began in 2022, continued. In the US, for example, in 2023 acquisitions declined by 13%, and globally, acquisitions declined by 20% compared to 2022^{17,18}.

¹⁷ According to Kroll, M&A Market Overview in the US Food & Beverage Space, published in February 2023. See <https://www.kroll.com/-/media/kroll-images/pdfs/m-and-a/executive-summary-food-and-beverage-ma-insights-winter-2024.pdf>

¹⁸ According to Capital IQ data, published on February 15, 2024.

Considering the high global interest rates and the decline in investor appetite, investments in Agri-FoodTech declined significantly in the number of investments compared to 2022. In 2023, total investments amounted to USD 4.3 billion, compared to USD 15.2 billion last year.

In eGrocery and food delivery, which is the largest category in the market, investments in 2023 declined to USD 1.3 billion compared to USD 4.8 billion in 2022. In the food innovation category (e.g. alternative protein) as well, investments declined to USD 1.1 billion in 2023 compared to USD 3.2 billion last year¹⁹.

Additionally, this year significant progress was made in technology and in the commercialization of product innovation in the FoodTech space. Among the technologies that gained the most attention is cultivated meat, which was cleared as safe for consumption, including by the FDA and USDA in the US, and, according to publications in the press, by the Ministry of Health in the Israel (which approved the production and sale of cultivated meat).

For information on the effects of the Swords of Iron war on the food and beverage industry in Israel, see section 3 in the Board of Directors' Report as of December 31, 2023.

For information on macroeconomic effects on the Group's business, see sections 3-12 in the Board of Directors' Report as of December 31, 2023.

Entry barriers to the sector – 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 extensive investments required to build production sites; as well as the need for sales and distribution infrastructure to serve customers.

In some categories in the sector these barriers, which formerly made it difficult for new players to enter the market, were lowered due to online marketing and selling capabilities, for example, marketing via social media; the option of production and marketing through outsourcing; and regulatory changes. Conversely, the demands made by consumers and regulators of food companies have raised the entry barriers as far as food safety issues and food quality challenges are concerned, as has the increase in raw material prices, affecting the profitability of businesses.

Success factors – for information, see section 2.1 in the Board of Directors' Report as of December 31, 2023.

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.

¹⁹ According to AgFunder News data in an article published on December 27, 2023. See: <https://agfundernews.com/the-top-20-agtech-deals-of-2023>

8. The Israel Operation

8.1 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.

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 StoreNext²⁰ data, as of December 31, 2023, the Group is the second-largest food and beverage group in the barcoded market in Israel in terms of sales turnover.

The recall

At the end of April 2022, findings that tested positive for salmonella were detected on part of the production lines in its confectionery plant and in a small number of the products located in the plant, following routine tests periodically performed by the Company. The Group consequently recalled all products that had been manufactured in the Nof Hagalil plant that were then in the market and barred the distribution of all products that had been marketed until that date. Additionally, the Group shut down the confectionery plant and the production lines until all manufacturing systems had been thoroughly cleaned. The Group also destroyed the entire inventory.

Beginning in November 2022, the Group began to gradually market the products of the confectionery plant, reintroducing additional products each month. It is noted that in the recall period, from April to November 2022, the Group continued to market products that are routinely manufactured by subcontractors.

In alignment with the foregoing and according to StoreNext²¹ data, the Group's market share in the barcoded FMCG market is on a gradual uptrend. For further information, section 2.2.1 in the Board of Directors' Report as of December 31, 2023. Despite the positive trend in market share, as of December 31, 2023, the Group has not yet regained its pre-recall sales volumes and market shares in some product categories. The Group estimates that the main reasons for this are the growing competition in those categories and the phased return of its products to the shelves.

For further information on the impacts of the recall and on legal proceedings following the recall, see section 2.2.1 in the Board of Directors' Report as of December 31, 2023 and also Notes 22.1.3 and 22.1.4 to the Financial Statements as of December 31, 2023.

In 2023, the average market prices of some of the Group's raw materials rose significantly compared to the corresponding period, including sugar, cocoa and sesame. By contrast, seed and grain prices declined. The average price of raw milk ("target price") rose by 7% in 2023. Average energy and oil prices in 2023 were 17% higher than their average prices last year.

Raw material prices were also impacted by the significant devaluation of the shekel (based on average exchange rates) against the Group's major functional currencies in the reporting year.

²⁰ StoreNext data are current according to a report published on January 8, 2024.

²¹ According to the StoreNext report published on January 8, 2024. StoreNext measures consumption in the barcoded retail market.

In 2023, a downtrend in inflation was recorded in Israel and globally. The CPI in Israel rose in the year by 3% compared to 5.3% in 2022.

For further information, see sections 4-9 and 22.1 (The Group's activity in Israel) in the Board of Directors' Report as of December 31, 2023.

For information on the effects of the Swords of Iron War on the Group's business, see section 3 in the Board of Directors' Report as of December 31, 2023.

8.1.1 Changes in the scope of activity and profitability of the segment

According to StoreNext figures, in 2023 the scope of sales by value in the food and beverage sector in the barcoded market in Israel grew by approximately 6.6% in nominal terms, perpetuating the uptrend of 3.2% in 2022²², which the Company estimates was largely the result an increase in prices by suppliers in the food industry. For information on the price revision made by the Company, see section 22.1 (The Group's activity in Israel) in the Board of Directors' Report as of December 31, 2023.

2023 was marked by price hikes in the food market, with real growth in the barcoded food and beverage market amounting to 1.3%, which the Company estimates is mainly the result of population growth and the public stocking up on these products following the Swords of Iron War.

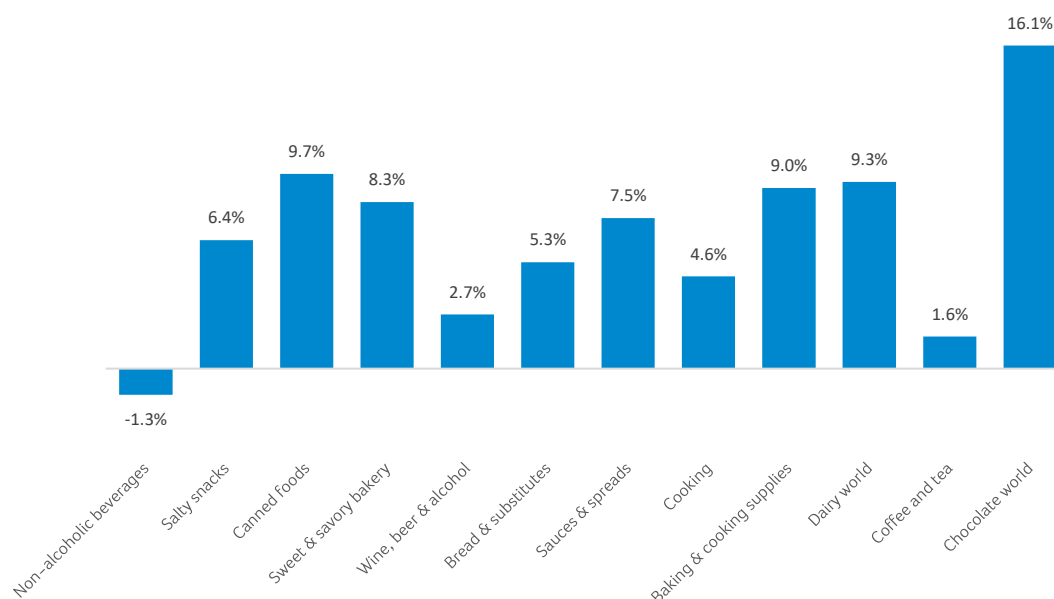
In 2023, sales by value in the Israeli food and beverage sector are estimated at NIS 46.59 billion in nominal terms, compared to NIS 43.69 billion in 2022 and NIS 42.34 in 2021 (figures refer to the barcoded market in Israel)²³.

The increase sales by value in 2023 is evident in all main food categories (according to StoreNext figures):

²² 2022 figures were adjusted for StoreNext's updated calculations, which are current according to a report published on January 8, 2024.

²³ 2022 and 2021 figures were adjusted for StoreNext's updated calculations, which are current according to a report published on January 8, 2024.

Changes in the Scope of Sales by Value in 2023 in Leading Food and Beverage Categories



*Not including butchery and fresh fish.
2022 figures were adjusted for StoreNext's updated calculations,

8.1.2 Developments in the markets of the activity segment or changes in customer characteristics

The past few years have been characterized by consistently growing competition in the food sector in Israel, along with increasing regulation and growing public discourse on the cost of living and centralization in the food market.

Competition between the retail chains is reflected in the ongoing trend of expansion by large chains. The large chains are expanding through acquisitions of smaller chains (e.g., in 2023, Super Sapir acquired the Super City supermarket chain). Some large chains are also teaming up with international supermarket chains (e.g., Electra Consumer Products (through Yeinot Bitan) with Carrefour and the 7-Eleven US convenience store chain; the Dutch supermarket chain SPAR has teamed up with a local retail group; and it was recently announced that the French supermarket giant Auchan is expected to team up with a local chain with the aim of penetrating the Israeli market).

In the online arena, besides the dominant presence of the large chains, online-only chains such as Wolt and Yango Deli continue to solidify their position.

The large chains are also continuing to establish a firm presence in dry goods distribution through cash & carry stores (wholesale stores that sell directly to retailers and small businesses).

8.1.3 Major consumer trends

Following is a description of the major trends, events and developments in the Israeli food and beverage market in 2023.

Further to the contents of section 7 above, in Israel, consumer trends evolved and were accelerated, among other things, by the crisis-ridden reality of the past few years in all areas of life, which has

impacted consumer motivation. These trends are also reflected on the personal/individualistic level with emphasis being placed on “me”, as well as in aspects of focusing on the environment/society and community.

The effects of the Swords of Iron War on consumer trends:

Following the war, the Israeli food market has been greatly affected by the domestic crisis as well as the global shipping crisis, which have led to an increase in raw material prices and thus, to higher food prices. In response to price hikes, consumers have cut down on their shopping, and price sensitivity is rising. In parallel, there is demand for “indulgence” or “experience-delivering” food products, as consumers believe they have significant enjoyment value and are a form of emotional “compensation” in times of crisis and hardship. The war has strengthened the need to belong and the sense of national pride, and consequently, the trend of rootedness and nostalgia can be expected to grow stronger. Alongside it, the sustainability trend has become relevant to the period, as reflected in the desire to support the economy and local agriculture. For further information on the effects of the Swords of Iron War, see section 3 in the Board of Directors’ Report as of December 31, 2023.

To clarify, the Company’s estimates regarding the effects and possible repercussions of the war, as described above, on its operations, businesses and operating results are forward-looking information, as this term is defined in the Securities Law, 1968, which is based, *inter alia*, on the Company’s experience in its business areas, on the information available to the Company on the date of this report and on public economic forecasts.

As part of its response to these consumer trends, in 2023 the Group continued to launch new products and subcategories that include, among others, a response to the snacking trend, with the launch of dairy desserts and beverages such as Danone Multi yogurt with chia seeds, Pro desserts with no white sugar, enriched milk drinks with no white sugar under the Yotvata Pro brand, as well as snacks such as Quaker vanilla bars and Pro protein bars. Milky desserts were launched in a three-layer format – Milky Trio – in a variety of flavors, and the Milky brand was expanded into chocolate bars with the launch of the Milky Bar product. In addition, in line with the decision to grow in the plant-based space, the Group launched chilled plant-based drinks under the Alpro brand (almond/oats/flavors/sugar-free), and is also currently erecting a manufacturing plant for plant-based products. In the category comprising products for communities with special dietary needs, the Group launched a number of new products, including a series of single-portion salads, vegan eggplant/cabbage in mayo and guacamole, and a series of gluten-free gnocchi products. In the Confectionery Division, the Group resumed the marketing of Torteet, Twist, Smiley cookies, Baflo wafers and Energy grain crisps, and the Salty Snack Division launched snacks with new flavors (Salsa/Asian/Hot).

Under the Danone Multi brand, the Group expanded the range of dedicated products for the Third Age – Danone products containing a unique combination of vitamins and minerals.

For further information on the Health & Wellness segment, see section 8.2 below, for the Fun & Indulgence segment, see section 8.3 below, and for the Company’s purpose and strategy, see section 16 below.

8.1.4 Restrictions, legislation, standardization and special constraints applying to the Company

For further information, see sections 11 and 12 in the Board of Directors' Report as of December 31, 2023.

8.1.5 Critical success factors in the Israel Operation and changes occurring therein

In addition to the critical success factors that are common to all of the Group's operating segments as described in section 2.1 of the Board of Directors' Report as of December 31, 2023, 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 and the consumer's trust in the Company; unique operational and logistic capabilities required in the production, distribution and storage of products requiring chilled conditions; rapid launching of innovative, experience-intensive products; product development and innovation; financial strength for substantial investments in branding; financial strength for capital investments to achieve growth, innovation and improvement of product quality; 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; a large-scale distribution system allowing for quick and efficient distribution of products to points of sale with high frequency; food safety; and product availability at the point of sale.

8.1.6 Major entry barriers to the activity framework and changes occurring therein

In addition to the major entry barriers that are common to all of the Group's operating segments as described in section 7 above, 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 manufacturing 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.

8.1.7 Competition and substitutes for the products of the activity framework

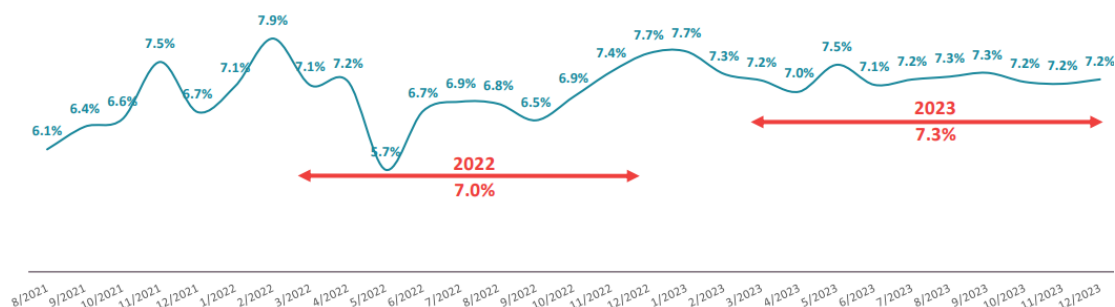
The Israeli food industry is characterized by intense competition between food manufacturers that sell similar and interchangeable products.

In recent years, the large retail chains have promoted their private label products, which compete with the products of food manufacturers. In 2023, an increase of 10.7% was recorded in private label sales in the FMCG market (which includes food and beverages, home care and personal grooming) compared to 2022. According to StoreNext figures, private label sales amounted to NIS 3.73 billion in 2023 compared to NIS 3.73 billion in sales in 2022. For further information on the possible effect of private labels, see section 25.1.i.2 below.

In addition, the market share of private labels in the FMCG market in 2023 was on an uptrend, reaching 7.3% compared to 7.0% in 2022 according to StoreNext figures²⁴.

Private Label's Share of Sales by Value in the FMCG Market

²⁴ 2022 figures were adjusted for StoreNext's updated calculations, which are current according to a report published on January 8, 2024.



2022 data were adjusted for StoreNext's updated calculations.

The Group's products have substitute products offered by competing manufacturers, including imported products and retailers' private labels.

For the effects of the recall on the Group's competitive position in Israel and on market shares, see section 8.3.4 below.

The Group continuously contends with the competition by developing and launching innovative products; entering new categories; investing in manufacturing facilities and in 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, 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 as well as non-branded products on a one-time basis; increasing regulation and public sentiment directed at large food companies; competitors with brand development capabilities and selling and marketing capabilities.

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

8.1.8 Fixed assets, real estate and facilities

Following is a description of the main facilities serving the Group's business operations in the two operating segments included in the Israel Operation framework:



Fixed Assets in the Israel Operation				
Nature and Location	Site Designation	Land Area	Built-Up Area	Liens
Logistics center, Shoham Business Park complex	Logistics center	71 dunam	47,507 m ² ⁽¹⁾	--

Rights in and to the site:

(1) Leased by the State of Israel Development Authority for 49 years commencing on December 9, 2009, with an option to extend for a further 49 years.

8.1.9 Raw materials and suppliers

- a. For a description of volatility in the prices of raw and packaging materials used by the Group in Israel, see sections 8.2.11 and 8.3.11 below and also section 6 in the Board of Directors' Report as of December 31, 2023.
- b. The main packaging materials used by the Group in the Israel operation are laminates and plastic sheeting, polystyrene, cartons, tin sheet metal, cups, plastic bottles and glass jars, which are purchased from various manufacturers in Israel and abroad (mostly in Europe). Further to the price hikes in the past two years, 2023 was mainly characterized by sharp increases in currency exchange rates and in the prices of packaging produced by energy intensive industries, mainly glass and tin sheet metal. The significant cause of the price hikes was the harm to global supply and rising energy prices due to the Russia-Ukraine War, since packaging prices are influenced by global supply and demand. In cartons and polystyrene, prices declined following negotiations and by exploiting market opportunities. In 2023, oil prices declined by 17% compared to 2022.

The figure below presents the changes in the price of Brent oil in 2017-2023 according to Bloomberg:



US dollars per 1,000 barrels

The price of packaging materials is also affected by energy prices. For information on the effects of the fighting between Russia and Ukraine on the Group and further information on energy prices, see sections 5 and 7 in the Board of Directors' Report as of December 31, 2023.

The Group contends with volatility in the prices of raw and packaging materials through efficiency enhancements in procurement, production, sales and marketing processes, use of substitute materials, and also by hedging the prices of some 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 regular activity at the ports in Israel.

It is the Group's practice to purchase raw and packaging materials from a wide variety of suppliers according to its requirements. Suppliers are chosen based on the quality of the goods they offer, availability, the supplier's credibility and stability, and the prices quoted. The Group purchases some raw materials from single suppliers. To manage the risk, the Group maintains safety stocks to assure business continuity, but cases are possible where the Group will be obliged to seek other alternatives to those suppliers, which could lead to higher manufacturing costs or to limitations on production in the short term.

Most of the Group's agreements with its suppliers are framework agreements, usually for periods of up to 6 months (in a few cases, for periods of 12 months), which include delivery dates, price, specifications, supply quantities and credit terms. Purchases are made on the basis of regular orders.

For further information on raw materials and suppliers in the Health & Wellness segment, see section 8.2.11 below, and in the Fun & Indulgence segment, see section 8.3.11 below.

8.2 The Health & Wellness Segment

8.2.1 General information

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 these products include raw material composition, inclusion of functional health values, replacement of ingredients with healthier ones, reduction of fats, 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 (4°C).

8.2.2 Products

Generally, the Group's major Health & Wellness products are marketed in Israel under the Group's brands, as follows:

- (1) The **"Strauss"** corporate brand, and under it, the brands **"Milky"**, **"Dany"**, **"Daniela"**, **"Gamadim"**, **"Ma'adan Hagolan"**, **"Ski"**, **"Symphony"**, **"Cottage"** cottage cheese – mostly dairy desserts and soft white cheeses. By way of illustration:



- (2) The “Achla”, “Ta’am HaTeva” and “Strauss Pasta” brands – ready-to-eat packaged salads, dips and spreads, including hummus, eggplants, tahini and spicy salads, fresh pasta, washed fresh packaged fresh vegetables and ready-to-eat legumes packed in cartons. By way of illustration²⁵:



²⁵ In August 2023, after an 18-month pilot, the Group decided to discontinue its frozen meal business, the costs of which were negligible to the Group.

- (3) The “Danone” brand, and under it, the brands “Actimel”, “Activia”, “Danone PRO” and “Danone Multi”. By way of illustration:



The Group also markets Alpro products in Israel. For further information, see section 8.2.14 below. By way of illustration:



- (4) The “Yotvata” brand – flavored milk beverages, milk, enriched milk, protein enriched milk beverages, liquid milk products (sour cream), sweet cream, including cream sauces for quick preparation, cold coffee beverages in a cup. By way of illustration:



- (5) The “Yad Mordechai” brand - honey products, olive oil, fruit preserves, cooking sauces, tomato sauces, balsamic vinegar, natural lemon juice, natural maple syrup and natural date syrup. By way of illustration:



- (6) The “Energy” brand – cereal snack bars and rice cakes. By way of illustration:



The Group also markets products manufactured by other companies, which are not sold under the Group’s brands, such as zhug (Yemenite hot pesto) manufactured by “Zehavi”, a line of refrigerated sauces, spreads and aioli manufactured by “Alalechem”, natural juices manufactured by “Ganir”, yeast, refrigerated pastry dough and margarine manufactured by “Shimrit”, goat’s milk yogurt manufactured by “Halav Haaretz”, tofu manufactured by “Weiler Farms”, butter and butter spreads under the “Lurpak” brand, and cream cheese and Bulgarian cheese manufactured by Arla. By way of illustration:



2023 was marked by continuing innovation and diversification in most Health & Wellness categories. The Group continued to focus on improving the nutritional values of its products (reduction of sugar and saturated fats).

The Group also maintained the trend of protein-enriched products in the dairy market by further expanding the Danone Pro brand, which includes a variety of high-protein products, placing emphasis on products with no added white sugar (in both the yogurt and milk beverage categories). Additionally, the Group expanded its product range for the Third Age under the Danone Multi brand, with the launch of a new product containing chia seeds. The Group increased the production of products aligned with the plant-based consumption trend, which is gaining momentum in Israel and globally, launching a series of refrigerated oat and almond based drinks. The Group also distributes Alpro products in Israel and is erecting a new manufacturing facility for plant-based dairy alternatives.

In addition to the above, the Group launched a new product series under the Milky brand, Milky Trio, that consists of three layers of indulgence – rich pudding, mousse, and a layer of whipped cream on top.

Further to the expansion of the pasta category, olive ravioli was launched for children in response to the category's growth and children's need for variety. The Ta'am HaTeva portfolio was also enlarged with the launch of seasonal mixed vegetables in response to the growing trend of home cooking and the consumption of washed fresh packaged vegetables. Under the Achla brand, the Group continued to solidify the Galilee Hummus platform, which delivers a response to consumers who prefer hummus with a light texture and delicate spicing, as well as Fiery Hot Guacamole as a solution for entertaining.

8.2.3 Segmentation of income and product profitability (according to the Company's Management Reports, as defined in section 5 above)

Following is information on the segmentation of the Group's income from external entities (consolidated) according to the Company's Management Reports, as defined in section 5 above, arising from groups of similar products in the Health & Wellness segment, constituting 10% or more of the total of said revenues, in the years 2023, 2022 and 2021:

Segmentation of the Group's Income from External Entities (Consolidated)						
Group of Similar Products	Income			Percentage of Group's Total Income		
	2023	2022	2021	2023	2022	2021
Dairy products⁽¹⁾	2,158	1,930	1,879	20.5%	20.3%	21.5%

In NIS millions

(1) Mainly including yogurt, dairy desserts, soft white cheeses, enriched milk and flavored milk beverages.

8.2.4 Competition

The past few years have been characterized by the intensification of the competition in Israel's food sector, including continued growth in imports (see section 8.3.4 below).

The main competitors in dairy products are Tnuva and Tara (of the Central Bottling Company). Other competitors include Gad, Tzuriel and Jacobs Dairy Farm, mainly in cheeses. There are also importers who mainly import hard cheeses, butter and yogurt such as Willi-Food (under the Euro brand), Neto and Seyman. The large retailers also import hard cheeses and butter and are granted customs-exempt quotas by the Ministry of Economy for this purpose. There are additional competitors in every product group in the segment.

2023 was marked by aggressive competition in the yogurt market (particularly in the high-protein/protein-enriched segment), with which the Group contended through innovation that delivers added value and by strengthening the Pro brands. In the plant-based category as well, competition grew stronger as private labels penetrated the dry goods shelf and the Alternative brand (Tnuva) in the refrigerated segment continued to gain strength.

The major rival in salads, dips and spreads is Osem (under the Tzabar brand). Competition in this market is marked by instability and changes in the competitive map. There are also rival boutique brands, such as Mashani, Shamir and Monte Carlo.

The major rivals in pasta are Tempo (under the Pasta Nonna brand), the Rami Levy and Shufersal private labels, and Tnuva (under the Pasta Rico brand).

In washed fresh packaged vegetables, the main rivals are private label products. Additionally, a fair part of sales is made in the non-barcoded market (greengrocers). Since September 2021, a drop in market share held by the Group's products (Ta'am Hateva) has been observed as a result of the growing strength of rivals in the category.

The main rivals in honey are private label products. Other rivals include Emek Hefer Apiary, Ein Harod Apiary, Kliyat Gat, Taaman and others.

In the reporting year, the Ministry of Agriculture increased the quotas for customs-exempt imports of honey, which also affected the competition.

Major rivals in olive oil are private label, Zeta, Taaman, and Saba Haviv. Other rivals include Field Gold, Aroma, Etz Hazayit, Eliad, Borges and others.

2023 was marked by aggressive competition in the honey and olive oil markets, with which the Group contended through innovation, delivering differentiated products with added value (for example, olive oil in a squeeze bottle) and by strengthening the Yad Mordechai brand.

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 2023 and 2022 with respect to the Group's main Health & Wellness products, according to weighted data based on StoreNext²⁶ figures for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

	Weighted Market Share ⁽¹⁾			
	2023		2022 ⁽²⁾	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts ⁽³⁾	52.7%	29.0%	51.3%	30.5%
Cheeses ⁽⁴⁾	10.6%	55.0%	10.8%	53.7%
Dairy desserts ⁽⁵⁾	75.1%	16.2%	72.3%	16.9%
Milk beverages	73.9%	13.7%	69.7%	16.9%
Fresh drinking milk ⁽⁶⁾	17.6%	62.3%	17.3%	61.2%
Packaged salads, dips and spreads ⁽⁷⁾	47.8%	18.5%	45.4%	22.5%
Washed fresh packaged vegetables ⁽⁸⁾	31.4%	30.1%	34.1%	30.8%
Honey	49.3%	25.4%	55.6%	20.1%
Olive oil	18.8%	16.7%	17.9%	21.0%
Chilled pasta ⁽⁹⁾	60.4%	14.8%	55.8%	19.8%

(In percent – by value)

(1) Figures do not include the specialty/transparent market and the institutional market.

(2) Figures for 2022 were adjusted for StoreNext's updated calculations.

(3) Including probiotic beverages.

(4) Including cottage cheese, cream cheeses and soft cheeses.

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

(6) Including fresh and enriched milk.

(7) Including Achla brand products and refrigerated spreads.

(8) Excluding other washed fresh vegetables.

(9) Refrigerated packaged foods, ready-to-cook meals, chilled pasta.

The decline in the market share of washed packaged fresh vegetables is the result, among other things, of the market entry of new suppliers, as well as growth in new segments in which Ta'am Hateva is not a player. In the chilled pasta category, the Group maintained its position as market leader and even grew its market share.

The decline in market share in the honey category is the result of the import of customs-exempt honey by large retailers (private label) proximate to the Jewish New Year and holidays. The Jewish New Year is

²⁶ StoreNext data are current according to the report published on January 8, 2024.

the “festival of honey”.

8.2.5 Seasonality

Following are data for the years 2023 and 2022 with respect to the Group’s income in the Health & Wellness segment, by quarter, according to the Company’s Management Reports, as defined in section 5 above:

Quarterly Income in the Health & Wellness Segment				
	2023		2022	
	Income ⁽¹⁾	% of Total Segment Income	Income ⁽¹⁾	% of Total Segment Income
Q1	743	24.2%	669	24.0%
Q2	754	24.6%	672	24.1%
Q3	804	26.2%	728	26.1%
Q4	765	25.0%	715	25.7%
Total	3,066	100%	2,784	100%

(1) In NIS millions.

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, during the hot summer months, when consumption of dairy products increases. This trend was also maintained in 2023.

8.2.6 Production capacity

The production capacity of the Group’s plants in the Health & Wellness segment is measured in quantities of product per year. The production lines in the Group’s sites in the Health & Wellness segment are automatic, and most of them are operated in three shifts a day. It is noted that the Group’s plants in this segment are not interchangeable, and that also most of the production lines themselves are not interchangeable.

Following are details regarding the maximum potential yearly production capacity of the Group’s main manufacturing sites in the Health & Wellness segment, operating in three shifts, in tons of product per year, and actual capacity utilization rates in 2023 and 2022.

	2023		2022	
	Maximum Production Capacity	Average Actual Capacity Utilization Rate	Maximum Production Capacity	Average Actual Capacity Utilization Rate
Dairy - Achihud	132,500	68%	132,500	63%
Dairy - Yotvata	174,925	58%	168,946	56%

The Group has also continued with the construction of a manufacturing facility for plant-based milk, adjacent to the Achihud Dairy. For information, see also section 8.2.14.1 below.

Further to an Immediate Report of August 24, 2022 (reference no. 2022-01-107899), as of the date of this report, the investment budget for the construction of the new plant, as estimated by Strauss Health, is approximately NIS 250 million. The investment is expected to spread over the period through to 2025.

The information in this section is forward-looking information, as defined in the Securities Law, which is

based on the information available to the Company on the date of this report. The budget may change according to the pace of work, necessary planning changes, market conditions, etc.

It is noted that the maximum production capacity presented above is theoretical, as in practice, actual production capacity is affected by numerous quality factors such as raw material availability, logistic constraints, line cleanliness, allergen constraints and manpower issues. Furthermore, several production lines serving the operating segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity. The Group manufactures some of its products through outsourcing as necessary, which affords it operational flexibility. 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 effects of the Swords of Iron War, which are immaterial to the Group's operating results, were mainly expressed, as of the date of this report, in the full or partial closure, for a limited period, of the Group's three production plants in the Western Negev (the salty snack factory in Sderot, the Yad Mordechai plant and the fresh and refrigerated vegetables site on Kibbutz Bror Hayil), which reopened gradually during the first three weeks after the War broke out. The rest of the Group's plants and sites continued operate normally. For further information, see section 3 in the Board of Directors' Report.

8.2.7 Fixed assets, real estate and facilities

Following is a description of the main plants, distribution and cross-docking centers serving the Group's business operations in the Health & Wellness segment:



Plants in the Health & Wellness Segment				
Nature and Location	Site Designation	Land Area	Built-Up Area	Liens
Dairy in Bar Lev Industrial Park	Production of dairy products and dairy alternatives	91,650 m ²	27,251 m ²	---
Dairy at Kibbutz Yotvata	Production of milk beverages and enriched milk	34,500 m ² ⁽¹⁾	13,000 m ²	---
Karmiel	Production of salads, dips and spreads	18,000 m ² ⁽²⁾	11,417 m ²	---
Bror Hayil	Cutting, mixing and packaging of fresh refrigerated vegetables	12,590 m ² ⁽³⁾	43,000 m ²	---
Yad Mordechai Apiary	Production of honey products, olive oil, fruit preserves, cooking sauces, natural lemon juice and maple syrup	15,600 m ² ⁽⁴⁾	6,000 m ²	---

Rights in and to the site:

- (1) Kibbutz Yotvata leases the land from the Israel Land Authority (ILA) under two contracts. The lease period is 49 years commencing in June 1997, with an option to renew for an additional 49-year term. The Kibbutz recently initiated a process of regularizing the rights in Lots 421/1,2,3. After the process has been completed, the lease contracts will be revised. On March 2, 2023, a 3-year development agreement was signed (until March 2, 2027) with respect to Lot 421/4 (an additional area needed for further construction).
- (2) Lease.
- (3) Rental from Kibbutz Bror Hayil ending on May 30, 2031, with an option to extend the lease for two further periods: 6 years followed by 5 years and 6 months, subject to extension of the third party's lease agreement with the ILA.
- (4) In the first quarter of 2024, a rental agreement was signed with Kibbutz Yad Mordechai until December 31, 2034.

8.2.7.1 Distribution, logistics and cross-docking centers

Distribution, Logistics and Cross-Docking Centers in the Health & Wellness Segment				
Nature and Location	Site Designation	Land Area	Built-Up Area	Liens
Cross-docking site in Beersheba	Chilled storage site for chilled distribution in the northern Negev and Lachish region	4,920 m ² (the Group holds 50% of this area) ⁽¹⁾	2,000 m ² (the Group holds 50% of this area)	---
Logistics center in Kfar Masaryk	Chilled storage site for chilled distribution in the northern region and offices	25,300 m ² ⁽²⁾	8,000 m ²	---

For information on the Group's logistics center in Shoham, see section 8.1.8 above.

For information on Company policy for depreciating machinery and equipment in its various manufacturing plants, see Note 3.5 to the Financial Statements of the Company as of December 31, 2023.

Rights in and to the site:

- (1) Leased from the ILA under a capitalized lease contract for a 49-year period ending in 2029. About 50% of the site is leased to a third party until December 31, 2024.
- (2) Sublease from a third party for a 15-year period that began on the date of delivery of possession (January 1, 2023), as defined in the lease agreement, with two option periods, the first for 5 years and the second for 4 years and 11 months. There is an agreement for the expansion of the site, which will begin in the course of 2024 (B).

8.2.8 Research and development

For a description of R&D carried out in the Group, see section 15 below. Dairy products are developed, *inter alia*, using Danone's comprehensive knowhow.

8.2.9 Intangible assets

8.2.9.1 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 payments in respect thereof, see section 8.2.14.1 below.

8.2.9.2 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 that serve 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 8.2.14.1 below.

The Group also uses the trademark "Strauss", which is 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 section 21.1 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 further information, see Note 14.2 to the Consolidated Financial Statements of the Company as of December 31, 2023.

For an itemization of costs and changes in intangible assets in the years 2023 and 2022, see Note 14.1 to the Financial Statements of the Company as of December 31, 2023.

8.2.10 Human capital

For a description of the Group's organizational structure and information on employment agreements, see section 16 below.

Following is information on the number of employees in the Group in the Health & Wellness segment:

Number of Employees in the Health & Wellness Segment		
	December 31, 2023	December 31, 2022
Management and administration	94	97
Sales and distribution	41	53
Logistics	354	340
Operations	620	650
Total	1,109	1,140

Including 48 and 70 agency workers as of December 31, 2023 and 2022, respectively.

8.2.11 Raw materials and suppliers

The major raw material used by the Group in the segment (in addition to packaging materials, as described in section 8.1.9 above) is raw milk, the cost of which accounts for more than 25% of total purchases of the raw and packaging materials in the segment. In addition, the Group primarily uses milk powders and proteins, added ingredients for yogurt, stabilizers, essences, sugar, lactic acid cultures, tahini, hummus, vegetables, olive oil and honey.

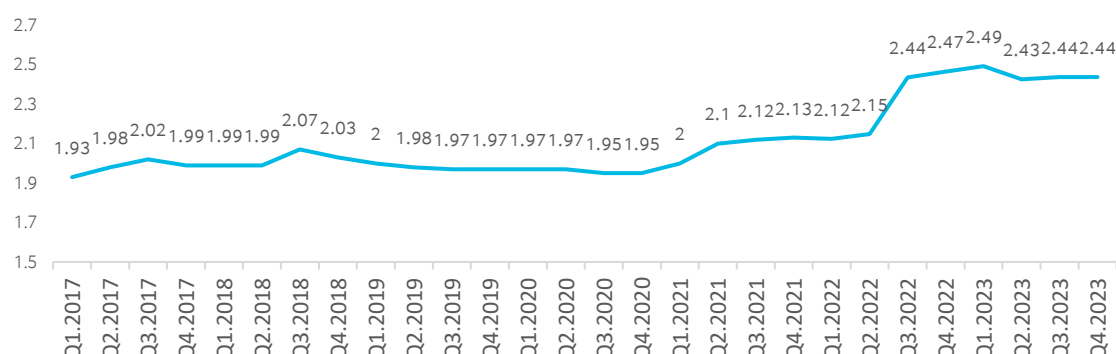
Raw milk is purchased from various dairy farmers in the Western Galilee, Jezreel Valley, Golan Heights, Coastal Plain, Zevulun region, Arava Plain, the northern Negev and Ramat HaNegev. Under the Milk Sector Planning Law, 2011, the Group is obliged to accept the entire quota of milk produced by the dairy farm from which it purchases milk. Most of the quantity purchased is used to manufacture products, and the surplus (particularly in the winter) is dried as milk powder, butter and milk fat and serves for the Company's own use (mainly in the summer) or is sold to a third party at market prices.

It is noted that the group also purchases raw milk from Kibbutz Yotvata (which also holds shares in Yotvata). The total quantity of milk supplied by Kibbutz Yotvata to the Group accounted for less than 5% of total milk purchases in 2023. The Group is not dependent on this supply.

For information on the arrangements with respect to determining raw milk prices, see section 8.2.13.2 below.

The figure below presents the changes occurring in the price of raw milk in the years 2017-2023 (the numbers on the vertical axis represent the cost price ("target" price) in NIS per 1 liter, and the numbers on the horizontal axis represent time:

Changes in the Price of Raw Milk



Price in NIS per 1 liter

The average price of raw milk in 2023 was 6.8% higher than the average price in 2022. In the full year of 2023, the price of raw milk rose by an average of 15.6 agorot compared to 2022, and as of December 31, 2023, is 2.4378 agorot.

The price of butter is derived from the price of raw milk, and in 2023 its price increased by 7% compared to 2022. The price of milk powder rose by 7.1%.

The increase in raw milk prices is largely due to the increase in the price of cattle feed mixtures (mainly corn, wheat and soy). In 2023, tahini prices rose by 1%, largely in the wake of geopolitical volatility in the major supplier's country (Ethiopia) and the rise in shipping costs from Ethiopia.

For the price trends of sugar and cocoa, see the information on the Fun & Indulgence segment in section 8.3.11 below. Some of the Group's products in this segment are manufactured by external suppliers with which the Group has contracted in manufacturing agreements. For further information, see section 8.1.9.c above.

8.2.12 Working capital

Following is the composition of working capital in the Health & Wellness segment in 2023, according to the Company's Management Reports as defined in section 5 above:

	Amount Included in the Management Reports
Operating current assets ⁽¹⁾	542
Operating current liabilities ⁽²⁾	457
Excess of current assets over current liabilities	85

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

(2) Including net trade payables, income received in advance and accrued expenses.

(3) In NIS millions.

8.2.13 Restrictions and oversight in the segment

For further information, see sections 11 and 12 in the Board of Directors' Report as of December 31, 2023.

8.2.13.1 Declaration as a monopoly in dairy desserts

On March 26, 1998, the parent company, 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 at the authority of the Competition Commissioner according to the Economic Competition Law, 1998 (the **"Economic Competition Law"**). 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 intended for consumption with a spoon". For further information, see section 20.4 and section 25.1 f.4 below.

8.2.13.2 Arrangements relating to raw milk

The dairy industry in Israel is structured in all aspects under the Milk Sector Planning Law, 2011, and the Israel Dairy Board is the party responsible for planning and oversight policy and its implementation. This includes the definition of quotas for production by milk producers (cowsheds), with government involvement in the regulation of quantities of raw materials and in setting the target price (the price paid by dairies to the dairy farmers for raw milk).

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 raw milk and regulation of the quantities of raw 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 Dairy Board – a public benefit company whose members include relevant representatives of the parties in the milk sector, including the government, the farmers' organizations and the dairies.

The Milk Sector Planning Regulations (Mechanism for Updating Minimum Prices per Liter Milk), 2012 determine the method for calculating, announcing and updating the target price.

In January 2021, the Ministries of Finance and Agriculture signed a sectoral agreement that regulates local production policy and policy applying to the import of dairy products for the coming years. For further information on the agreement, see section 11 in the Board of Directors' Report as of December 31, 2023. Consequently, in the summer of 2021 the Knesset extended the validity of the Milk Law until the end of 2023, with an option for a further two-year extension by the Knesset. By prolonging the applicability of the existing mechanisms, the extension of the Milk Law has mitigated the uncertainty that has been typical of the sector in the past.

In addition, in June 2022 an interministerial agreement was signed by the Ministry of Agriculture, the Ministry of Finance, the Israel Cattle Breeders' Association, the Israel Farmers' Federation and the Israel Dairy Board, the heads of which are a 4.9% increase in the prices of price-controlled dairy products, furtherance of an order pursuant to which commencing on May 1, 2023, an automatic mechanism for updating the prices of price-controlled dairy products will be applied, a recommendation to the Ministers to advance legislative amendments such that the target price will be lowered by 2.15 agorot for four quarters, an update that commencing from the 2021 survey of manufacturing costs in the dairy sector,

calculation of the costs of milk production will be based on annual production costs at the dairy farms of manufacturers with quotas of 800 thousand liters and more. There is also a recommendation to the Minister of Finance to issue a decree that provides for bigger customs exempt dairy import quotas in 2024–2025, issuance of a decree that cancels import tariffs on soft white cheeses containing more than 5% fat in two equal installments (January 2023 and January 2024), and the immediate cancelation of import tariffs applying to mozzarella, haloumi, Jameed and gorgonzola. Furthermore, an interministerial committee will be established, including representatives of the sector, that will recommend efficiency enhancement processes to the Ministers.

The information in this section that the Company is unaware of any significant effect of the Milk Law or the Milk Sector Planning Regulations on its operations is forward-looking information as this term is defined in the Securities Law, which is based on the information available to the Company 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 regulatory developments and various developments in the Israeli economy, etc.

8.2.13.3 Price control

Further to the interministerial agreement described above, in May 2023 the prices of dairy products subject to price control were revised by 8.3%, and in June 2023, by a further 1.0%.

8.2.14 Material agreements

8.2.14.1 Agreements with Danone



Investment and shareholder 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 (which was amended in January 2017 and in June 2021), 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 set forth 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 executed if opposed by all directors appointed by Danone, which include transactions between Strauss Health and other companies controlled by Strauss Group or with 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; payment of a dividend of less than 25% of the net annual profit (after retaining the reserves required by Strauss Health, as determined in the agreement);

a public offering or alteration of 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 or the plant-based product category (excluding baby food), as a result of which the turnover in such other categories that are not dairy products or plant-based products exceeds the percentage of Strauss Health's and its subsidiaries' turnover as 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 Danone's prior approval.

By virtue of the agreement (and after the Company assumed 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 chilled baby food or chilled dairy products in or to Israel (including the Golan Heights, East Jerusalem, 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 0°C; 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 neighboring on Israel. These provisions do not apply to plant-based dairy alternatives ("**Plant-Based Products**"). The agreement will remain in effect, unless the causes for cancellation specified in the agreement are fulfilled.

The agreement further determines that commencing on the date of signing of the June 2021 amendment to the agreement, the Company and Danone will collaborate on setting up a production site for Plant-Based Products by Strauss Health, which will be funded by Strauss Health, with Danone assisting Strauss Health in setup and planning. If necessary, the parties shall agree on additional production sites that will manufacture the products under an outsourcing arrangement.

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 present and future fresh, frozen and refrigerated dairy products, including cheeses and cheese products, dessert products, yogurt, fermented milk 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 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 bearing Danone's trademarks from the Territory without Danone's advance consent.

Use of trademarks other than Danone on the Products requires Danone's advance approval (other than 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 chilled products.

Strauss Health has undertaken that the Products bearing the trademarks will satisfy the quality requirements specified in the Agreement and 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 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.

The licensing agreement is for a term of 10 years, after which it will be automatically renewed for further periods of 5 years each; before each renewal, the parties will discuss the need for making alterations to the agreement, and in the absence of agreement on the alterations, the agreement will be renewed in its original form. 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, receiver, etc.; in a case where Strauss 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 in a manner that a material part or all of the abovementioned shares have been sold to one or more of the ten largest 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 in accordance with the provisions of the licensing agreement in the matters set forth below, Danone will be entitled to announce the cancellation of the licensing agreement, such cancellation taking effect within a period of 3 or 12 months, according to the nature of the breach: breach of Strauss Health's undertakings not to assign its rights under the license or grant sub-licenses; breach of its undertakings relating to the territorial limitations in the license; breach of its undertaking to comply with Danone's instructions relating to the use of the trademarks specified in the licensing agreement in a manner that is liable to materially harm Danone's interests; and breach of its undertaking to discontinue sales of the Products under the aforesaid brand names if Danone has so requested.

The agreement also includes provisions that will apply to the parties if the licensing agreement is revoked in the cases set forth above, 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 if 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 cancellation until two years have elapsed from the date the notice of cancellation was sent.

In consideration for the license Strauss Health makes various payments to Danone on a quarterly basis, at 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, as well as a fixed payment for knowhow at 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 2023, 2022 and 2021 were approximately NIS 34 million, NIS 30 million and NIS 30 million, respectively.

As part of expanding the partnership between Strauss and Danone into plant-based dairy alternatives, in June 2021 another licensing agreement was signed between Strauss Health and Danone, granting Strauss Health a license to use Danone's knowhow, patents and trademarks for plant-based dairy alternative (food or beverage) products.

In the agreement, Danone granted Strauss Health an exclusive right to manufacture, promote and sell Plant-Based Products registered under Danone's trademarks in Israel, including Ramat Hagolan, East Jerusalem, the West Bank and Gaza Strip (hereinafter in this section: the "**Territory**"), and to use Danone's trade secrets (for products sold under Danone's trademarks or Strauss Health's trademarks) for said products, in the Territory. Accordingly, a restriction was imposed on exports of the products outside the Territory without Danone's advance approval.

The licensing agreement determines that Danone or Alpro (of Groupe Danone) shall not grant a license to use their trademarks in the Territory for rival products, and shall not use them themselves, without Strauss Health's advance approval. However, this shall not prohibit or limit Danone's and Alpro's right to use their trademarks in the Territory for other products, which shall be done such that no harm is caused to the reputation of the trademarks.

Strauss Health may manufacture and market plant-based desserts and flavored plant-based beverages under its own brands, subject to approval by Strauss Health's board of directors and provided that the director on behalf of Danone does not oppose this. However, the director on behalf of Danone may not oppose on grounds that are unreasonable.

The licensing agreement is for a period of ten years, after which it shall automatically be renewed for further periods of five years each. Before each renewal, the parties shall discuss the need to make changes to the agreement. The licensing agreement shall not be canceled other than in the following cases:

A material breach of the agreement by a party thereto, which has not been cured within 60 days, bankruptcy, appointment of a liquidator, receiver, etc., in a case of change of control ("control" as defined in the agreement) of one of the parties. Furthermore, if Danone has ceased to be a shareholder

of Strauss Health, it shall be entitled to announce the cancelation of the licensing agreement in a notice given 24 months in advance, and in any case, no earlier than before a ten-year period has elapsed.

It is further determined that if the licensing agreement is canceled on certain grounds, Danone shall not initiate manufacturing and marketing activities for the products in the Territory under the trademarks that were in use prior to cancelation, until one year has passed from the date on which the notice of cancelation was sent.

According to the agreement, Strauss Health shall pay Danone royalties for the use of Danone's brands, as well as royalties for the use of knowhow in Strauss Health's products. The amount of the royalties is determined based on sales quantities.

Alpro approved the terms and conditions of the agreement by signing the agreement and undertook that in any case of early termination of its licensing agreement with Strauss Health (other than due to a breach thereof by Strauss), Alpro shall ensure that Strauss Health shall be able to continue to use its trademarks and knowhow according to the terms and conditions of the licensing agreement with Danone.

To complete the picture, it is noted that Strauss Health has contracted with the Company in agreements for the receipt of services pertaining to sales and distribution, as well as general administrative services.

In May 2020 Strauss Health signed an exclusive distribution agreement for Alpro products (Alpro is a member of Groupe Danone) in Israel. The distribution of Alpro products was initiated on July 1, 2020.

See also risks factors in section 25.1 k.1, k.2 and i.6 below.

8.2.14.2 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, 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 meetings of 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 governance, 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 the appointment of the CFO, but they are not entitled to exercise this right other than on reasonable grounds.

Additionally, Strauss Health was issued convertible capital notes at a nominal amount of NIS 79,108 thousand, unlinked to the CPI and interest-free, redeemable only upon the winding-up of Yotvata, but not before 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 Yotvata shares 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 at the amount of USD 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 beverages 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 not to 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 sector, 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, resolutions of Yotvata's board of directors or general meeting relating to certain matters, including, *inter alia*, a material change in Yotvata's business or entry into business areas that are not related to the manufacture and marketing of dairy products; changes in Yotvata's equity (such as a change in the rights attached to shares and a capital increase); establishment of a new manufacturing plant for Yotvata; dilution of the Kibbutz's stake other than as provided in the agreement; a reduction in the amount of dividend distributions to below the rate set in the agreement; a change in the provisions of the agreement concerning the work arrangements of Yotvata employees who are members of the Kibbutz, and others – 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 the Kibbutz's representative in the meeting of the shareholders, as the case may be. In the case of a tie vote, the chairman of the board will have an additional vote. 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 on the issues of a new Yotvata manufacturing site or a change in the provisions of the agreement concerning the work arrangements of Yotvata employees who are Kibbutz members, the matter will be referred for resolution by a deciding director who shall be appointed with the consent of the parties according to the mechanism described in the agreement, 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 at the amount of the dividend whereto it is entitled until the dividend 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 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 are not 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.

The agreement further asserts that any party selling all or most of its shares to a third party will deposit with Yotvata, as a loan, an amount in NIS that is equal to USD 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 sum under the aforesaid terms and conditions. See also the risk factors in section 25.1 k.1, k.2 and i.6 below.

8.3 The Fun & Indulgence Segment

8.3.1 General information on the Fun & Indulgence segment

For general information on the Israel Operation that is common to the Health & Wellness and Fun & Indulgence segments, see section 8 above.

8.3.2 Products

The Group's major products in this segment are generally marketed in Israel under the following brands:

(1) "Elite" – sweet snacks, bakery products including wafers and premium bakery products under the primary brands "Mekupelet", "Kif Kef", "Torteet", "Taami", "Egosi", "Pesek Zman", "Ad Hatzot", "Milky Bar". By way of illustration:





(2) “Para” (“Cow”) – chocolate tablets, chocolate fingers and sweet spreads. By way of illustration:



(3) “Splendid” – chocolate tablets with a high cocoa solids content or diverse added ingredients, desserts and chocolate boxes. By way of illustration:



(4) Candies and chewing gum – under the “Must” and “Bazooka” brands. By way of illustration:



(5) Salty snacks – “Tapuchips”, “Doritos”, “Cheetos”, “Sababa”. By way of illustration:



(6) “**Quaker**”, manufactured by PepsiCo – flavored instant oatmeal, breakfast cereals. By way of illustration:



The Group’s Fun & Indulgence products are manufactured at its sites in Israel, alongside products that are purchased from other manufacturers in Israel and abroad such as candies, chewing gum, some chocolate bars, some chocolate tablets (mainly premium tablets) cookies and oatmeal. 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.

The general health trend in the food and beverage sector continued in 2023 and is also evident in Fun & Indulgence products, expressed in the consumer’s desire for indulgence without compromising his health. As part of enhancing the consumption experience and developing new solutions aligned with consumption trends, in 2023 the Group maintained its focus on products that deliver special added value to the consumer, portion-controlled products and assorted mixes in bags and multipacks. The indulgence trend has continued to flourish as consumers seek portion-controlled solutions, and the portion size world is growing. Before the recall, the Group delivered a variety of products in response to this need, such as premium mini snack bars, sugarless mini snack bars and others.

In 2023, the home cooking and baking trend maintained the course of returning to its original dimensions after booming during the pandemic, whereas eating out began to recover. Especially prominent were the food trucks, which offered fast, high-quality food, and the impulse category also grew.

With the resumption of production at the confectionery plant after the recall, the Group focused on manufacturing its core products and returning them to the shelves under strict quality standards set by the Group. In salty snacks, in 2023 the Group worked in several targeted spheres: (1) Growing its core snacks by launching iconic world flavors (such as Cheetos Puffs), while supporting existing brands; (2) Anchoring the Quaker brand as a healthy, balancing option in the portfolio.

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 about 36 months). Chocolate products are stored and transported in a temperature-controlled environment (16°-18°C), 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 8.3.4 below.

8.3.3 Segmentation of revenues and product profitability (according to the Company's Management Reports, as defined in section 5 above)

As demonstrated by the information on the segmentation of the Company's income from external entities (consolidated) according to the Company's Management Reports as defined in section 5 above, in the Fun & Indulgence segment there is no group of similar products that constitutes 10% or more of the total said revenues.

8.3.4 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, Maya Food Industries Ltd., Leiman Schlusser, Mana Y.A. Ltd., Frey, Sides, Ferrero Israel, Mars Israel, Godiva, Lotus, Wissotzky and the private label products of various retailers. In addition, the Fun & Indulgence segment has numerous other, smaller competitors, including additional private label brands. In 2023, Carrefour opened in Israel. Carrefour has a private label that competes with the Group, mainly in the chocolate tablet category – basic and premium – as well as in the cereal bar category. As a result of 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 well-known international branded products such as Kinder, Mars Bars, Oreos, Milka, Lindt and Orbit, and others, products that are unknown. The international brands pose significant competition, and are even leaders in some categories such as chewing gum and premium cookies.

During the recall, beginning in April 2022 and as the Group gradually resumed the marketing of most of its products, the impact of imported goods was felt mainly in the chocolate tablet category, as well as in cookies and wafers. In the sweet snack bar category, there has been an overall decline in consumption of these products. While the Company's products were absent from the shelves following the recall, two significant chocolate tablet brands grew stronger – Tony's Choclonely and Ritter Sport. However, with the expansion of the Group's chocolate product offering and particularly after the launch of the Pesek Zman Fingers series, the Group regained its pre-recall market share in the upgraded segment. Strong competition in the tablet category is also posed by private labels and by basic products in the multipack segment. Despite the overall decline, in the absence of the Group's products on the shelves, the segment contracted considerably, and with the expansion of the Group's product offering, the segment has resumed growth. Another category that is growing by double digits is the protein bar category, and a shift from health/cereal bars to protein bars has been observed. In January 2024, a high-protein snack bar series with assorted flavors was launched.

Following is information on the market shares of the Group and its major competitor in each group of similar products in the years 2023 and 2022 in reference to the major similar products groups in the Fun

& Indulgence segment, according to weighted data based on StoreNext's figures²⁷ for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Weighted Market Share				
Products	2023		2022 ⁽¹⁾	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate tablets	40.3%	9.6%	25.4%	13.9%
Sweet snack bars	39.0%	20.8%	23.0%	26.2%
Chewing gum ⁽²⁾	21.4%	43.2%	19.3%	46.8%
Wafers	22.4%	35.0%	15.4%	42.4%
Sweet bakery products (excluding wafers)	14.3%	19.6%	10.2%	22.1%
Salty snacks	39.3%	43.7%	39.1%	45.0%

(1) 2022 data were adjusted for StoreNext's updated calculations.

(2) Growth in market share in the confectionery categories is due to the recall of the products of the confectionery plant that was announced at the end of April 2022.

In the chocolate tablet and chocolate bar categories, the negative impact of the recall was highly significant, but following the resumption of production and marketing the Group is again gaining market share, and in some categories has regained the market share it held prior to the recall, although the range of products manufactured is still limited compared to the pre-recall production range. The Group has also chosen not

8.3.5 Seasonality

Following are data for the years 2023 and 2022 with respect to the Company's income in the Fun & Indulgence segment, by quarter, according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the Fun & Indulgence Segment				
	2023		2022	
	Income ⁽¹⁾	% of Total Segment Income	Income ⁽¹⁾	% of Total Segment Income
Q1	306	30.4%	306	43.0%
Q2	217	21.5%	101	14.2%
Q3	244	24.2%	143	20.1%
Q4	241	23.9%	162	22.8%
Total	1,008	100%	712	100%

(1) In NIS millions.

²⁷ StoreNext data are current according to a report published on January 8, 2024.

Income from the sale of products in the Fun & Indulgence segment is generally (relatively) higher in the first third of the year and generally (relatively) lower in the second third 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.

With the outbreak of the Swords of Iron War, sales volumes of salty snacks declined following the suspension of production at the salty snack plant in Sderot in the first few days of the fighting, the closure of retail stores in southern and northern Israel and a drop in demand in the salty snack category. As of the publication date of this report, the salty snack plant has resumed regular manufacturing operations. For further information, see section 3 in the Board of Directors' Report.

8.3.6 Production capacity²⁸

For qualitative data on the production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, see section 8.2.6 above with respect to the Group's plants in the Health & Wellness segment, *mutatis mutandis*.

Following are details regarding the maximum potential yearly production capacity of the Group's main manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in tons of product per year, and actual capacity utilization rates in 2023 and 2022.

	2023		2022	
	Maximum Production Capacity	Average Actual Capacity Utilization Rate	Maximum Production Capacity	Average Actual Capacity Utilization Rate
Confectionery – Nazareth	43,700	35%	43,700	27%
Salty snacks – Sderot	23,097	90%	21,440	90%

It is noted that the maximum production capacity presented above is theoretical, as in practice, actual production capacity is affected by numerous quality factors such as raw material availability, logistic constraints, line cleanliness, allergen constraints and manpower issues. Furthermore, several production lines serving the operating segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity. The Group manufactures some of its products through outsourcing as necessary, which affords it operational flexibility. 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.

Additionally, due to the recall and discontinuation of operations at the plant in Nazareth for several months beginning in April 2022, the confectionery plant's average capacity utilization rate declined.

In the context of lessons learned and to improve the quality standard, as well as with the aim of focusing on core categories, a decision was made to discontinue production of some of the bakery product lines and to terminate production of some of the Company's wafer products.

²⁸ 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%.

The effects of the Swords of Iron War, which are immaterial to the Group's operating results, were mainly expressed, as of the date of this report, in the full or partial closure, for a limited period, of the Group's production plant in the Western Negev (the salty snack factory in Sderot), which reopened gradually during the first three weeks after the War broke out. As of the date of this report, the plant has resumed full operations, and a gradual recovery in supply capabilities and in meeting demand has been observed. For further information, see section 3 in the Board of Directors' Report.

8.3.7 Fixed assets, real estate and facilities



Plants in the Fun & Indulgence Segment

Plants				
Nature and Location	Site Designation	Land Area	Built-Up Area	Liens
Production plant in the Nof Hagalil industrial zone ⁽¹⁾	Production of confectionery and bakery products	70,000 m ² ⁽²⁾	38,700 m ²	---
Production plant in the Sha'ar Hanegev industrial zone	Production of salty snacks	26,400 m ² ⁽³⁾	13,000 m ²	---

(1) Part of the plant area in Nof Hagalil does not have a valid City Building Plan, but an outline for regularization is currently being formalized with the municipality. The Company estimates that the foregoing has no significant implications on the Company.

Rights in and to the site:

(2) Leased until 2060.

(3) Leased until October 2058, with an option granted to the lessee to extend the lease for an additional 49 years.

Distribution, Logistics and Cross-Docking Centers in the Fun & Indulgence Segment

Distribution, Logistics and Cross-Docking Centers				
Nature and Location	Site Designation	Land Area	Built-Up Area	Liens
Distribution and logistics center in Acre	For distribution of Company products that do not require refrigeration, in northern Israel	24,000 m ² ⁽¹⁾	8,008 m ²	---
Yevulim warehouses, Sha'ar Hanegev industrial zone	For distribution of products that do not require refrigeration, in southern Israel	40,000 m ² ⁽²⁾	7,000 m ²	---
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 8.2.7.2 above.			

Rights in and to the site:

(1) Leased until January 2026.

(2) Leased from a third party for 5 years commencing December 4, 2016, plus options for several periods for a total of 15 more years.

For information on the Group's logistics center in Shoham, see section 8.1.8 above.

For Company policy regarding the depreciation of machinery and equipment in its various plants, see Note 3.5 to the Financial Statements of the Company as of December 31, 2023.

8.3.8 Research and development

For a description of R&D processes carried out by the Group, see section 15 below. Salty snack products are developed, *inter alia*, using PepsiCo's knowhow.

8.3.9 Intangible assets

8.3.9.1 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 8.3.14 below. In addition, the Group has trademark licenses for its products from several third parties with which the Group has contracted, in consideration for the payment of royalties for such use in amounts that are immaterial to the Company.

8.3.9.2 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 changes in intangible assets in the years 2023 and 2022, see Note 14.1 to the Financial Statements of the Company as of December 31, 2023.

8.3.10 Human capital

For a description of the Group's organizational structure and additional information on employment agreements, etc., see section 16 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:

Number of Employees in the Fun & Indulgence Segment		
	December 31, 2023	December 31, 2022
Management and administration	84	82
Sales and distribution	435	445
Logistics	238	251
Operations	866	888
Total	1,623	1,666
Including 89 and 66 agency workers as of December 31, 2023 and 2022, respectively.		

8.3.11 Raw materials and suppliers

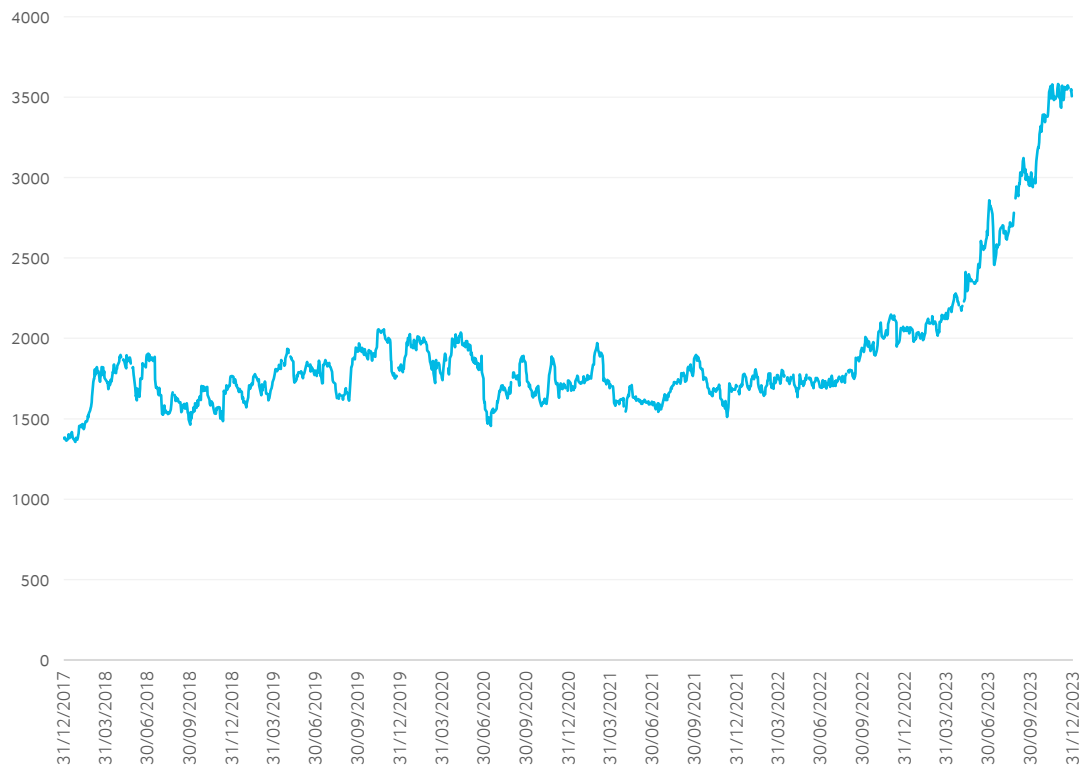
The main raw material used by the Group in the manufacture of Fun & Indulgence products (in addition to packaging, as described in section 8.1.9 above) is cocoa and its by-products (cocoa butter, cocoa mass and cocoa powder), the cost of which in 2023 accounts for 15% of total purchases of raw and packaging materials in the segment. The Group also mainly uses milk powders, sugar, nuts, vegetable oils, potatoes, spices 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 market volatility, notably supply fluctuations due to changing weather conditions, ripening periods, etc. In 2023, market trends were characterized by increases in the prices of most raw materials. For further information, see section 6 in the Board of Directors' Report as of December 31, 2023.

2023 was marked by significant increases in cocoa prices compared to 2022. The average price of cocoa in 2023 was 46% higher than its average price in 2022. Cocoa butter processing costs were 5% higher than in the prior year, and processing costs of cocoa mass also rose by 4% compared to 2022.

The figure below shows the changes in the price of cocoa beans in the years 2017-2023, according to Bloomberg:

Changes in the Price of Cocoa Beans in 2017-2023



Units: Pound Sterling per 10 tons

Sugar prices in 2023 were on an uptrend. The average price of sugar in 2023 was approximately 24% higher than its average price in 2022. The increase in the average price of sugar is the result of a world shortage in sugar supply, largely due to inclement weather in Thailand and in Europe.

The figure below presents the changes in sugar prices in the years 2017-2023, according to Bloomberg:

Changes in Sugar Prices in 2017-2023



Units: US dollar per 50 tons

For further information, see sections 3-13, “Changes in the Economic Environment”, in the Board of Directors’ Report as of December 31, 2023.

8.3.12 Working capital

Following is the composition of working capital in the Fun & Indulgence segment in 2023, according to the Company’s Management Reports, as defined in section 5 above:

Working Capital in the Fun & Indulgence Segment	
	Amount Included in the Management Reports ⁽³⁾
Operating current assets ⁽¹⁾	344
Operating current liabilities ⁽²⁾	200
Excess of current assets over current liabilities	144

⁽¹⁾ Including net trade receivables, inventory, income receivable and prepaid expenses.
⁽²⁾ Including net trade payables, income received in advance and accrued expenses.
⁽³⁾ In NIS millions.

8.3.13 Restrictions and oversight in the segment

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 sections 20.4 and 25.3 f.4 below.

8.3.14 Material agreements

Agreements with PepsiCo



The manufacture, marketing and sale of salty snacks in Israel are carried out by Strauss Frito-Lay, such that the Group holds 50% of the shares of Strauss Frito-Lay, and the remaining 50% are held by the American food concern PepsiCo through its subsidiary, PepsiCo Europe. The Company, PepsiCo Europe and PepsiCo, Inc. contracted in a shareholder 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. Under an amendment of 2018, commencing in October 2018 the license was extended to include export to the kosher market only in Europe of products under the Doritos, Cheetos and Elite Crunch brands. According to an amendment of 2019, commencing in August 2019 the license was extended to also include the export of products under the brands Lay's, Doritos, Cheetos and Elite Crunch to the US and Canada, to the kosher market only. The agreement further determines that PepsiCo, Inc. has the right at any time 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 shareholder 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 shareholder 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 pays 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 also pays PepsiCo, Inc. a yearly payment for technical support services.

In 2023 and 2022, the Group credited PepsiCo, Inc. with payments under the royalty agreement at the amounts of NIS 10.1 million and NIS 10.2 million.

Shareholder agreement: According to the shareholder 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 with that party in said 12-month period did not succeed.

The term "control" in the shareholder 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.

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 a manager 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, alteration 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 pertaining to the financing of Strauss Frito-Lay and to the dilution of a shareholder who refuses to provide its share of additional financing requested by Strauss Frito-Lay’s board of directors.

The shareholder 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 will 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); should either party disagree with the arbitrator’s decision, the counterparty will have the option of acquiring its shares. If the parties do not agree with the arbitrator’s decision or in a case of failure to exercise 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 12 months, Strauss Frito-Lay will be wound up.

The agreement will remain in effect unless the causes for cancellation specified in the agreement are fulfilled. However, 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 obliging either party to 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 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 asserts 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 following regulatory changes or government acts that are material to the agreement, PepsiCo, Inc. 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 failure to exercise said right of first refusal, the period of PepsiCo, Inc.'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 distributable profits according to Israeli law and Strauss Frito-Lay's financial statements.

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

To complete the picture, it is noted that the series of agreements between the Company and Strauss Frito-Lay also regulates the services provided to Strauss Frito-Lay by the Company, these include:

- a. **A licensing agreement for the use of the Company's trademark**, pursuant where to the Company has granted Strauss Frito-Lay a non-exclusive license to use the "Elite" trademark in Israel in all aspects related 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 of the date of the report, the agreement is renewed for five-year periods (it was most recently renewed on January 1, 2019) unless a party has announced its intention to terminate it at least six months before a five-year extension period, 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 shareholder agreement pertaining 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. The first term of the agreement was for ten years, and since January 1, 1999 and thereafter, the agreement is automatically renewed for 5-year periods.
- d. On September 24, 2023, the shareholders signed a memorandum of understanding with respect to a revision of the calculation and costing of the services described above (the "**Management Fees**") provided to Strauss Frito-Lay by the Company. The updated Management Fees apply to Strauss

Frito-Lay retrospectively from January 1, 2023, and every three years, the shareholders will review the calculation method of the Management Fees in relation to the actual cost of the services.

- e. 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 (excluding "Energy" products, which are manufactured by Strauss Group) without PepsiCo's consent. See also risk factors in section 25.3 k.1, k.2 and i.6 below.

9. The Coffee Operation (Israel and International)

9.1 General information on the Coffee Operation

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

9.1.1 Structure of the operation and changes occurring therein

In Brazil (through Três Corações (JV)²⁹), Israel and Eastern European countries (Poland, Romania, Russia, Serbia and Ukraine), the Group manufactures, markets and distributes a variety of coffee products - roast and ground (R&G) coffee (including filter coffee, roasted coffee beans and coffee capsules) and instant coffee (including powdered instant coffee and freeze-dried instant coffee), ready-to-drink coffee, hot drink powders (such as chocolate and cappuccino powders) and cocoa powders for baking; markets and distributes coffee machines for home use in Brazil and in Israel; and markets and distributes, in all countries of operations, coffee machines and coffee products for consumption away from home (AFH) – at hotels, cafés, offices, etc. Furthermore, the Group is active in Israel (through the Elite Café chain) in the sale of coffee products, bakery products and soft drinks at some 65 points of sale throughout Israel (as of December 31, 2023), most of which cater to customers in public places.

Additionally, as part of its activity in Brazil (through Três Corações (JV)) the Group purchases, processes and sells green coffee, corn products, plant-based dairy alternatives and juice powders.

In the Coffee Operation, in 2023 sales by value grew following price increases in some countries of operations (Israel, Poland, Romania and Russia) and was accompanied by growth in sales volumes in Brazil, Poland, Serbia and Ukraine. By contrast, in the rest of the countries of operations, sales volumes declined, due, *inter alia*, to high inflation levels and a general decline in the category in those countries. Furthermore, the uptrend in online coffee sales continued in most countries of operations.

Sales in the institutional and AFH channel continued to grow in 2023, due to the continued focus placed on the channel.

In 2023, the Company's business results were affected by several occurrences with opposite effects. On the one hand, green coffee prices rose significantly (mainly Robusta), with prices peaking toward the end of the year. For information, see section 9.1.8 below. Moreover, inflation levels and interest rates in the countries of operations remained elevated (inflation was on a downtrend during the year, but remained higher than in 2021, before the wave of interest hikes began), and accordingly, led to an increase in various costs. For further information, see section 7 above and section 6 in the Board of Directors' Report as of December 31, 2023. On the other hand, electricity and natural gas prices, which were extremely high in 2022, declined in 2023, particularly the prices of natural gas. In addition, the strengthening of the local currencies in Poland and Romania against the dollar lowered the costs of green coffee procurement in those countries.

²⁹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

It is noted that in the last quarter of 2023, the Swords of Iron war in Israel caused challenges in the passage of goods. For the effects of the Swords of Iron war, which are immaterial to the Group's business results, see section 3 in the Board of Directors' Report as of December 31, 2023.

In 2023, approximately 56% of sales by the Group's Coffee Operation originated in the business in Brazil, 15% was generated by Israel Coffee sales, and 28% - by the companies in CEE. In Brazil, Israel, Romania and Serbia, the Group is first or second in size in terms of market share in retail coffee sales (according to Nielsen, StoreNext³⁰ and RetailZoom figures).

For the effect of exchange rate volatility on the Group's sales, see section 14 for the analysis of financial results in the Board of Directors' Report as of December 31, 2023.

On May 23, 2023, Strauss Coffee signed an agreement for the sale of 100% of its ownership in Strauss Adriatic d.o.o. to Atlantic Grupa d.d. (the "**Agreement**"). Engagement in the Agreement was subject to the receipt of approval from the Serbian Commission for Protection of Competition, which was received on February 29, 2024. Subsequently, on March 1, 2024, the transaction was closed. In accordance with the adjustments to the consideration determined in the Agreement, the consideration for the sale at an amount of EUR 38.8 million, gross, was paid to Strauss Coffee on the closing date. The Company is expected to record a net loss in respect of the closing of the transaction in its consolidated financial statements as of March 31, 2024 at an amount of NIS 26.5 million, comprising a profit of NIS 63.5 million from the transaction less a loss of NIS 90 million arising from the realization of the translation differences reserve attributable to the Company in Serbia.

The information in this section regarding the effect of the closing of the transaction on the Company's consolidated financial statements is forward-looking information, as this term is defined in the Securities Law, 1968. This information may materialize differently than as described above, among other things as a result of tax effects, exchange rate differences, transaction costs, etc.

In accordance with the foregoing, the transaction was closed after the date of the statement of financial position (as of December 31, 2023) and accordingly, the business is described in this chapter, Description of the Company's Business (above and below), in the reporting year and proximate to the closing date, as the case may be.

9.1.2 The global coffee market

In general, the coffee industry is an attractive, large and stable category, one that is growing continuously in local currency terms and volumes and, as a rule, is not affected by economic slowdowns. In 2023, the 2022 trend continued, and growth was observed in most countries of operations in local currency, whereas in some countries, sales quantities declined.

The information in this section regarding the attractiveness of the global coffee market, its size, growth and general non-dependency on the economy is forward-looking information, as this term is defined in the Securities Law, 1968, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual events may differ materially

³⁰ StoreNext data are current according to a report published on January 8, 2024.

from those anticipated, among other things as a result of various developments which may occur in the state of the markets, consumption habits, etc. For further information, see section 7 above.

According to Euromonitor, in 2023 Brazil, the Eastern European countries and Israel accounted for 13.7%, 8.3% and 0.3%, respectively, of world retail coffee sales in volume terms. Furthermore, according to Euromonitor, Brazil is the world's second largest coffee market, with retail sales amounting to around USD 7.7 billion.

Following are data on the world coffee market according to Euromonitor:

Global Retail Coffee Market ⁽¹⁾		
	2023	2022 ⁽²⁾
Sales in retail prices	USD 106.8 billion	USD 104.6 billion
Sales volumes	6.0 million tons	6.0 million tons
	2018-2023	2017-2022
Compound annual growth rate (CAGR) in value terms	2.8%	2.6%
CAGR in volume terms	0.9%	1.2%

(1) Excluding cafés.

(2) Figures for 2022 were adjusted for Euromonitor's updated calculations.

Global Retail Roast & Ground (R&G) Segment ⁽¹⁾		
	2023	2022 ⁽²⁾
Percentage of global coffee market in value terms	68.3%	68.4%
Percentage of global coffee market in volume terms	72.2%	72.4%
Sales value	USD 73 billion	USD 71.6 billion
Sales volumes	4.3 million tons	4.3 million tons
	2018-2023	2017-2022
CAGR in value terms	3.6%	3.6%
CAGR in volume terms	1.0%	1.3%

(1) Including fresh coffee beans, ground coffee beans and capsules, and excluding cafés.

(2) Figures for 2022 were adjusted for Euromonitor's updated calculations.

Global Retail Instant Coffee Segment		
	2023	2022 ⁽¹⁾
Percentage of global coffee market in value terms	31.7%	31.6%
Percentage of global coffee market in volume terms	27.8%	27.6%
Sales value	USD 33.9 billion	USD 33.1 billion
Sales volumes	1.7 million tons	1.7 million tons
	2018-2023	2017-2022
CAGR in value terms	1.2%	0.8%
CAGR in volume terms	0.7%	0.9%

(1) Figures for 2022 were adjusted for Euromonitor's updated calculations.

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

Market Shares of Major Players in the Global Retail Coffee Market ⁽¹⁾		
Market share	2023	2022 ⁽²⁾
Nestle	24.6%	25.0%
JAB ⁽³⁾	11.3%	11.3%
Strauss Coffee ⁽⁴⁾	2.8%	2.7%
Lavazza	2.6%	2.7%
JM Smucker	2.4%	2.5%
Tchibo	1.5%	1.5%

(1) Value market share, excluding mixes (instant coffee powders containing sweetener/milk powder/other powders (hereinafter: “Mixes”).

(2) Figures for 2022 were adjusted for Euromonitor’s updated calculations.

(3) Figures include all companies acquired by JAB Holdings in recent years (not including acquisitions closed in 2024), including JDE.

(4) Figures include 100% of the business of Três Corações (JV) ³¹ according to Euromonitor data. For additional information, see section 9.3 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 R&G market, according to Euromonitor:

Market Shares of Major Players in the Global Retail R&G Market ⁽¹⁾		
Market share	2023	2022 ⁽²⁾
Nestle	15.9%	15.6%
JAB ⁽³⁾	12.1%	11.5%
Lavazza	3.5%	3.4%
Strauss Coffee ⁽⁴⁾	3.5%	3.1%
JM Smucker	3.3%	3.2%
Tchibo	1.9%	1.8%

(1) Value market share, including fresh coffee beans, ground coffee beans and capsules.

(2) Figures for 2022 were adjusted for Euromonitor’s updated calculations.

(3) Figures include all companies acquired by JAB Holdings in recent years, including JDE.

(4) Figures include 100% of the business of Três Corações (JV) according to Euromonitor data. For additional information, see section 9.3 below.

³¹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee’s stake (50%) unless expressly stated otherwise).

Following are data on the major players in the global instant coffee market, according to Euromonitor:

Market Shares of Major Players in the Global Retail Instant Coffee Market ⁽¹⁾		
Value market share	2023	2022 ⁽²⁾
Nestle	36.7%	35.2%
JAB ⁽³⁾	9.0%	8.8%
Dongsuh Foods Co. Ltd.	1.9%	2.6%
PT Java Prima Abadi	1.5%	1.4%
PT Mayora Indah Tbk	1.4%	1.4%
Kapal Api Group	1.4%	1.2%
Ajinomoto Co. Inc.	1.1%	1.1%
Strauss Coffee ⁽⁴⁾	1.1%	1.2%

(1) Coffee market share by value, excluding Mixes as defined above.

(2) Figures for 2022 were adjusted for Euromonitor's updated calculations.

(3) Figures include all companies acquired by JAB Holdings in recent years (not including acquisitions closed in 2024), including JDE.

(4) Figures include 100% of the business of Três Corações (JV) ³² according to Euromonitor data. For additional information, see section 9.3 below.

Following are data on sales in the global coffee market based on geographic segmentation:

Global Coffee Sales Based on Geographic Segmentation		
	2023	2022 ⁽¹⁾
Western Europe	22.3%	22.7%
North America	13.4%	13.8%
Latin America	19.9%	19.8%
Asia Pacific	26.1%	25.6%
Eastern Europe	8.3%	8.4%
Middle East and Africa	9.0%	8.9%

(1) Figures for 2022 were adjusted for Euromonitor's updated calculations.

9.1.3 Consumer trends in the coffee market

In 2023, the key consumer trend in the coffee world in recent years – the birth of the coffee culture – continued, characterized by a continuing rise in the level of sophistication of consumers and products alike.

The factors driving the coffee culture are trends of premiumization in the consumption of food and beverages (also expressed in the wine, beer, cheese and other categories), continuous growth of high-end café chains and the coffee capsule (single portion) segment, which deliver a more sophisticated coffee experience and products, including knowledge of coffee, its sources of cultivation and preparation methods. Additionally, new high-value categories and products were developed, and the product offering is broad. Also, the trend of shopping for coffee online allows for the dissemination and

³² Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

accessibility of knowledge and for experimentation in the coffee segment. Coffee consumers are acquiring greater knowledge and demanding higher standards.

If, formerly, coffee consumers habitually drank one type of coffee, there is now a trend of product diversification as consumers drink several kinds of coffee (R&G, instant, espresso), sometimes even on the same day. Manufacturers are adapting to the demand for product diversification through up-to-date brands and by leveraging food technologies to introduce new value propositions, as well as by building online sales platforms, which also enable diversification. As a result of these trends, high growth is observed in relatively new coffee categories such as single-portion capsules, roasted beans, ready-to-drink coffee, and others.

The Group conducts research from time to time to foresee changes in consumption trends. Based on these trends, in recent years the Group has expanded its activity in single-portion capsules and other premium products, such as customized orders of fresh coffee beans. The Group also launched ready-to-drink coffee products and has enhanced its capabilities in the development and launch of new, high added-value products.

In 2023, AFH coffee consumption maintained its uptrend. However, the trend of working from home, which has gained momentum since the pandemic, continues to affect coffee consumption in offices and workplaces.

In the various countries of operation, the Group provides a response to the different consumption trends. In Brazil (through Três Corações (JV)³³), the Company manufactures and markets coffee capsules and has broadened this business through the addition of production lines in the past three years. In Israel, coffee capsules are manufactured and marketed direct-to-consumer online and retail under the BeanZ brand, with coffee machines and freshly roasted coffee beans tailored to the consumer's individual taste marketed and sold online. In Poland and Romania, the Group is active in unique coffee bean launches in which the products are personally tailored to the customer's taste (coffee origin, roasting method, grinding thickness, etc.) and delivered to the customer directly after roasting with maximum freshness. Sales are both online and retail.

9.1.4 Changes in the scope of activity and profitability of the segment

9.1.4.1 Changes in the scope of activity

The Group's operations in the coffee business continued to grow in 2023 compared to 2022 thanks to organic growth and the development of the Company's brands, as well as the launch of new high added-value products tailored to consumption trends, led by the emergence of the coffee culture as described in section 9.3 below.

9.1.4.2 Changes in profitability

³³ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

For information on changes in profitability in the Coffee Operation in 2023, including the Israel Coffee segment and the International Coffee segment, see section 22.2 in the Board of Directors' Report as of December 31, 2023.

9.1.5 Critical success factors in the Coffee Operation and changes occurring 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 are products that 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) maintaining and boosting the 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 AFH market and maintenance of diverse points of contact between coffee products and consumers at different consumption opportunities (such as of-home consumption, on-the-go, workplace consumption and in hotels); and (6) a modern and professional supply chain which enables the production of consistently high quality products.

9.1.6 Major entry barriers to the activity framework and changes occurring 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 influences the need for in-house production in those countries; in instant coffee products technological knowhow is required, as well as large-scale investments in building a production site; the supply channel requires a modern and professional system that enables the production of consistently high 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 chilled products.

9.1.7 Substitutes for the products of the activity framework and changes occurring therein

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

9.1.8 Raw materials and suppliers

The main raw material used by the Group in its coffee business is green coffee, the cost of which accounts for 70%-75% of total raw material purchases in the Coffee Operation. The Group also purchases other raw materials, mainly sugar, cocoa powder and packaging materials (such as jars, based on molds which the Group furnishes to manufacturers), which are purchased by the Group companies. The Group companies also buy instant coffee of different types from various external vendors, mainly from Brazil, Vietnam, Germany and India. In the Company's estimate, at the present time the Group is not dependent on any of its suppliers.

World production of green coffee is split between Arabica beans (60%) and Robusta beans (40%), with the latter accounting for around 65% of the Group's procurement. According to information from the

International Coffee Organization (ICO)³⁴, 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 centrally purchased for the Group as a whole (excluding Brazil, where Três Corações (JV)³⁵ purchases green coffee from local suppliers in that country). Green coffee is bought from various vendors in some 20 different countries, mainly Vietnam, Brazil, Central and South America, and East Africa. Purchase agreements are performed according to the terms and standard provisions of the European Standards Coffee Contract. For further information on a reverse factoring plan, see Note 16.2 to the Consolidated Financial Statements as of December 31, 2023.

The Group has a system in place for the management of green coffee procurement and quality tests that is designed to achieve uniformity in coffee beans and to enable 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. For further information, see section 6 in the Board of Directors' Report as of December 31, 2023.

The price of green coffee is affected by supply (climate, trading restrictions, etc.) and demand, as well as macroeconomic conditions. In 2023, Robusta prices rose and peaked at the end of the year, whereas Arabica prices fluctuated (i.e., declined in the first half and rose in the second half of the year).

The following figures present the changes in the prices of the different types of green coffee in 2022, based on information received from ICE³⁶:

³⁴ 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>.

³⁵ Três Corações (JV) – 50% of the shares of the joint venture are held São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

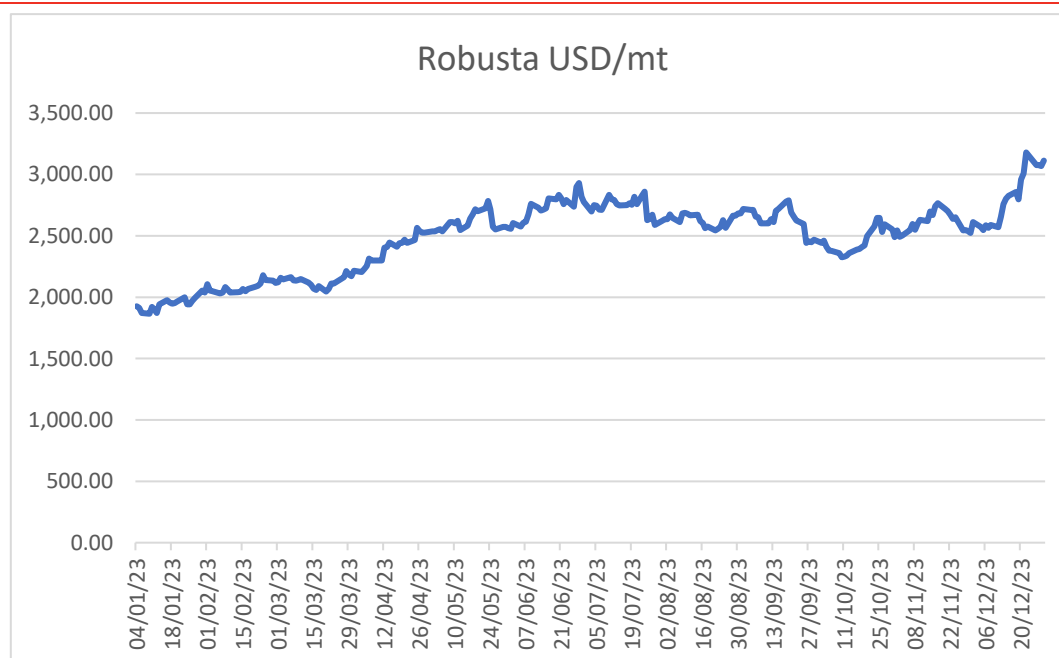
³⁶ Intercontinental Exchange (ICE) is a supplier of commodity market information, which generates and provides commodities analyses; <https://www.theice.com/index>.

Changes in Arabica Prices in 2023



Units: US cents/lb.

Changes in Robusta Prices in 2023



Units: USD/tonne.

9.2 The Israel Coffee Segment

9.2.1 General information on the Israel Coffee segment

- a. 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 drink powders, as well as cocoa powders for baking. Additionally, the Group is engaged in direct-to-consumer (D2C) online sales and distribution of coffee machines and freshly roasted coffee machines, and, through the Elite Café chain, in the sale of coffee and bakery products and soft drinks at various points of sale located in public places throughout Israel. The Israel Coffee segment includes Strauss Coffee's headquarters, which coordinates the Group's entire Coffee Operation (except for identifiable costs of Strauss Coffee's various investees and the results of procurement activities for the entire Coffee Operation, which are fully allocated to Strauss Coffee's investees).
- b. **Developments in the markets of the activity segment or changes in customer characteristics.** In Israel there has been continuous growth in demand for coffee of all kinds, stemming from an increase in coffee consumption. Additionally, in recent years there has been a growing trend of diversification among the types of coffee drunk during the day. In 2023, the uptrend in AFH coffee consumption and in online coffee sales, which began in 2021, continued. However, during the Swords of Iron war, with the general drop in foreign and domestic tourism, AFH coffee consumption in hotels, cafés and restaurants declined. For further information on major consumer developments in the Group's markets in Israel, see sections 7 and 8.1.3 above.

The Elite Café chain – in 2023, the chain's business grew gradually as the number of railway passengers increased. Since October 7, 2023, following the outbreak of the Swords of Iron war, part of the branches in the chain were intermittently closed or operated in a limited format, with a corresponding decline in the chain's income and business results compared to the corresponding period last year.

9.2.2 Products

The Group's main products in the Israel Coffee segment are:

- (1) Roast and ground coffee (categories: Turkish ("black") coffee, filter coffee, roasted coffee beans and capsules for espresso machines) for home and institutional use and AFH consumption. By way of illustration:





- (2) Instant coffee (categories: powder and freeze-dried) for home and institutional use and AFH consumption. By way of illustration:



- (3) Chocolate powders ("Choco") under the Chocolite brand and drink powders, sold for home consumption and to the institutional market, and for home baking (such as cocoa). By way of illustration:



- (4) Coffee machines and freshly roasted beans under the BeanZ brand, sold directly to consumers (D2C). The Group also markets coffee beans under the BeanZ brand to the AFH market and operates points of sale under the BeanZ brand through the Elite Café chain. By way of illustration:



In 2022, the Ice Instant series was also launched, cold coffee in cans in a variety of flavors. By way of illustration:



- (5) In addition, the Group operates the Elite Café chain, which specializes in the sale of coffee and accompanying products in the OTG (on-the-go) segment, mainly at coffee stands located in railway stations, academic institutions and hospitals. By way of illustration:



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

9.2.4 In 2023, revenue of the overall Israel Coffee segment accounted for less than 10% of the Company's total consolidated revenue according to the Company's Management Reports, as defined in section 5 above.

9.2.5 Competition

- a. All of the Group's coffee products in Israel have rival products. The Group leads in some categories of coffee products (of all kinds) and "Choco" powders. The main competitors in the different categories are as follows: (1) instant coffee products – Taster's Choice, marketed by Osem-Nestle, and Jacobs, marketed by Diplomat; (2) R&G coffee products – Landwer, Elnakhleh (Subkhi/Rafik) and the private labels of the retail chains Shufersal, Rami Levy and others; espresso capsules – Nespresso, which sells coffee capsules and machines at its stores and online, Starbucks, marketed by Osem-Nestle, L'Or and Jacobs, marketed by Diplomat, Carrefour/Rami Levy/Shufersal – Nespresso-compatible private label coffee capsules; (3) AFH consumption – café chains, various coffee importers selling to institutional customers.
- b. **Market share** – the table below presents information on the market shares of the Group and its major competitor in each of the categories with respect to the Group's main products in the Israel Coffee segment:

Market Shares in the Israeli Coffee Market				
	2023		2022 ⁽¹⁾	
	The Group	Main Competitor	The Group	Main Competitor
Israel: instant coffee	31.23%	50.08%	32.0%	48.56%
Israel: R&G ⁽²⁾	62.20%	3.10%	63.01%	3.08%
Israel: instant and R&G (weighted) ⁽³⁾	46.80%	24.98%	47.30%	23.75%

(1) Figures for 2022 were adjusted for StoreNext's updated calculations.

(2) Market shares for the R&G product group 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.

The information in this section regarding estimated sales in the non-barcoded market is forward-looking information, as defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date, of which the accuracy is uncertain, among other things due to the data not being based on objective information from an external source.

(3) Market share data do not include the capsule market due to the lack of reliable data on this market, most of which is not barcoded.

- c. 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. 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 manufacturing facilities and the development of technological capabilities; and adaptation of its products to the different emerging consumer trends.

9.2.6 Seasonality

Following are data for the years 2023 and 2022 regarding the Company's income in the Israel Coffee segment, by quarter, according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the Israel Coffee Segment				
	2023		2022	
	Income ⁽¹⁾	% of Total Segment Income	Income ⁽¹⁾	% of Total Segment Income
Q1	238	30.0%	215	27.6%
Q2	169	21.3%	180	23.1%
Q3	210	26.5%	200	25.7%
Q4	176	22.2%	183	23.5%
Total	793	100%	778	100%

(1) In NIS millions.

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.

9.2.7 Production capacity

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

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 of product per year for the years 2023 and 2022 was approximately 25 thousand tons. The average actual production capacity utilization rate in the years 2023 and 2022 was 50% and 55%, respectively. It is noted that the Group's plants are not interchangeable other than the roasting systems (following the installation of the roasting system in the Group's production site in Safed), and that most of the production lines themselves are not interchangeable.

It is noted that the maximum production capacity presented above is theoretical, as in practice, actual production capacity is affected by numerous quality factors such as raw material availability, logistic constraints, line cleanliness, allergen constraints and manpower issues. Furthermore, several production lines serving the operating segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity. The Group manufactures some of its products through outsourcing as necessary, which affords it operational flexibility. 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.

9.2.8 Fixed assets, real estate and facilities

Material Fixed Assets in the Israel Coffee Segment			
Nature and Location	Site Designation	Land Area	Built-Up Area
Plant in the new industrial zone in Safed	Manufacturing and packaging of instant coffee, Chocolite and cocoa	15,500 m ²	7,262 m ² ⁽¹⁾
Plant in Lod	Production of R&G, including capsules and powders	5,736 m ²	4,843 m ² ⁽²⁾

Rights in and to the site:

- (1) Leased from the ILA under capitalized lease agreements, ending in March 2031 (10,460 m²) and in January 2033 (6,380 m²). Each of the leases includes an option to the lessee to extend the lease period for a further 49 years.
- (2) Ownership of 4,884 m² and leasing of 797 m² under a capitalized lease agreement ending in December 2033, with an option to the lessee to extend the lease period for a further 49 years.

For information on the Group's logistics center in Shoham, see section 8.1.8 above.

For the Group's policy with respect to the depreciation of machinery and equipment in its various plants, see Note 3.5 to the Financial Statements of the Company as of December 31, 2023.

9.2.9 Intangible assets

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 that is renewable 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 Company estimates that the economic life of the Group's main trademarks in Israel is indefinite.

For an itemization of costs and changes in intangible assets in the years 2023 and 2022, see Note 14.1 to the Financial Statements of the Company as of December 31, 2023.

9.2.10 Human capital

- a. For a description of the Group's organizational structure and information on employment agreements, etc., see section 16 below.

b. Following is information on the number of employees in the Group in the Israel Coffee segment:

Number of Employees in the Israel Coffee Segment		
	December 31, 2023	December 31, 2022
Management and administration	66	76
Sales and distribution	300	313
Procurement and logistics	194	197
Operations	178	186
Total	738	772

Including 6 and 24 agency workers as of December 31, 2023 and 2022, respectively.

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 16.1 below.

9.2.11 Raw materials and suppliers

- a. For information on the procurement of raw materials and suppliers in the Coffee Operation, see section 9.1.8 above.
- b. For its operations in Israel, the Group purchases powdered instant coffee from a sole supplier in Vietnam that manufactures the product based on development in conjunction with and for the Group and according to the Group's technological guidelines and specifications. The supplier is obligated not to produce the product for other parties. The product is purchased at a price based on green coffee prices plus manufacturing costs and fixed costs. The Group is not committed to the purchase of minimum quantities from this supplier. Notwithstanding the foregoing, the Group is not dependent on the supplier and may replace it without significant additional cost.

9.2.12 Working capital

Following is the composition of working capital in the Israel Coffee segment in 2023, according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the Israel Coffee Segment	
	Amount Included in the Management Reports ⁽³⁾
Operating current assets ⁽¹⁾	226
Operating current liabilities ⁽²⁾	96
Excess of current assets over current liabilities	130

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

(2) Including net trade payables, income received in advance and accrued expenses.

(3) In NIS millions.

9.2.13 Restrictions and oversight in the segment

Declaration as a monopoly

In 1988, the Company was declared a monopoly, *inter alia*, in the categories of instant coffee and cocoa powders for at-home consumption. For information, see section 25 f.4 below.

Approval by the Competition Commissioner

Within the context of an agreement for the acquisition of the coffee machine business of the Dutch company "Douwe Egberts", the Israeli Competition Commissioner granted approval, including conditions 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.

Consensual decree

Following the merger announcement issued by the Company and the Elite Café 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 Competition 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 as to the satisfaction of this condition will be brought for the Commissioner's decision.

9.3 The International Coffee Segment

9.3.1 General information on the International Coffee segment

In this segment, the Group develops, manufactures, sells, markets and distributes a variety of coffee brands mainly in Brazil (through the Três Corações (JV)³⁷) and also in Poland, Russia, Ukraine, Romania and Serbia. For additional general information on the Coffee Operation that is common to the Israel Coffee segment and the International Coffee segment, see section 9 above.

Brazil – in 2023, Três Corações (JV) continued to solidify its position as the largest coffee company in Brazil (according to Nielsen) in terms of market share by expanding its areas of activity in the past few years and launching new products. In 2023, in light of the growing competition, the sales prices of the Company and its rivals were lower. Operating results in Brazil in shekels were positively affected by the weakening of the shekel against the Brazilian real. For further information on foreign exchange volatility, see section 8 in the Board of Directors' Report as of December 31, 2023.

Russia – in 2023, the Group's local currency sales declined after strong sales last year following the outbreak of the Russia-Ukraine war. Additionally, the weakening of the ruble against the dollar contributed to a decline in operating results in Russia in local currency. Shekel results of operations in Russia were negatively affected by the weakening of the ruble against the shekel. For further information on foreign exchange volatility and the effects of the fighting in Ukraine, see sections 5 and 8 in the Board of Directors' Report as of December 31, 2023.

Ukraine – in 2023, operating results continued to be impacted by the war with Russia. Sales turnover in local currency and sales volumes rose following price increases. However, in light of the devaluation of

³⁷ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

the hryvnia against the dollar, which began in the third quarter last year and continued into 2023, profit margins eroded. This was partially offset by increasing sales prices. For information on the effects of the Russia-Ukraine war on the Group and on the Company's business, see section 5 in the Board of Directors' Report as of December 31, 2023.

Poland, Romania and Serbia – the Group's sales in local currency grew in 2023 compared to the prior year, despite a decline in sales volumes, following an increase in sales prices. In parallel, quantities sold decreased, which is attributed to higher retail prices that led consumers to become more selective and economical in their purchases. Additionally, the results of operations in local currency were favorably affected by the weakening of the dollar against the Polish zloty, the Romanian leu and the Serbian dinar during the year. Operating results in shekels were favorably affected by the weakening of the shekel against the local currencies. For further information on foreign exchange volatility, see section 8 in the Board of Directors' Report as of December 31, 2023.

For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

9.3.2 Developments in the markets of the activity segment or changes in customer characteristics

As described in section 9.1.4 above, the main consumer development in the Group's countries of operations is the thriving coffee culture, which has led to a prominent growth trend in sales of coffee beans and capsules. In addition, the growth trend in the AFH channel continued.

In Brazil, positive market trends of growth in consumption of single-portion coffee capsules and specialty coffees have continued, coupled with continuing growth in the company's core R&G business and market share growth in this sphere, as well as growth in other coffee categories. The company continues to expand its plant-based business by launching new products and strengthening the current portfolio, with the aim of bolstering its status and positioning this market. In addition, in 2023 the trend of growing strength of cash & carry chains (chains that sell directly to small retailers such as groceries) continued across all categories.

In Russia, the downtrend in brand loyalty has continued. Consumers remain selective and purchases are generally made during special offer campaigns, a phenomenon that is evident across all sales channels. The competitive environment remains challenging and aggressive, and the Group and its rivals have enlarged the scope of retailer campaigns. In the third quarter of 2023, the Group initiated a process of raising product prices following the weakening of the ruble against the dollar. For further information, see section 9.3.1 below.

In Ukraine, following the effects of the war as expressed in residents fleeing the country, a change in consumer preferences and consumers making do with cheap, basic products, in 2022 there was a markedly negative impact on quantities sold in all sales channels, and reduced consumption was evident in all coffee categories, including coffee beans. However, in 2023 the coffee market in Ukraine began to stabilize in terms of quantities and even reflected value growth.

For information on the effects of the Russia-Ukraine war on the Group, see section 5 in the Board of Directors' Report as of December 31, 2023.

In the Eastern European countries (Romania, Poland and Serbia), the trend of transitioning from sales to small retailers to sales to modern trade customers continued in the reporting year. Following the increase

in inflation and interest rates in these countries, an uptrend in consumer shopping during retailer campaigns was observed; however, in Romania, Serbia, Ukraine and Poland, the growth trend in the consumption of roasted coffee beans continued in 2023.

9.3.3 Products

The Group's main products in the International Coffee segment are R&G, instant coffee, roasted coffee beans, espresso capsules and coffee machines, chocolate and other drink powders including coffee substitutes, corn products, plant-based dairy alternatives and juice powders. In 2023, Strauss Coffee focused on strengthening and positioning its brands, developing new categories and flavors, and solidifying the roasted coffee bean and home coffee machine category.

Brazil – through Três Corações (JV)³⁸, the Group sells R&G coffee beans, instant coffee, espresso capsules and machines, cappuccino products, ready-to-drink coffee, chocolate powders, juice powders, plant-based dairy alternatives and corn products. By way of illustration:



³⁸ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

In Brazil, the Group mainly operates under the following brands:

- (1) **Três Corações** (instant coffee, R&G, filter coffee, cappuccino, coffee capsules, chocolate powders, ready-to-drink coffee);
- (2) **Santa-Clara** (instant coffee, R&G, filter coffee, capsules, chocolate powders and cappuccino);
- (3) **Pimpinela** (instant coffee, R&G, capsules, filter coffee);
- (4) **Kimimo** (R&G and instant coffee);
- (5) **Fino Grão** (R&G);
- (6) **Itamaraty** (R&G);
- (7) **Café Brasileiro** (R&G, capsules and cappuccino);
- (8) **Iguaçu** (instant coffee, R&G and cappuccino);
- (9) **Amigo** (instant coffee), **Manaus** (R&G);
- (10) **Tres** (capsules and espresso machines);
- (11) **Dona Clara** (corn products), **Frisco** (juice powders).
- (12) **Brasileiro** (R&G);
- (13) **Tal Castanha** (plant-based dairy alternatives).

For further information, see section 9.3.1 above. 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 – in Ukraine and Russia, activity is carried out under several brands; in Russia, emphasis is on "**Chornaya Karta**" as the leading brand. By way of illustration:





In Russia and Ukraine, business is mainly carried out under the following brands:

- (1) **Chornaya Karta** (freeze-dried instant coffee as a main brand, roasted coffee beans and R&G);
- (2) **Totti** (premium instant coffee and tea brand, as well as R&G);
- (3) **Le-Café** (freeze-dried coffee);
- (4) **Ambassador** (freeze-dried coffee, roasted coffee beans and espresso);
- (5) **Fort** (R&G);
- (6) **Elite Health Line** (decaf instant coffee);
- (7) **Chicory** beverages.

Poland – the Group sells R&G, roasted coffee beans, instant coffee and espresso under a number of brands. By way of illustration:



The Group continues to focus on developing the MK sub-brands, and is active in Poland mainly under the following brands:

- (1) **MK** (R&G, instant and roasted coffee beans);
- (2) **Fort** (R&G);
- (3) **Pedro's** (R&G).

Romania – the Group sells R&G, espresso, instant coffee and roasted coffee beans, under a number of brands. By way of illustration:



In Romania, the Group mainly operates under the following brands:

- (1) **Doncafé**, an umbrella brand that includes various brands under the brand name in the instant, R&G, roasted beans and mixes segments;
- (2) **Amigo** (instant coffee);
- (3) **Fort** (R&G and roasted beans);
- (4) **Totti** and **Beanz** (roasted coffee beans).

Serbia³⁹ – the Group mainly sells R&G coffee manufactured at its local plant. By way of illustration:



In Serbia, the Group mainly operates under the following brands:

- (1) **Doncafé** as an umbrella brand that includes various brands with the same name in the R&G, instant, filter, espresso and capsule segments;
- (2) The **C-Kafa** brand (R&G);
- (3) **Java** – a premium brand in the roasted coffee beans segment.

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

For the segmentation of International Coffee's income from external entities (consolidated) (according to the Company's Management Reports, as defined in section 5 above) by geographical regions in which the Group operates, see section 22.2.1 in the Board of Directors' Report as of December 31, 2023.

Following is the International Coffee segment's income from external entities arising from a group of similar products, the percentage of which accounts for 10% or more of the Company's total income (consolidated) (according to the Company's Management Reports, as defined in section 5 above) in the years 2023, 2022 and 2021:

³⁹ For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

Segmentation of the Group's Income from External Entities (Consolidated)						
Group of Similar Products	Income ⁽¹⁾			% of the Group's Total Income		
	2023	2022	2021	2023	2022	2021
R&G	2,821	2,650	1,763	26.7%	27.9%	20.2%

(1) In NIS millions.

9.3.5 Competition

Brazil – the Federal Republic of Brazil is divided into 26 federal states and one federal district where the capital city of Brasilia is situated. As a result, the market is regional and decentralized and characterized by numerous rivals. 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; in 2023, Três Corações (JV)⁴⁰ continued to solidify its position as the largest coffee company in Brazil in terms of market share, according to Nielsen.

The Group's major competitors in the R&G market in Brazil are Marata, Melitta and JDE; in instant coffee – Nestle, JDE and Melitta; and in single-portion products (capsules and others) – Starbucks, JDE and Nestle. In 2023, the global concern JDE announced its intention to acquire Marata with the aim of strengthening its position in the Brazilian coffee market, and the acquisition was closed in January 2024.

Russia – the domestic instant coffee market is the largest in the world. The main competitors in instant coffee are JDE, Nestle and Orimi, and the Group is ranked in fourth place in terms of market share. 2023 was marked by the deepening of campaigns and discounts by rivals, as well as a reduction in the scale of marketing and media advertising activities by the major rivals in the market.

Ukraine – the main competitors are the global concern, JDE (in R&G and instant coffee) and Nestle (in instant coffee), and the Group is ranked in third place in terms of market share. In light of the war with Russia, the Group continued to place focus on maintaining supply and sales continuity in the different parts of the country.

For information on the effects of the Russia-Ukraine war on the Group, see section 5 in the Board of Directors' Report as of December 31, 2023.

Poland – in the R&G market, the Group has two main competitors – JDE and Tchibo, and the Group is the third in size in terms of R&G market share in Poland. In 2023, the gap in market share in relation to Number 2, Tchibo, was narrowed.

Romania – in the R&G market, the main competitor is the international corporation, JDE, as well as the local company Fortuna. The Group is the second largest in market share. In the instant coffee market, the main competitors are Nestle and private labels, and the Group holds first place in market share with the Amigo brand. In 2023, the Company continued to fight the competition by focusing on sales promotion and on strengthening its brands versus rivals.

⁴⁰ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

Serbia – in 2023, the major competitor in the R&G market was Atlantic, and the Group was Number 2 in market share. In 2023, the Company improved its standing in the market, which was reflected in market share gain. For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

9.3.5.1 Market shares

- a. 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 coffee products in its major countries of operations. Figures are based on Nielsen data for Ukraine, Poland, Romania and Brazil. For Russia, figures are based on ScanData, and for Serbia, on RetailZoom.

Market Shares in the International Coffee Segment				
	2023		2022 ⁽²⁾	
	The Group	Major competitor	The Group	Major competitor
Brazil ⁽¹⁾ : roast coffee	33.8%	20.6%	32.9%	21.5%
Brazil ⁽¹⁾ : instant coffee	37.3%	39.8%	34.4%	46.2%
Brazil ⁽¹⁾ : capsules	25.7%	49.2%	25.9%	46.3%
Poland: roast coffee	18.3%	30.5%	18.0%	31.2%
Serbia: roast coffee	29.0%	59.5%	28.0%	59.7%
Romania: roast coffee	15.8%	35.8%	17.4%	35.8%
Romania: instant coffee	35.4%	29.6%	35.7%	27.7%
Russia ⁽³⁾ : instant coffee	4.5%	35.3%	6.6%	34.0%
Ukraine ⁽³⁾ : roast coffee	17.3%	21.1%	13.6%	18.7%

(1) Market share in Brazil is based on 100% of the sales of Três Corações (JV)⁴¹ (50% owned by Strauss Coffee).

(2) Figures for 2022 were adjusted for the updated calculations of Nielsen, RetailZoom and ScanData.

(3) Figures do not cover the entire retail coffee market.

- b. Negative factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Coffee segment, include the timing and scale of changes in sales prices, the scope of campaigns compared to rivals, possible 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. Furthermore, due to the consequences of the Russia-Ukraine war, disruptions in the raw material supply chain to Russia and Ukraine remain possible, as well as inland distribution problems in Ukraine.

Among the 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, are 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; tighter 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, which will increase purchases of branded products.

⁴¹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

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 manufacturing 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.

9.3.6 Seasonality

Following is information for the years 2023 and 2022 on the Company's income in the International Coffee segment, by quarter, according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the International Coffee Segment				
	2023		2022	
	Income ⁽¹⁾	% of Total Segment Income	Income ⁽¹⁾	% of Total Segment Income
Q1	951	21.8%	781	19.4%
Q2	1,148	26.3%	1,050	26.1%
Q3	1,068	24.5%	1,108	27.5%
Q4	1,194	27.4%	1,087	27.0%
Total	4,361	100%	4,026	100%

(1) In NIS millions.

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. By contrast, the first quarter of the year is generally characterized by relatively low sales following increased stocking-up by consumers for the holidays in the preceding fourth quarter.

9.3.7 Production capacity⁴²

The production capacity of the Group's manufacturing plants in the International Coffee segment is measured in quantities of product per year. The production lines in the Group's plants are automatic, and some are operated in three shifts daily. It is noted that the Company's freeze-dried instant coffee plant is not interchangeable.

The maximum potential annual production capacity of the Group's plants in the International Coffee segment, operating in three shifts, in tons of product per year (R&G and freeze-dried coffee) for the years 2023 and 2022, was approximately 576 thousand tons and 571 thousand tons, respectively. The increase in the production capacity of the Group's plants in the International Coffee segment is largely due to growth in the production capacity of the Group's plants in Brazil following expansion and development of the business, which was reflected in the acquisition of companies owning coffee production sites in recent years, and the installation of additional production lines.

⁴² Maximum potential annual production capacity data include 100% of the figures for Três Corações (JV) in Brazil, although financial data for Brazil are presented according to the Company's relative share, i.e., 50%.

The average actual capacity utilization rate in the years 2023 and 2022 was approximately 71% and 72%, respectively.

It is noted that the maximum production capacity presented above is theoretical, as in practice, actual production capacity is affected by numerous quality factors such as raw material availability, logistic constraints, line cleanliness, allergen constraints and manpower issues. Furthermore, several production lines serving the operating segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity. Additionally, on lines where the Company reaches maximum production capacity, the Company purchases products from external vendors, on which the Company is not dependent. For further information, see section 9.1.8 above. The Group manufactures some of its products through outsourcing as necessary, which affords it operational flexibility. 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.

9.3.8 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:

Following is a description of the Group's main real property and other material fixed assets serving in the International Coffee Operation:



Material Fixed Assets in the International Coffee Segment

Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area
Plant in Brazil	In Santa Luzia in the state of Minas Gerais	Production of R&G and cappuccino	98,142 m ²	20,106 m ² ⁽¹⁾
Plant in Brazil	In Eusébio, in the state of Ceará	Production of R&G	10,067 m ²	7,084 m ² ⁽¹⁾
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	38,046 m ²	12,661 m ² ⁽¹⁾
Plant in Brazil	In Nova Iguaçu, in the state of Rio de Janeiro	Production of filter coffee	5,650 m ²	4,548 m ² ⁽²⁾
Plant in Brazil	In Mossoro, in the state of Rio Grande do Norte	Production of corn products and drink powders	53,908 m ²	19,681 m ² ⁽¹⁾
Facility in Brazil	In Varginha, in the state of Minas Gerais	Mapping and sorting of green coffee	70,000 m ²	8,234 m ² ⁽¹⁾
Facility in Brazil	In Manhuaçu, in the state of Minas Gerais	Mapping, sorting and processing of green coffee	16,590 m ²	7,062 m ² ⁽¹⁾
Plant in Brazil	In Montes Claros, in the state of Minas Gerais	Production of capsules	52,873 m ²	6,994 m ² ⁽²⁾
Plant in Brazil	In Araçariçuama, in the state of São Paulo	Production of R&G	20,062 m ²	5,861 m ² ⁽¹⁾
Plant in Brazil	In Cuiabá, in the state of Mato Grosso	Production of R&G	19,250 m ²	5,131 m ² ⁽¹⁾
Plant and distribution center in Brazil	In Manaus in the state of Amazonas	Production of R&G	27,873 m ²	6,834 m ² ⁽¹⁾
Plant in Serbia ⁴³	In Simanovci near Belgrade	Production of R&G	29,484 m ²	8,500 m ² ⁽³⁾
Plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	7,785 m ²	4,491 m ² ⁽³⁾
Plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	9,409 m ²	8,890 m ² ⁽³⁾
Plant in Germany	Norddeutsche Kaffeewerke GmbH ("NDKW")	Production of freeze-dried instant coffee	50,191 m ²	7,089 m ² ⁽³⁾
Plant in Poland	In Swadzim, near Poznan	Production of R&G and distribution center	52,689 m ²	11,540 m ² ⁽³⁾

⁴³ For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area
Plant in Romania	Bucharest	Production of R&G	6,535 m ²	4,365 m ² ⁽⁴⁾

Rights in and to the site:

- (1) Três Corações (JV)⁴⁴ owns the land rights.
- (2) Três Corações (JV) owns 50% of the land rights.
- (3) Ownership.
- (4) Leased from a third party until August 2026. May be extended following 6 months' advance notice.

9.3.9 Intangible assets

Trademarks and brands – in view of the Group's focus on branded products, the importance of registering trademarks on its brands is high. 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 they are 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 changes in intangible assets in the years 2023 and 2022, see Note 14.1 to the Financial Statements of the Company as of December 31, 2023.

9.3.10 Human capital

For a description of the Group's organizational structure and information on employment agreements, etc., see section 16 below.

⁴⁴ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

Following is information on the number of Group employees in the International Coffee segment:

Number of employees in the International Coffee Segment		
	December 31, 2023	December 31, 2022
Management and administration	1,215	1,348
Sales and distribution	6,602	6,735
Procurement and logistics	283	306
Operations	2,328	2,326
Total	10,428	10,715

Including all employees of Três Corações (JV)⁴⁵ in Brazil, a jointly controlled entity in which the Company holds 50%, and including 485 and 739 agency workers, as of December 31, 2023 and December 31, 2022, respectively.

For information on employee claims in Brazil, see Note 22.1.8 to the Financial Statements of the Company as of December 31, 2023.

9.3.11 Raw materials and suppliers

- a. For a description of the procurement of raw materials and suppliers in the Coffee Operation, see section 9.1.8 above.
- b. In the International Coffee segment, the Group's plant in Germany and the companies that manufacture R&G purchase the different types of green coffee collectively from Strauss Commodities AG (excluding Três Corações (JV)⁴⁶ in Brazil, which purchases green coffee itself from local suppliers in Brazil); freeze-dried instant coffee is purchased by Russia and Ukraine from the Group's plant in Germany and from external vendors. Additional products sold in the International Coffee segment and packaging materials are purchased from external vendors. In the relevant reporting periods, there was no single external 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.

9.3.12 Working capital

Following is the composition of working capital in the International Coffee segment in 2023 according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the International Coffee Segment	
	Amount Included in the Management Reports ⁽³⁾
Operating current assets ⁽¹⁾	1,165
Operating current liabilities ⁽²⁾	772
Excess of current assets over current liabilities	393

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

(2) Including net trade payables, income received in advance and accrued expenses.

(3) In NIS millions.

⁴⁵ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

⁴⁶ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

9.3.13 Restrictions and oversight in the segment

For further information on restrictions and oversight over the Group's activities, see section 20 below and also sections 11 and 12 in the Board of Directors' Report as of December 31, 2023.

9.3.14 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 Brothers of Brazil and companies under their control, with the goal of consolidating the parties' businesses in Brazil by establishing a joint corporation which would be equally held by the parties, 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 agreements⁴⁷ it was asserted that the joint venture would be annulled with the agreement of the parties if it is liquidated or when the shareholders (or their "permitted transferees") would cease to be shareholders of the joint venture, Três Corações (JV)⁴⁸. Additionally, a dispute resolution mechanism was defined, and it was asserted that the joint venture agreement would be governed by Brazilian law.

A shareholder agreement (which was replaced by a shareholder agreement signed on November 9, 2022) governs 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 and hereinafter: the "Shareholders")). The agreement will remain in force until December 29, 2042 (and, if the IPO plan (as described below) is implemented, will remain in force until December 29, 2052) and will be renewed automatically for additional periods of twenty years each, provided that neither of the Shareholders has informed the other, five years prior to the end of each term, of its desire not to automatically extend the agreement.

The shareholder agreement determines that three years after the date of its renewal, each party may request of the counterparty to launch an IPO, based on a plan agreed upon by the parties, which will appoint agreed financial advisors who will assist them in reaching an agreement with respect to the plan.

The shareholder agreement determines that the board of directors of Três Corações (JV) will comprise 8 members, and 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 joint venture comprising 5 members proposed by the Shareholders and appointed by the joint venture's board of directors for a period of three years.

⁴⁷ To clarify, part of the rights of the parties under said agreements were transferred over 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 status of the rights as of the date of this report.

⁴⁸ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

The shareholder agreement determines methods for financing Três Corações (JV)⁴⁹ business, and, in this context, the Shareholders may undertake to provide guarantees for external loans that would be granted to the joint venture (according to the ratio of their holdings in the 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 decided upon at a general meeting of the Shareholders, and the other Shareholder will provide the additional funding.

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

The parties undertook to refrain from activity in areas similar to Três Corações (JV)'s business and to limit the joint venture's activity outside Brazil according to the terms and conditions of the agreement, as well as to offer any new food business to Três Corações (JV) in the categories in which the joint venture is active. Non-compete provisions against Três Corações (JV) 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 Três Corações (JV) for a period of 5 years from the date of the sale of its stake in Três Corações (JV). Furthermore, the Shareholders are subject to certain restrictions pertaining to a sale their shares to a competitor of Três Corações (JV), in accordance with the terms and conditions set forth in the agreement.

The agreement also determines that should an arbitrator appointed in a dispute between the Shareholders of Três Corações (JV) rule that a Shareholder has breached the shareholder agreement or the joint venture agreement, the non-breaching Shareholder will be entitled to exercise a call option with respect to the shares of the breaching Shareholder, or alternatively, to exercise a put option for the sale of its shares to the breaching Shareholder, according to a mechanism defined in the shareholder agreement.

According to the shareholder 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 in one of the companies that are a party to the agreement (or in their parent companies)), the counterparty will have a put option or a call option in relation to the first party in consideration for the joint venture's 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.

⁴⁹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

According to the shareholder agreement, in any case of a dispute or disagreement between the Shareholders, according to the terms and conditions of the agreement the matter will be raised for discussion by the ultimate Shareholders (at the time of execution of the agreement – the Strauss family and Lima family), which shall attempt to reach an agreement.

For information on sales volumes in Brazil, see section 22.2.2 in the Board of Directors' Report as of December 31, 2023. See also risk factors in sections 25.1 i.6, m, k.1 and k.2 below.

10. The International Dips & Spreads Segment

10.1 General information on the International Dips & Spreads segment

10.1.1 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 and Canada (through Sabra), and in Australia, New Zealand and Mexico (through Obela), with emphasis on hummus and guacamole.

The business is jointly owned together with the international food conglomerate PepsiCo, through the Sabra and Obela joint ventures. For additional details on the agreements with PepsiCo, see section 10.14 below.

According to IRI, Sabra is the largest dips and spreads brand in the US in terms of sales volumes and market share; in the hummus category, Sabra has the largest market share in the US and the third largest market share as a branded product in Canada (according to IRI and Nielsen⁵⁰).

As of the reporting date, Obela's activity is immaterial to the Company's business. It is noted that in the hummus category, Obela has the largest market share in most of the territories where it is active.

It is noted that in the first quarter of 2023, the Group discontinued Obela's business operations in Western Europe. For further information, see Note 11.6.1 to the Financial Statements of the Company as of December 31, 2023.

10.1.2 Consumer trends in the segment

In 2023, Sabra continued to focus renewing customer and consumer trust after the absence of most products from the shelf following the shutdown of the plant for the adjustments made in 2022, by consistently supplying high-quality, safe and delicious products, while delivering a response to ongoing consumer trends, among other things through product innovation. In this context, Sabra continued to target specific population groups in the US and Canada, such as communities seeking better-for-you plant-based foods, people looking for adventurous flavors, and people whose food choices are made due to health considerations and growing awareness of the environmental impacts of food choices. Snacks

⁵⁰ IRI and Nielsen figures are current as of December 31, 2023.

continued to replace traditional meals, and the demand for satisfying snacks continued. Consumption of single-serve products also increased, with a growing tendency to eat away-from-home, as did the consumption of larger sized portions, since they provide a greater value proposition for consumers who want to control their spending.

Another contribution to this trend is the result of the transition to hybrid work, which began during COVID-19. Private labels doubled their market shares with a broad variety of attractively priced products, and smaller brands gained momentum by marketing products with flavors that are a better fit with the culture and location where they are sold, as well as organic products and niche products.

10.1.3 Changes in the scope of activity and profitability of the segment

In 2023, food prices in the US rose by 5.8%, the prices of foods for at-home consumption rose by 5.0% and AFH prices rose by 7.1%. Sabra also adjusted the prices of hummus products and guacamole products in the US for changes in costs⁵¹.

Following the manufacturing adjustment plan implemented at Sabra's production site in Virginia and further disruptions in Sabra's manufacturing organization in April 2022, Sabra's products were absent from the shelf from April to August 2022. However, in 2023, Sabra regained its leading market share among hummus brands in the US, although sales volumes have not yet returned to their levels prior the adjustments at the plant since in the absence of Sabra's products, other brands gained market share.

For information on changes in income and profitability in the International Dips & Spreads segment, see section 22.3 in the Board of Directors' Report as of December 31, 2023.

10.1.4 Developments in the markets of the segment or changes in customer characteristics

In 2023, consumer trends in the Dips & Spreads segment continued to be aligned with the global consumption trends described in section 7 above, including the consumption of healthy foods, better-for-you products and natural products with greater nutritional value alongside snacking, following a specific diet or one that is based on personal beliefs (e.g. a plant-based diet), a preference for light meals and snacks during the day that are easy and convenient to consume (the ready-to-eat trend) alongside home cooking and enhancement of the at-home food experience. In the US and Canada, the hummus category has succeeded in reaching almost full distribution through existing distribution channels (as described in section 12.1.1 below). Accordingly, Sabra's further growth will need to be achieved through innovation and marketing to deepen household penetration and increase purchase frequency, as well as through increasing distribution to growing retail channels (convenience, dollar and club). Alternative channels, such as eGrocery, prepackaged salad kits and home deliveries of meal prep kits continue to represent distribution opportunities, particularly in view of consumer preferences for convenience and nutritious meals.

In the non-hummus category, guacamole declined slightly in the US and accounted for 17.4% of the fresh dips and spreads category in the retail market in 2023, down by 0.8% compared to last year. White dips

⁵¹ According to US Department of Agriculture data of February 23, 2024, USDA ERS Summary Findings.

and salsa also declined somewhat compared to 2022, while cheese and yogurt dips experienced ongoing growth.

10.1.5 Critical success factors and changes occurring therein

In addition to the critical success factors and changes therein enumerated in section 7 above, other critical success factors in the segment include dominance in markets and distribution channels, the development of products that offer consumers an experience and added value and provide a response to market trends, a large-scale distribution system, expansion of production capacity and access to raw materials to support the increase in sales volumes, continued efficiency enhancement in production and cost reduction.

10.1.6 Major entry barriers to the segment and changes occurring therein

In addition to the main entry barriers that are common to all the Group's operating segments as described in section 7 above, other major entry barriers include the need for large investments in the supply chain, sales and distribution to customers including shelf occupancy; the ability to accommodate high production volumes; the ability to satisfy food safety requirements; and the need for relatively sophisticated manufacturing technologies to support new consumption trends.

10.1.7 Substitutes for the segment's products and changes occurring therein

The Group's products in the Dips & Spreads segment have interchangeable products manufactured by rival companies, including the private labels of retail chains. For further information on the competition, see section 10.4 below.

10.2 Products

In the US and Canada, Sabra manufactures and sells a variety of refrigerated dips and spreads (particularly hummus in assorted flavors and fresh guacamole dips) under the Sabra brand, which is regarded as a leading brand in the category in those countries⁵².

Under the Obela brand, Obela sells a variety of dips in Australia (hummus, yogurt-based dips and guacamole), in Mexico (hummus in assorted flavors) and in New Zealand (hummus and dips) and is also active in Australia in the manufacture and sale of a variety of dips under the RRD – Red Rock Deli brand (a variety of premium vegetable-based dips with cashew nuts and cheese) and others. By way of

illustration:



⁵² According to IRI and Nielsen figures, current as of December 31, 2023

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

In 2023, the revenue of the International Dips & Spreads segment accounted for less than 10% of the Company's total consolidated revenue according to the Company's Management Reports, as defined in section 5 above.

10.4 Competition

In the US and Canada, the business is characterized by local competition against the private labels of retailers, against the brands of numerous small local manufacturers operating in the regions where they manufacture, and by competition against large companies with extensive distribution capabilities. In Canada, a certain amount of innovation has been observed among rival firms, which continued to launch locally produced and preservative-free products.

In recent years, the category has become highly competitive, and this is evident in all markets where the Group is active in this segment. The competition is expressed, among other things, in aggressive pricing strategy applied by rivals to promote sales and penetrate households, and by broadening their distribution capabilities.

Private labels continue to be strong players in the US and Canadian markets and grew their market share following the closure of the Sabra plant during 2022. In 2023, rivals in hummus invested aggressively in advertising, marketing and sales promotion to fill the void created due to the suspension of operations at Sabra. This led to considerable household penetration by private label and rival brands. In addition, ongoing growth in the dips and spreads space in general as part of the trend of consuming fresh foods, including more indulgent product categories such as cheese dips and dairy dips, continued to place pressure on the hummus category (including guacamole).

The following table presents information on the weighted market shares of the Group and its major competitor in the Dips & Spreads segment, with respect to the Group's main dips and spreads products in the major countries of operations. Data are based on IRI figures⁵³.

Weighted Market Share in the International Dips & Spreads Segment				
Products	2023		2022	
	The Group	Main competitor	The Group	Main competitor
US: Hummus	36.1%	Private label: 31.4% Boar's Head: 7.2% Cedar's: 6.4%	31.2%	Private label: 29.5% Boar's Head: 48.6% Cedar's: 7.3%
US: Guacamole	11.0%	Private label: 28.1% Wholly Guacamole: 27.8% Yucatan & Cabo: 12.1%	14.3%	Private label: 21.7% Wholly Guacamole: 30.8% Yucatan & Cabo: 15.3%

It is noted that Obela leads in market share in the hummus category in Australia and Mexico, although the category in those markets is small.

⁵³ IRI figures are current as of December 31, 2023.

The Group continuously contends 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. For information on the Company's activities in 2023, see section 10.1 above.

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 retail chains such as strengthening 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 and leading market share in the markets in which it operates, top-quality, safe products that deliver a consumption experience and added value, continuous innovation, research and a response to consumption trends, meticulous attention to product quality and safety, competitive prices, a broad-scale production and distribution system, collaboration with industry leaders and massive investments in marketing.

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

10.5 Seasonality

Following is information for the years 2023 and 2022 on the Company's income in the International Dips & Spreads segment by quarter (the Company's share), according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the International Dips & Spreads Segment				
	2023		2022	
	Income ⁽¹⁾	% of Total Segment Income	Income ⁽¹⁾	% of Total Segment Income
Q1	127	24.7%	118	28.4%
Q2	133	25.9%	74	17.8%
Q3	127	24.8%	104	25.1%
Q4	126	24.6%	119	28.7%
Total	513	100%	415	100%

(1) In NIS millions.

There is no distinct trend of seasonality in the International Dips & Spreads segment. As a rule, income volumes are (relatively) higher in the summer months in the second and third quarters, as consumption of hummus is greater due to holidays, campaigns and special dates in those quarters.

For further information, see section 22.3 in the Board of Directors' Report as of December 31, 2023.

10.6 Production capacity⁵⁴

- 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 per day.
- b. Maximum potential annual production capacity in three daily shifts in tons of products per year in the Group's production facilities in the International Dips & Spreads segment in the years 2023 and 2022 was approximately 27.5 thousand tons. The average actual capacity utilization rate in the years 2023 and 2022 was approximately 52.17% and 27.4%, respectively (in 2022, prior to the closure of the production site, average actual capacity utilization in the months January-March was 35.8%, in April – 0%, in May-August – 25.5%, and in September-December – 28.8%). In 2022, capacity utilization was adversely affected due to the closure of sections of the plant for part of the year as described in section 10.1.3 above.
- c. It is noted that the maximum production capacity presented above is theoretical, as in practice, actual production capacity is affected by numerous quality factors such as raw material availability, logistic constraints, line cleanliness, allergen constraints and manpower issues. The International Dips & Spreads segment regularly improves and upgrades the machinery and equipment in its production sites and expands production lines with the aim of maintaining and increasing production capacity.

For information on adjustments at the plant in Virginia, see section 22.3 in the Board of Directors' Report as of December 31, 2023.

10.7 Fixed assets and real estate⁵⁵

Following is a description of the Group's main real property and other material fixed assets serving the International Dips & Spreads segment:



Material Fixed Assets in the International Dips & Spreads Segment

Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area
Production plant	Colonial Heights, Virginia, USA	Production of hummus	193,200 m ²	26,583 m ² ⁽¹⁾

⁵⁴ Maximum potential annual production capacity figures include 100% of the data for Sabra and Obela, although financial data on the companies are presented in the financial statements according to the Group's relative holding, i.e., 50%.

⁵⁵ The assets are not encumbered.

Material Fixed Assets in the International Dips & Spreads Segment				
Nature of the Site	Location of the Site	Site Designation	Land Area	Built-Up Area
Production plant	In Cavan, South Australia	Production of dips	7,605 m ²	2,268 m ² ⁽²⁾
Production plant	In Mexico City, Azcapotzalco, Mexico	Production of dips	1,639 m ²	1,639 m ² ⁽²⁾

Rights in and to the site:

(1) Owned by Sabra.

(2) Rental from a third party until April 2023.

10.8 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 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 15 below.

10.9 Intangible assets

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is considerable. Trademarks are registered in the Group's name on most of its brand names used in the International Dips & Spread segment.

Registration of a trademark in the US, the countries of operations and other countries where the trademarks are registered is valid for limited periods prescribed in the law (in the US, Mexico, New Zealand and Australia – 10 years) 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.

10.10 Human capital

a. Following is information on the number of employees employed in the segment:

Number of Employees in the International Dips & Spreads Segment		
	December 31, 2023	December 31, 2022
Management and administration	110	118
Sales and distribution	44	44
Procurement and logistics	25	23
Operations	498	608
Total	677	793

Including all employees of Sabra and Obela, joint ventures in which the Company holds 50%, as well as 34 and 46 agency workers, as of December 31, 2023 and 2022, respectively. The decline in headcount compared to 2022 is the result of an organizational restructuring process and efficiency enhancement plan executed by the Company as described in section 10.1.2 above.

- b. According to the employees' employment terms, both the employer and the employee may terminate the employment relationship at any given time, subject to the law. Employees are not unionized and no collective agreements apply to them, except for hourly employees in Australia.

10.11 Raw materials and suppliers

The main raw materials used by Sabra and Obela in the manufacture of their products are tahini (sesame seeds), hummus (chickpeas), vegetable oil and garlic.

The companies use plastic products (cups and lids) to package the products.

Chickpea prices rose in 2023 (compared to 2022) following higher transportation, storage and insurance costs. Additionally, tahini, garlic and oil prices rose in 2023 following the increase in the costs of key raw materials (sesame and soybeans). The prices of packaging materials (both plastic containers and paper-based products) rose slightly in 2023 compared to 2022 as inflation eased, and supply and available inventory returned to pre-COVID levels.

The Group manages supplier risk by reviewing financial advantageousness, operational capabilities, strategic fit and geopolitical risk. The Group locates and certifies alternative suppliers in all raw material categories to ensure a surplus of vendors in the supply chain. Consequently, the Group has no dependency on these suppliers and will be able to replace them at no substantive incremental cost to the Company.

10.12 Working capital

Following is the composition of working capital in the International Dips & Spreads segment in 2023, according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the International Dips & Spreads Segment	
	Amount Included in the Management Reports ⁽³⁾
Operating current assets ⁽¹⁾	109
Operating current liabilities ⁽²⁾	66
Excess of current assets over current liabilities	43

(1) Including net trade receivables, inventory and prepaid expenses.

(2) Including net trade payables and accrued expenses.

(3) In NIS millions

10.13 Restrictions and oversight in the segment

The International Dips & Spreads segment is subject to a variety of laws, standards and regulations in the countries of operations that govern, *inter alia*, the spheres of employment, environment, food safety, production and labeling, privacy protection and anti-bribery and corruption.

10.14 Material Agreements

10.14.1 Joint venture with PepsiCo – Sabra

In December 2007 a joint venture was signed, such that commencing on March 28, 2008, the Company, through S.E. USA, Inc. (hereinafter in this section: "**Strauss USA**"), and PepsiCo (through Frito-Lay Dip

Company, Inc., hereinafter in this section: **"PepsiCo"**) each hold 50% of the "participation rights" in 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% through 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 Company 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 deciding 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 whereunto 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 two 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.

Each of the owners of the participation rights in Sabra has a put option to sell its participation rights to the other owners of participation rights in Sabra at such time, based on 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 at said price or alternatively, to sell its participation rights to the party exercising the option based on 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 owners of participation rights (which is permissible only if the offeror offered all of his rights in Sabra for sale, and for a cash consideration).

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. 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 75 years have elapsed from the date of signing of the agreement or 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 based on 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. See also risk factors in section 25.1.i.6, k.1 and k.2 below.

10.14.2 Joint venture with PepsiCo – Obela

In July 2011 the Company contracted with PepsiCo (through PRB Luxembourg, hereinafter: "PRB") in an agreement for the establishment of a joint venture through a company in which the parties would be equal shareholders (each party holding 50%) – PepsiCo Strauss Fresh Dips & Spreads International GmbH (the "**Venture**"). The agreement is for a term of 20 years and will be renewed automatically for additional periods of 20 years each, provided that neither shareholder has informed the other, five years prior to the end of the 20-year period, of its desire not to renew the agreement.

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 stake of either party should fall below 50% through to 25%, that party will be entitled to two representatives on the board of directors, and if the holding should fall below 25% through to 10%, that party will be entitled to one representative. If the 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 passed by a majority of votes.

The agreement determines a mechanism for deciding disputes by the parties in the case of a deadlock as a result of the board's inability to approve resolutions, including referral to a non-binding conciliation proceeding, subject to the terms and conditions of the agreement. If the dispute is not resolved, 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.

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 shareholders 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.

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.

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, other than within the territory of the US (including Puerto Rico), Canada, where the joint venture Sabra is active, 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 other than within the territory of the US (including Puerto Rico), Canada and Israel (as set forth in the agreement), this will not constitute a breach of the agreement if its holding is less than 20% of the total annual profit of the other business, and to the extent that it offers the Venture to buy its holding in the other business at market value and under the terms and

conditions set forth in the agreement. If its holding is more than 20% of the annual profit of the other business, and said annual profit is more than ten million dollars, that party will be required to sell its holding 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).

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, the Company's entire stake 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.

Each of the parties to the Venture has 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.

The parties will not transfer 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.

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

The parties will attempt to resolve any dispute that may arise in regard to the interpretation or performance of the agreement by applying the dispute resolution mechanism, and in the absence of agreement between the parties, the issue will be referred to a non-binding conciliation proceeding. Should the proceeding be unsuccessful the dispute will be brought for arbitration, as prescribed in the agreement.

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%.

See also risk factors in sections 25.1 k.1, k.2 and i.6 below.

11. The Strauss Water Operation

11.1 General information on the Strauss Water segment

11.1.1 Structure of the operation and changes occurring therein

The Group is active in the drinking water market through Strauss Water Ltd. and is engaged in the development, manufacture (through outsourcing), assembly, sale, marketing and servicing of systems for the filtration, purification of and carbonation of drinking water at the point of use (POU systems). The water systems are mostly based on innovative patent-based technology developed by the Group, comprising a combination of new developments in the fields of engineering, chemistry and microbiology. As of the date of the report, the Group's water business is mainly in Israel under the Tami4 brand, which began in 2009 with the acquisition of Tana Industries Ltd. There is also an immaterial business in England, which, since January 2023, is managed in collaboration with Culligan Water (49%) under the Virgin Pure brand. For information on the license to use the brand, see section 11.8 below.

The Group also has a material holding (49%) in an associate, a joint venture established by Strauss Water with Haier Group, which is active in China, mainly in the filtration and purification of drinking water at the point of use as well as of the point of entry to the home (POE systems). For further information, see section 11.13 below.

11.1.2 Changes in the scope of activity and profitability of the segment

In recent years, the business in the Israeli water market has grown continuously, and in 2023, the growth trend in the POU category remained consistent. The Group estimates that the increase in the use of water purification bars and drinking water filtration systems is due to growing public awareness of leading a healthy lifestyle, which is reflected, among other things, in lowering the consumption of sugar and sweetened drinks and switching to water. In addition, the change is due to growing awareness among consumers of drinking water quality and the various contaminants it may contain, coupled with the importance of caring for the environment, among other things by limiting the use of plastic bottles. For further information, see section 7 above.

In the initial weeks of the Swords of Iron War, demand for the Group's water bars in Israel declined and sales of these appliances were adversely affected. The impact is immaterial to the Group's results. As of the publication date of this report, demand for water bars has returned to normal. For the effects of the Swords of Iron War on the Group's business, see section 3 in the Board of Directors' Report as of December 31, 2023.

11.1.3 Critical success factors in the segment and changes occurring therein

In this area of activity, several critical success factors can be identified: Development of advanced technology and advanced, high-quality products, a stable supply chain, a broad distribution network, fast and efficient customer service, operational efficiency and brand strength, as well as the ability to continue to provide continuous service to customers in changing conditions.

11.1.4 Major entry and exit barriers in the activity framework

The main entry barriers to activity in this segment are the need for large investments in the development of products and sales infrastructure, a stable supply chain, and distribution and service to customers. The main exit barrier is the warranty given to customers and the obligation to supply spare parts for the appliances.

11.1.5 Substitutes for the products of the activity framework and changes occurring therein

Substitutes for the Group's products include tap water, mineral water (in jugs and bottles), filtered water in bottles or jugs and water filtration jugs with a filter.

11.2 Products and services

The Group's products in this segment are water bars that connect to the customer's tap water infrastructure (POU) and filter and purify the water, including cooling, heating, and in Israel, also carbonation. By way of illustration:

The Tami4 water bar series:



All Tami4 water bars dispense hot, cold and lukewarm water. The edge and edge+ water bar series, launched in 2021, includes water bars that are smarter, smaller, and afford capabilities that were not available in the Group's previous models, such as monitoring water consumption quantities, setting the water temperature, a convenient dispenser button for children, remote boiling, and receipt of a variety of alerts via an app. The new bars are also equipped with three usage modes to reduce energy consumption.

The Tami4bubble series features a fresh, top-quality carbonated water dispenser at the touch of a button, offering three carbonation levels, that is environmentally friendly and uses refillable CO₂ canisters.

The Tami4primo series includes water bars with a clean, unique design, specially built for easy pouring into bottles and pots.

The Tami4family series is the classic series. These water bars are convenient and functional and include a foldable tray and a unique patent for easy filling of bottles, jugs and pots.

All products operate under various filtration and purification technologies. On the date of this report, the main technology is Maze, an innovative technology for water filtration and purification that enhances the quality, clarity and taste of the water.

The products are available in two categories: home water bars sold to the private market (households) and water bars for businesses, adapted to the needs of customers in the business and institutional sector.

In addition, the Group services the products it sells, including maintenance and the supply of filters, purifiers and ultraviolet lamps, and also services appliances at the customer's home.

In Israel, the products are marketed under the **Tami4** brand, and in the UK, under the Virgin Pure brand. For further information, see section 11.8 below.

11.3 Segmentation of income from products and services

In this activity segment, there is no group of similar products or services that accounts for 10% or more of the Group's total consolidated income. For information on the segmentation of the Group's income from the water business in 2023, see section 11.7 below.

11.4 Customers

The Group's customers in the Strauss Water operation are households, businesses (offices and stores) and institutional customers (such as government offices, hospitals, etc.), characterized by great diversity and broad dispersal.

In Israel, the filtration and purification devices are sold to end customers together with a service agreement for consumable parts.

As part of the service agreement, the Group provides a warranty for the duration of the term of the agreement, and customers may terminate the engagement at any time (subject to the terms and conditions of the service agreement). Payment for the transaction is made monthly over the term of the service agreement.

11.5 Marketing and distribution

In Israel, the Group's products are marketed and distributed to households and businesses by direct sales online and through a sales call center. In the UK, marketing and distribution are mainly carried out online.

Marketing and distribution to the institutional market in Israel are performed through sales representatives and by bidding in tenders.

The main advertising channels in Israel are mass media (radio, TV and print) as well as online advertising.

11.6 Competition

The major rivals in Israel are companies that sell mineral water in bottles and jugs and companies that offer water bars and POU water filtration devices based on various technologies, including solutions for the religious market, as well as companies that offer POU under-sink filtration, cooling, heating and

carbonation solutions. Generally, competition in the POU market is affected by the quality of water treatment offered by each player, which varies by technology and product, and may include treatment of all or part of the following: aesthetic contamination (chlorine, particles, etc.), microbiological pollution (bacteria, cysts, etc.), chemical pollutants from industrial or agricultural sources (asbestos, atrazine, etc.), heavy metals (lead, mercury, etc.) and pollutants originating in personal use (such as medications and hormones). The Company developed the Maze purifier, which is the only water purifier in Israel that treats aesthetics, microbiology, heavy metals, industrial and agricultural chemicals and personal pollutants like medications and hormones. The Maze purifier was tested and certified by the American certification body NSF and is also certified under Israeli Standard SI 1505, which applies to drinking water treatment systems for domestic use.

The main competitors are: Mey Eden, Brita, Ma'ayanot, Afikim (Noam 1) and Electra, alongside other, smaller competitors. The Company estimates that the Group's share of the Israeli market is about one-third of the water market (on the reporting date, there are approximately 861,000 water bars under active service agreements).

The Group contends with the competition by strengthening the brand (Tami4) among new and existing customers through the Group's marketing and distribution system in the activity segment, emphasizing the advantages of the Group's products, which are characterized technological enhancements and product innovation, and by improving customer service quality, both traditional and digital. These moves have enabled it to continue to attract new customers and retain existing ones.

For further information, see section 12 in the Board of Directors' Report as of December 31, 2023.

11.7 Seasonality

Following are data for the years 2023 and 2022 on income in the Strauss Water segment by quarter according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the Strauss Water Segment				
	2023		2022	
	Income ⁽¹⁾	% of Total Segment Income	Income ⁽¹⁾	% of Total Segment Income
Q1	188	23.4%	183	23.3%
Q2	204	25.3%	199	25.3%
Q3	221	27.5%	210	26.8%
Q4	192	23.8%	193	24.6%
Total	805	100%	785	100%

(1) In NIS millions.

Sales of the Group's water bars are generally higher during the summer months (April to October) compared to other months of the year, and accordingly, there is increase in income from servicing in the fourth quarter of the year.

In the initial weeks of the Swords of Iron War, demand for the Group's water bars in Israel declined and sales of these appliances were adversely affected. The impact is immaterial to the Group's results. As of the publication date of this report, demand for water bars has returned to normal. For the effects of the Swords

of Iron War on the Group's business, see section 3 in the Board of Directors' Report as of December 31, 2023.

11.8 Research and development 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. These developments are supported by 28 patent families as well as additional patent applications filed in numerous countries.

Following are Strauss Water's main patents that have been publicly announced:

Main Patents ⁽²¹⁾			
Patent Name	Description	Priority Date	Earliest Application Date ⁽²²⁾
Spray nozzle and portable filter, including use inside spray nozzle. The patent was divided into 5 separate patents ⁽¹⁾	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	April 2, 2004	March 31, 2005
Gravity filter for liquids and drinking water container housing it ⁽²⁾	Method, product and process for gravity filtration of liquids from a reservoir located above the filter	August 28, 2006	August 28, 2007
Premium filter ⁽³⁾	Sample of the “binocular” shape	April 16, 2009	October 15, 2009
Water filtering device ⁽⁴⁾	Water filtration device (V4) from a pressurized water source containing two water filtration cells, each comprising at least one water treatment element, between which the water flows point to point	May 12, 2011	May 8, 2012
Beverage dispenser with carbonation system ⁽⁵⁾	Beverage bar including a carbonation system, pouring system, pressure reducing system	September 13, 2012	September 13, 2013
Container with an identification module and a machine with a receptacle for its utilization ⁽⁶⁾	Metal container with RFID tag	December 13, 2011	December 4, 2012
Carbonation unit ⁽⁷⁾	Drink dispensing device which includes carbonation system without UV lamp, water/soda water pouring apparatus	February 6, 2014	January 14, 2015
Water filtration unit and assembly process ⁽⁸⁾	Water filtration unit and its assembly process, consisting of only a few parts	March 23, 2015	January 18, 2016
Carbonation unit, system and method ⁽⁹⁾	Continuous carbonation unit	October 10, 2016	October 1, 2017
Water treatment filter ⁽¹⁰⁾	Water filter (T), including solution for homogeneous pressure distribution	April 20, 2017	April 14, 2018
Water treatment filter ⁽¹¹⁾	Water filter (G), including microbial filtration	August 1, 2019	July 30, 2020
Detachable system for the addition of substances to water ⁽¹²⁾	Unit for the addition of substances	April 18, 2019	April 16, 2020
UV water purifier ⁽¹³⁾	Water purification UV device	January 22, 2020	December 21, 2020
Water enrichment system ⁽¹⁴⁾	Method for water enrichment and accurate valuation	May 21, 2020	May 20, 2021
Device connectivity method ⁽¹⁵⁾	Control, management and resource balancing mechanism	July 1, 2020	July 1, 2021
Connecting cable between devices ⁽¹⁶⁾	Connector that connects separate devices	July 1, 2020	July 1, 2021
Water dispensing mechanism ⁽¹⁷⁾	Water dispensing mechanism	July 1, 2020	July 1, 2021
Filter replacement system ⁽¹⁸⁾	Filter removal system	July 1, 2020	July 1, 2021
Water purifier ⁽¹⁹⁾	Device with water and object disinfection capability	July 1, 2020	July 1, 2021

Main Patents ⁽²¹⁾			
Patent Name	Description	Priority Date	Earliest Application Date ⁽²²⁾
Shabbat water device ⁽²⁰⁾	A water bar that observes shabbat	July 1, 2020	July 1, 2021

Countries where registered or submitted for registration (as of January 2024):

(1) Israel, US, France, Germany, UK, Canada, China and Hong Kong.

(2) Israel, US, France, Germany, Italy, Holland, Poland, Portugal, Spain, Sweden, UK, Turkey, China, Hong Kong, Canada.

(3) Israel, US, EU, UK, India.

(4) Israel, US, Mexico, China, Hong Kong.

(5) Israel, US, France, Germany, UK, Italy, Canada, China, Hong Kong, Mexico.

(6) Israel, China, Italy, Germany, Turkey, UK.

(7) Israel, US, Germany, UK, China.

(8) US, China, Israel, France, Germany, Italy, UK, Spain.

(9) Israel, US, China, Russia, Canada, Brazil, India, Mexico, Australia, Austria, Belgium, Switzerland, Cyprus, Czech Republic, Germany, Spain, France, UK, Greece, Hungary, Ireland, Italy, Holland, Poland, Portugal, Romania, Slovenia, Slovakia, Turkey.

(10) Israel, US, China, Canada, EPO**.

(11) Israel, US, China.

(12) Israel, China.

(13) US, Israel, China, EPO**.

(14) US, China, Israel, Hong Kong, EPO**.

(15) Israel, China, US, EPO**.

(16) Israel, China, US, EPO**.

(17) Israel, China, US, EPO**.

(18) Israel, China, US, EPO**.

(19) Israel, China.

(20) Israel, China.

(21) All patent rights are owned by Strauss Water.

(22) Some of the applications have later dates.

*PCT – The Patent Cooperation Treaty has over 150 member countries (contracting states) in the Western world and allows for applications for patent protection prior to invention in these contracting states through a single utility patent filing that grants international patent-pending status, in lieu of several filings in countries where patent protection is sought. Eighteen months after filing the PCT application, the application proceeds to the National/Regional Phase, in which the patent must be filed in the selected countries in which patent protection is sought.

**EPO – The European Patent Office, which reviews patent filings and registration in member countries, which are mainly EU countries as well as others.

Licenses in the business in England, as of the reporting date use is made of the "Virgin" brand according to a licensing agreement with Virgin Group in consideration for the payment of royalties at fixed percentages of sales by the company operating in England, with Strauss Water guaranteeing payment of the royalties. Each party may terminate the agreement with 30 days' prior notice. However, it was agreed that neither party will initiate termination before December 31, 2023; It was further agreed that the agreement will expire on December 31, 2024 in accordance with the mechanisms that were defined. As of the reporting date, the Company is reviewing the possibility of extending the license to use the Virgin brand; however, in the company's estimate, cancellation of the license will not materially affect the Group.

The information contained in this section regarding the possibility of extending the license to use the Virgin brand is forward-looking information as this term is defined in the Securities Law, which is based on information available to the Company on the date of this report and includes the Company's estimates

on the reporting date. Actual events may differ materially from those anticipated, among other things due to various developments that could occur as a result of negotiations between the parties.

11.9 Human capital

Following is information on the number of Strauss Water employees (in Israel and the UK) as of December 31, 2023 and December 31, 2022:

Number of Employees in the Strauss Water Segment		
	December 31, 2023	December 31, 2022
Management and administration	232	244
Sales and distribution	759	742
Procurement and logistics	73	72
Operations	302	251
Total	1,366	1,309

Including 435 and 434 agency workers as of December 31, 2023 and December 31, 2022, respectively.

Following is information on the number of Strauss Water employees (in Israel and the UK) by country as of December 31, 2023 and December 31, 2022:

Number of Employees in the Strauss Water Segment		
	December 31, 2023	December 31, 2022
Israel	1,334	1,281
UK	32	28
Total (incl. employment agency workers)	1,366	1,309

11.10 Raw materials and suppliers

- a. Strauss Water procures water bars, filters and UV lamps for use in water bars from a number of outside manufacturers. Water bars are purchased from three suppliers: ENG Electronic Co. Ltd., Flextronics (Israel) Ltd. and Wik Far East Ltd. The water bar suppliers are obligated to exclusivity in production for the Group, and they manufacture the appliances under product specifications developed by the Group, on production lines that are used only for the Group's products. The Group is dependent on the suppliers of the water bars, as their replacement would require several months of preparation and will constitute a material incremental cost to Strauss Water.

Under the contract terms with the water bar supplier Flextronics (Israel) Ltd., termination of the agreement is subject to prior notice of 6 months by the Group and 18 months by Flextronics.

Under the contract terms with ENG Electronic Co. Ltd., termination is subject to 60 days' prior notice by the Group, and in certain cases of insolvency or failure to comply with a material provision of the agreement, the agreement may be cancelled by either party with 60 days' and 30 days' prior notice, respectively.

Under the contract terms with Wik Far East Ltd., termination is subject to 6 months' prior notice by the Group and 24 months by the supplier.

- b. Purchases of filters and purifiers are made from a single supplier (KX Technologies). The Group is dependent on this supplier, as its replacement would require several months of preparation and will constitute a material incremental cost to Strauss Water.

Under the contract terms with said supplier, termination of the agreement is subject to 6 months' prior notice by the Group and 18 months by the supplier, and in certain cases of insolvency or failure to comply with a material provision of the agreement, the agreement may be cancelled by either party with 60 days' and 30 days' prior notice, respectively.

For the effects of the Swords of Iron War on operations in the water segment, see section 3 in the Board of Directors' Report as of December 31, 2023.

For further information, see section 25.1 d.4 below.

11.11 Working capital

Following is the composition of working capital in the Strauss Water segment in 2023 according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the Strauss Water Segment	
	Amount included in the Management Reports ⁽³⁾
Operating current assets ⁽¹⁾	215
Operating current liabilities ⁽²⁾	136
Excess of current assets over current liabilities	79

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

(2) Including net trade payables and accrued expenses.

In NIS millions.

To support working capital management, Strauss Water has factoring arrangements with financial corporations for part of these payments and non-recourse factoring arrangements for agreements for the sale of water bars and service. For further information, see section 23.4 in the Board of Directors' Report as of December 31, 2023, and Note 8.5 to the Financial Statements of the Company as of December 31, 2023.

11.12 Restrictions and oversight

The Group's products in this segment are required to comply with domestic as well as international standards. In Israel, the binding standards applying to the Group's products concern, *inter alia*, the definition of drinking water treatment systems, the safety of products that are in contact with drinking water and the safety of household electrical appliances. All of the company's products comply with the requirements of those standards, and furthermore, both the company's products and the production lines are subject to oversight by the Standards Institution of Israel through the "Standards Mark".

To the best of the Company's knowledge on the date of this report, a new Israeli standard is currently being passed, which adopts the NSF standards for drinking water systems. For further information, see section 12 in the Board of Directors' Report as of December 31, 2023.

11.13 Material investment by Strauss Water in an associate



1. On the reporting date, Strauss Water holds 49% of the shares of HSW, whereas the remaining 51% are held by a company of Haier Group of China.

2. HSW's business focuses on the home water market in China, and the company offers water appliances based on filtration and purification technology (such as reverse osmosis (RO) or nanofiltration⁵⁶), as well as water purification products based on the Maze technology. The products are marketed in China under the brand names Haier, Haier Strauss Water and Casarte through various channels such as online platforms, retail chains and direct marketing, and the appliances are serviced by HSW and by a local distributor.

Sales are made to retailers and to end consumers and generally do not include service agreements. Various components (such as filters and purifiers) are sold as needed. For further information on the macroeconomic environment, see section 6 above.

3. **Series of agreements with Haier Group** – under a series of agreements signed in May 2015 (including a joint venture agreement, which was replaced in 2018) between Strauss Water and Haier Group, the business of a joint venture in which the parties began operating in 2011⁵⁷ was transferred to HSW. Under these agreements, Haier transferred to HSW its RO water filtration and purification operation (which until then was owned by Haier), and Strauss Water granted HSW an exclusive license to use the Maze technology in the China territory.

The joint venture agreement governs the relations between the parties and their roles in the management of HSW. The agreement is valid for 50 years commencing on the date of establishment of HSW (February 6, 2015), and at least two years before its termination the parties will discuss its extension, with the agreement of the parties and the approval of the relevant authorities. Additionally, the agreement determines that it may be terminated before the end of the term upon the occurrence of certain events (including a material change in regulation that has a substantial economic effect on one of the parties, with the parties failing to reach an agreement on the adaptation of the agreement). According to the agreement, five directors will serve on the board of directors, three appointed by Haier and two by Strauss Water. The chairman of the board will be appointed by Strauss Water. The CEO and the CFO of HSW will be appointed by the board at Haier's recommendation, and the deputy CEO will be appointed by the board at Strauss Water's recommendation. Board resolutions will be passed by a simple majority, except for certain resolutions that are required to be passed unanimously (alteration of the articles of association, suspension or termination of HSW's activity, modification of the authorized share capital, and mergers or any change in the company's structure) and other resolutions that require a simple majority that includes a director on behalf of Strauss Water (issuance of securities by HSW, entry into areas of activity outside HSW's regular business areas and others). In addition, two observers will be appointed in HSW, one by Haier and one by Strauss Water. Furthermore, restrictions were determined with respect to share transfers, including a tagalong right (with an agreed or pro-rata

⁵⁶ Reverse osmosis (RO) purifies water, but also removes beneficial elements, such as minerals and vitamins. Nanofiltration retains part of the beneficial elements but does not purify the water if purified through RO.

⁵⁷ The activity of the joint venture commenced in 2011 and focused on the Maze purification technology. Upon its establishment, the joint venture was jointly owned by the Group and Haier, in equal parts. The joint venture purchased the products from Strauss Water and was provided with distribution and sales services, as well as servicing, by companies of Haier Group.

distribution) for each of the parties in a case where the counterparty transfers its holdings to a third party, and a preemptive right for each party to acquire the holdings of the counterparty in HSW. See also risk factors in section 25.1 k.1, k.2 and i.6 below.

As part of HSW's interest in expanding into additional categories in the water business, including the POE market (point of entry filtration and purification systems treat the water as it enters the home by connecting directly to the water line, improving water quality for general use as well as consumption), in 2019 HSW entered into an agreement for the sale of POE products manufactured by a company owned by Haier Electronics (which indirectly holds 51% of HSW) and BWT.

In December 2022, HSW's board of directors passed a resolution to set up a second production site in China. For this purpose, in July 2023 another joint venture agreement was signed between the parties, and a new legal entity, Qingdao HaiShi IoT Technology Co. Ltd. ("**Sino-German**") was established, in which Strauss Water holds 49% of the shares and Haier Group holds 51%. The legal terms and corporate structure of Sino-German are the same as those described in the suite of HSW agreements set forth above.

The resolution regarding investment in the second plant in China, which is expected to become operational in the course of 2026, is in alignment with HSW's growth and market leadership strategy.

The information contained in this section regarding the construction of another manufacturing facility in China, which is expected to become operational in 2026, is forward-looking information as this term is defined in the Securities Law, which is based on information available to the Company on the date of this report and includes the Company's estimates on the reporting date, the materialization of which is uncertain. The construction of the plant could be postponed and/or the Group could decide not to build it, among other things due to changes in macroeconomic and geopolitical trends affecting the Group, which cannot be assessed in advance and are beyond the Group's control. For further information, see Note 11.6.3 to Financial Statements as of December 31, 2023.

4. The water market in China – the Chinese market for drinking water solutions based on machines and filtration devices is split between point of use (POU) systems, systems that treat the water at the point of entry to the home (POE) and water solutions for businesses. HSW's activity in China is primarily in the POU market for the private sector, as well as the POE market. On the reporting date, the decisive majority of the products marketed by HSW are manufactured in the company's plant. In-house development and manufacturing capabilities afford HSW greater flexibility in the development and production of unique, innovative products, shorter time-to-market and the launch of high-quality products.

The information contained in this section regarding the start of operations in the second plant in China in 2026 is forward-looking information as this term is defined in the Securities Law, which is based on information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual events may differ materially from those anticipated, among other things due to various regulatory developments, various developments in the state of the economy, etc.

5. **Competition** – the Chinese market is widely dispersed, with a large number of competitors. The sale of water treatment products is conducted through two sales channels: offline - mainly through retail, and online. The major rivals in the POU private sector market in the offline channel are Angel, Truliva, AO Smith and Midea. The major competitors in the online channel are Xiaomi, Truliva, Midea and AO Smith.

To the best of the Group's knowledge and based on estimates only (in light of the fact that the Chinese market is not barcoded), in 2023 the five major competitors in the POU private sector market account for about 61% of the market in online sales and about 83% of the market in the offline channel. HSW's market share in the POU private sector market is approximately 11.5% and 13.8%, respectively.

6. **Seasonality** – following is information for the years 2023 and 2022 on HSW's income by quarter according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income – HSW				
	2023		2022	
	Income ⁽¹⁾	% of Total Segment Income	Income ⁽¹⁾	% of Total Segment Income
Q1	191	22.9%	173	24.1%
Q2	204	24.4%	178	24.8%
Q3	205	24.5%	161	22.5%
Q4	236	28.2%	209	28.6%
Total	836	100%	721	100%

(1) In NIS millions.

As a rule, the months of January, September and November are considered to benefit from higher sales due to an increase in sales to the retail channel prior the Chinese holidays, which fall in the months of February and October.

Material Fixed Assets in HSW			
Nature of the Site	Site Location	Site Designation	Built-Up Area
Plant	Jimo	Production site	43,000 m ²

In December 2022, an investment in a second plant was approved, in alignment with business growth in China and the business development strategy. For further information, see section 11.13.3 above.

7. **Human capital** – HSW employs approximately 920 employees and managers.

Matters Relating to Group's Overall Activity

12. Customers

12.1 Segmentation of sales to customers (excluding Strauss Water)

The Group's customers in its various business segments and in the different countries of operations (except for the customers of Strauss Water – see section 11.4 above), are divided into two main types: retail market customers and AFH customers.

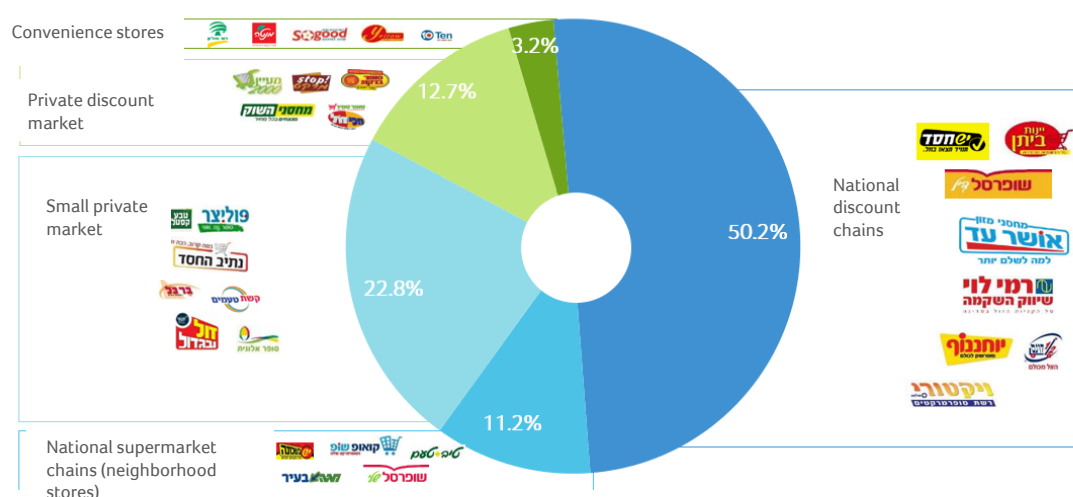
Retail customers (such as food chains, grocery stores, minimarkets, supermarkets, convenience stores, snack bars, kiosks) supply consumers with food and beverage products mainly for home consumption. Customers in the AFH market provide consumers with food and beverage consumption opportunities while away from home, with part of the sales performed according to tenders published by various bodies, in which the quantity and price are defined in advance.

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

12.1.1 Sales channels – breakdown according to segment

- a. **Customers in Israel, including Israel Coffee** – the Israeli retail market comprises three main channels: National supermarket chains, the private market, and convenience stores, as presented below.

Segmentation of the Major Channels in the Israeli Retail Market



National chains – retailers with a broad geographical spread and large-scale central procurement, including national discount chains (as of December 31, 2023, around 50.2% of the market compared to 50.3% on December 31, 2022) – chains whose stores are spread countrywide, with bulk shopping (discount) features; national supermarket chains (as of December 31, 2023, 11.2% of the market

compared to 10.9% on December 31, 2022) – retail chains/sub-chains with a countrywide store spread and supplementary shopping features, generally neighborhood stores in city centers (according to StoreNext figures in a report published on January 8, 2024).

Private market – the private market comprises small chains and private stores. The internal division between sub-channels in the private market is determined according to the overall sales volume of the point of sale: private discount market (as of December 31, 2023, around 12.7% of the market compared to 12.5% on December 31, 2022) – private chains that are mostly concentrated in specific geographical regions, stores with bulk shopping (discount) features; small private market (minimarkets and grocery stores) (as of December 31, 2023, around 22.8% of the market compared to 23% on December 31, 2022) – private stores and small chains with lower sales volumes and supplementary shopping features (according to StoreNext figures in a report published on January 8, 2024).

Convenience stores – (as of December 31, 2023, around 3.2% of the market compared to 3.4% on December 31, 2022) – chain stores with broad deployment, generally located in gas stations and characterized by “on-the-go” purchases and occasionally, supplementary shopping.

- b. **In the International Coffee segment** – in Brazil, sales by Três Corações (JV)⁵⁸ are mainly made through direct distribution channels reaching some 153,000 retail customers (national and regional chains), which accounted for around 91% of the sales of the joint venture in Brazil in 2023. In addition, Três Corações (JV)⁵⁹ makes sales to AFH customers (5% of the joint venture’s sales in 2023). The joint venture also exports green coffee to customers in the US and Europe (3.5% of the joint venture’s sales in 2023). Furthermore, in 2023 the company in Brazil maintained the trend of improvement in its online direct-to-consumer sales channel (sales in this channel accounted for around 0.5% of sales in 2023).

Customers in **Central and Eastern Europe** include retail market customers and AFH customers, as well as exports from Eastern European countries to neighboring countries from time to time.

In the retail market in Europe, in recent years modern trade has been on an uptrend, characterized by large marketing centers and national marketing chains, as opposed to traditional retail, which is characterized by neighborhood stores. In the reporting year, in Ukraine and Serbia⁶⁰ the traditional market remained dominant, whereas in Poland, Russia and Romania, modern trade already accounts more than half of the retail market. In Central and Eastern Europe, the organized market includes national key accounts and wholesale cash & carry and discount chains, characterized by low prices. The uptrend in modern trade intensified in 2023 in light of high inflation and a shift by consumers to retailers offering lower prices.

- c. **International Dips & Spreads customers** – in the US, fresh dips and spreads products are sold and distributed to retail chains (national and regional), which accounted for around 60.4% of the market as of December 31, 2023; mass merchandisers (large discount department store chains such as

⁵⁸ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee’s stake (50%) unless expressly stated otherwise).

⁵⁹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee’s stake (50%) unless expressly stated otherwise).

⁶⁰ For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

Walmart), which accounted for around 17.3% of the market as of December 31, 2023; club chains (chains operating giant warehouses that specialize in sales of a limited selection of brands in large packs at discount prices), which accounted for around 18.4% of the market as of December 31, 2023; and convenience stores and drugstores, which accounted for 3.9% of the market as of December 31, 2023. In Australia, New Zealand and Mexico, the products are sold and distributed in large retail chains, private retail chains and the institutional market.

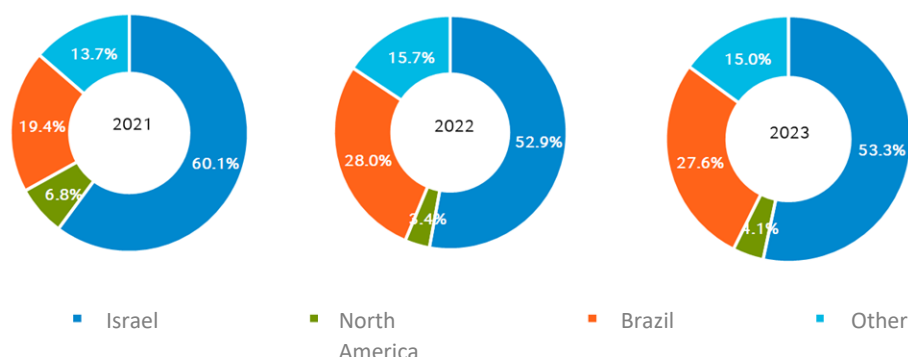
- d. The following tables present the distribution of the Group's total sales (in NIS millions) and their percentage of the Group's total income, segmented by customer type, in 2023 and 2022 (according to the Company's Management Reports, as defined in section 5 above):

Customer Type	Distribution of the Group's Total Sales by Customer Type in 2023								
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	Water	Other	Total Group	% of Total
Large customer market	1,349	423	292	2,144	453	-	-	4,661	44.0%
Private market	1,536	531	250	1,758	-	-	-	4,075	38.2%
AFH	146	22	129	246	46	-	-	589	5.3%
Other	35	32	122	213	14	805	3	1,224	12.5%
Total	3,066	1,008	793	4,361	513	805	3	10,549	100%

Customer Type	Distribution of the Group's Total Sales by Customer Type in 2022								
	Health & Wellness	Fun & Indulgence	Israel Coffee	International Coffee	International Dips & Spreads	Water	Other	Total Group	% of Total
Large customer market	1,240	296	303	2,013	310	-	-	4,162	43.9%
Private market	1,380	343	249	1,609	49	-	-	3,630	38.2%
AFH	134	21	119	199	37	-	-	510	5.3%
Other	30	52	107	205	20	785	1	1,200	12.6%
Total	2,784	712	778	4,026	416	785	1	9,501	100%

12.1.2 Segmentation of sales by geographical region

Following is the sales turnover by geographical region in the years 2023, 2022 and 2021:



Sales Turnover by Geographical Region			
	2022	2022	2021
Israel	5,624	5,022	5,264
North America	431	327	595
Brazil	2,912	2,660	1,698
Europe and RoW	1,582	1,492	1,195
Total	10,549	9,501	8,752

Figures are in NIS millions.

12.1.3 Customer dependence

In 2023 there was no one customer in which respect income from sales accounted for more than 10% of Group's total income according to the Company's Management 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.

In the fresh dips and spreads segment Sabra has two customers that accounted for approximately 13.1% and 10.2% of Sabra's net sales in 2023, respectively. Business with these customers is transacted according to periodic purchase orders.

In the Israel geography, there is a customer that accounted for approximately 11% of Israel's net sales in 2023. Business with this customer is transacted based on orders on a current basis.

13. Marketing and Distribution

13.1 In Israel (excluding Strauss Water)

- a. The sales and distribution system for the Group's products in Israel (Health & Wellness, Fun & Indulgence and Israel Coffee products), excluding the products of Strauss Water (for the marketing and distribution of Strauss Water's products, see section 11 above), proximate to the reporting date, serves some 12,000 points of sale, including supermarkets, grocery stores, minimarkets, kiosks, hotels, restaurants, cafés, offices and workplaces, etc.

The Group's distribution operations in Israel are mainly executed from the distribution center in Shoham, which serves as a combined logistics center for all product categories. Finished goods are transported from the finished-goods warehouses in the Group's plants to the three distribution centers in Shoham, Kfar Masaryk and Acre (the Masaryk and Acre warehouses are equipped to provide backup to Shoham in the case of any failure). In 2023, the Group transferred the operations of the Haifa distribution center to the Masaryk distribution center.

In addition, there are cross-docking centers in Yotvata, Beersheba and Kiryat Shmona, to which the goods are transported from the distribution centers.

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

The network of independent distributors mainly distributes the refrigerated Health & Wellness products (dairy products, milk beverages, salads, chilled vegetables, fresh pasta and fresh juices), whereas the internal distribution system (Company employees) mainly distributes Fun & Indulgence products (sweet snack bars, chocolate tablets, candy and chewing gum, salty snacks, Yad Mordechai products and coffee).

The points of sale serviced by the independent distributors are determined by the Group according to the allocation of the distribution lines between the various distributors. The Group is responsible for collecting the consideration from customers. The distributors undertake to maintain, at their own expense, a suitable vehicle for refrigerated transport according to legal requirements and the technical specifications defined by the Group. For 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.

- b. The Group is engaged in agreements with most of the independent distributors, according to which it is entitled to terminate the engagement with the distributor by giving advance notice. The distribution right may not be transferred by the distributor other than with the Group's advance consent. The Group has a distribution and picking agreement for certain products with "Shufersal", pursuant to which Shufersal places a central order for the above products for delivery to "Shufersal's" logistics centers in Modi'in or in Shoham, and "Shufersal" is responsible for the day-to-day supply of the orders to its stores.
- c. 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. The Group is also active in (D2C) marketing and distribution of coffee machines and freshly roasted coffee beans sold to customers online (E-commerce).
- d. The Group has distribution agreements in Israel with an independent 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 independent distributors who buy the Group's products and sell them in the territories of the Palestinian Authority and to small customers in the private market.

- e. According to the provisions of the Promotion of Competition in the Food Sector Law, 2014 (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 otherwise intervening 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 effect, temporary provisions were determined with regard to the exemption of actions and arrangements relating to product placement in a large retailer’s store. On February 19, 2023, the Competition Commissioner announced her decision to cancel the Rules for the Promotion of Competition in the Food Sector (Exemption of Actions and Arrangements Pertaining to the Arrangement of Goods in Stores of Large Retailers) (Temporary Provision), 2017 (the “**Arrangement Exemption**”), and that commencing on January 1, 2024, large suppliers would no longer be able to arrange products on the shelves of large retailers.

On January 24, 2024, the Competition Commissioner announced that the Arrangement Exemption would be extended for a further six months, until May 31, 2024, and that she will publish new rules for exemption that will increase sales of products of small suppliers in the retail chains. In the draft rules that will be published for public comment, two tracks for the grant of exemption will be set – a General Track and an Individual Track. In the General Track, a large retailer will be required that the total sell-out of products of “small” suppliers by the chain is more than 55% of total sales, and that this percentage will increase by one percentage point per year to 60%. In the Individual Track, the large retailer will be required to significantly increase the total sell-out of products of “small” suppliers by the chain each year compared to the prior year.

At present, the contents of the exemption are uncertain, as is the date on which it will take effect. Accordingly, as of the date of this report, the Company is unable to assess the effects of the change in the contents of the exemption if and insofar as the process is completed. The Group provides placement services to large retailers subject to compliance with the law. Additionally, the Group’s commercial activity is performed in accordance with the requirements of the Food Law, trade activities and the resulting agreements. Thus, for example, the Group 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 Food Law and is prevented from intervening in the retail prices of its products, etc. For further information, see section 20 below. It is noted that the Group takes care to maintain the freshness of its products on the shelf and to collect returns from most points of sale and destroy them as required by law. Where product placement is performed by the retailer, returns are handled as agreed.

- f. As part of Economic Arrangements Law for 2023-2024, the Promotion of Competition in the Food Sector Law, 2014 was amended in a 3-year temporary provision, and, *inter alia*, the following provisions were determined with the goal of reducing the conglomerate power of large suppliers and manufacturers: prohibition on a large manufacturer or a supplier that supplies goods of a large manufacturer to merge with a large or medium-sized manufacturer or a supplier that supplies the goods of a large or medium-sized manufacturer; prohibition on a large supplier to enter into an arrangement with a large retailer, in which the large retailer is granted a discount that is contingent on value or volume purchasing targets for more than one type of product among the large supplier’s products; and exemption of a large retailer from obtaining the Commissioner’s approval to open another large store in a high-demand area, if, in each of the six months that preceded the date of

signing of the contract, 55% of the large retailer's sales in Israel did not consist of the products of large suppliers. Furthermore, provisions were determined with the goal of facilitating the import of food products, including through the establishment of a team that will review non-binding standards that are a barrier to trade and cancellation of binding standards by virtue of the Consumer Protection Order (Marking and Packaging of Food Products). The Company has reviewed the effects of the Economic Arrangements Law and estimates that they are immaterial to the Company.

13.2 In countries outside Israel

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 – proximate to the date of this report, Três Corações (JV)'s⁶¹ sales and distribution system serves some 174,000 customers, including retail and AFH, in the presale method, which is largely carried out by the Company's in-house distribution system plus a small amount of use made of independent distributors, with which the Group contracts as needed. The products are transported by trucks owned by Três Corações (JV) and trucks belonging to third parties as needed. Delivery times range from 24 hours to 7 days, depending on the location of the point of sale (the long delivery times refer to points of sale located in remote rural regions). There are also two company-owned distribution centers servicing end customers who purchase goods online.

Poland, Romania, Serbia⁶², 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. Direct-to-consumer sales are also made online.

For information on the effects of the Russia-Ukraine war on the Group, see section 5 in the Board of Directors' Report as of December 31, 2023.

Sabra and Obela – proximate to the date of this report, the sales and distribution system serves some 50 thousand points of sale in the US and Canada. The products are sold in the presale method and distributed directly to the logistics centers of the retail chains (from the production warehouses of Sabra and Obela) or distributed by the distribution networks of independent wholesale distributors and by external transportation companies. Customers do not have shelf-stocking and placement systems. Deliveries to customers are made within up to 14 days from the date of receipt of the order, and products are non-returnable.

⁶¹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

⁶² For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

14. Fixed Assets, Real Estate and Facilities

Following is a description of the Group's material fixed assets, in addition to the fixed assets serving the operating segments:



Additional Material Fixed Assets			
Nature and Location	Site Designation	Built-Up Area	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 it, basement space and parking ⁽¹⁾	--

Rights in and to the site:

(1) A right to be registered as the owner. In the agreements for the acquisition of the property, the sellers undertook to complete the registration of the rights in and to these assets in their name; as of December 31, 2023, said registration has not yet been completed. The agreements contain provisions intended to secure the Company's rights as well as the registration of the condominium.

For further information on the Group's real properties, which are not attributed to a specific segment, see Notes 15 and 23 to the Financial Statements of the Company as of December 31, 2023.

15. 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 knowledge in the possession of the Group's strategic partners, Danone and PepsiCo, respectively. Various solutions in the refrigerated dips and spreads segment in US are developed in collaboration with Sabra. Strauss Water works continuously on the development of technological innovations for its products and the development of new products in response to market and consumer demand. Development is carried out using the knowledge in Strauss Water's possession, and occasionally, in collaboration with outside parties, including technological collaborations with various institutions active in the water sector in Israel. The Group also works to increase technological collaborations with global companies from corresponding disciplines such as raw and packaging materials, machinery, etc.

In 2023, the Group continued to develop innovative products that deliver added value to the consumer across all business segments, based on consumer trends and the Group's vision, 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 Group simultaneously worked on implementing smart manufacturing projects, including smart, advanced management of industrial plants and processes that provide for communication and interfacing between machines, real-time data analysis, robotics and AI. 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. The Group strives to identify, develop and assimilate breakthrough technologies through involvement in the FoodTech community via Strauss NEO, as described below, which actively connects the Group to researchers, inventors, entrepreneurs, academic institutions, venture capital funds and government research agencies. In this context, the Group executes projects that will serve as a foundation for growth within and outside the business units through collaborative development with entrepreneurs, development or commercialization work with startups (in the Group's incubator and others), and by developing concepts originating in the Group.

In the interests of improving assimilation and the ability to build new businesses based on technologies that were identified or developed, in 2022 the Group formed the Strauss NEO unit, a new business incubator at Group Headquarters. The unit establishes and cultivates innovative businesses with significant future potential and identifies opportunities for building businesses and taking them to the stage where they are able to integrate into the Group's business units or become new, independent growth engines to support the Group's ability to develop into new categories or develop new products as an additional foundation to support future growth.

In 2023, dozens of new technologies were tested, and several projects were initiated with the goal of launching tech-based products or processes. Some of these projects have their origins in The Kitchen incubator's technology and others are based on collaborations with outside startups.

In 2015, the Group launched the technological incubator, The Kitchen, on the basis of the Chief Scientist's Technological Incubators Program ("**Incubator 1**" and the "**Concession**", respectively). The incubator's goal is to boost Israeli FoodTech by investing in early-stage technological ventures, which offer solutions to the global food industry. Since its establishment, the incubator invested in 27 companies.

Some of the companies hosted by the incubator over the years completed product development, commenced initial sales and raised further investments. The Company participated in some of these funding rounds, investing sums that are immaterial to the Company. As of the date of this report and upon the expiration of the Concession awarded to Incubator 1, on December 31, 2023, the Board of Directors of the Group passed a resolution to take steps to realize the investments in Incubator 1.

For further information, see section 22.5 in the Board of Directors' Report as of December 31, 2023.

On February 22, 2022, The Kitchen Hub 2.0, a limited partnership in which the Company is the shareholder of the general partner and the limited partner (the "**Partnership**"), received a notice that the Partnership had won a call for proposals for the establishment and operation of a FoodTech incubator ("**Incubator 2**") at the decision of the Israel Innovation Authority's Research Committee. The startups in which the incubator invests will receive grants from the Innovation Authority of up to 85% of the approved budget. Additionally, the incubator will be eligible for a grant of up to NIS 2 million over the five-year the Concession period to purchase equipment for a central laboratory for use by the startups.

Following is a list of companies in which investments were made in the framework of Incubator 1 and Incubator 2 and their areas of activity:

List of Companies Active in Incubator 1	
Company Name	Area of Activity
Yofix	Development of plant-based probiotic foods and beverages
Yeap	Development of a unique method for producing proteins from yeast
Torr FoodTech	Development of healthy snacks using production processes that bind product ingredients together without the addition of sugar
MaoLac	Development of a system that identifies proteins with medical properties and their use to enrich food products
DLR	Development of a vision-based robotic controller that enables robots to learn and replicate the performance of human tasks for use in industry
Flying SpArk	Research and development of proteins produced from insects for human consumption and pet food
BactuSense	Was active in the development of a device for rapid bacterial detection in food (voluntarily liquidated)
Myfavoreats	Development of a platform that helps users to create personalized recipes aligned with their individual dietary needs
Amai Proteins	Development of a technology that produces sweet designer proteins by combining agile integrative computational protein design with biotechnology-based products
Bio-Fence	Development of an antimicrobial anti-viral coating for work surfaces to create a safe, contaminant-free environment
Aleph Farms	Development of processes for meat production using biotechnological methods
Inspecto	Was active in the development of a portable device for the early detection of food contaminants (voluntarily liquidated)
Better Juice	Development of a process that removes sugar from freshly squeezed juice using biotechnological methods
RilBite	Development of technology that creates nutritionally beneficial plant-based minced meat analogues with a small number of ingredients
Imagindairy	Development of processes that use bioengineered yeast cells to produce milk proteins for milk and cheese products
Vanilla Vida	Unique technology for the efficient cultivation and processing of vanilla worldwide
Anina	Development of fast ready-to-cook, natural-ingredient-only meals using innovative means to upcycle agricultural produce discarded for aesthetic reasons
Zero Egg	Development, production and marketing of a nutritious plant-based egg substitute
Prevera	Development of disinfection and purification solutions to treat water and for other uses
Mush Foods	Development of sustainable, animal-free protein based on edible mushroom mycelium for use in the food and beverage industry
Forsea	Development of biotechnology-based solutions to produce cell-based seafood
Wanda Fish Technologies	Development of the production of cell-based tuna
MEALA	Development of a replacement for methylcellulose

List of Companies Hosted by The Kitchen 2.0 in 2023	
Company Name	Area of Activity
MeatoLogic	Enhancement of the efficiency of cell differentiation and reproduction to facilitate lower alternative protein costs
Day 8	Production of Rubisco plant protein from agricultural waste

List of Companies Hosted by The Kitchen 2.0 in 2023	
Company Name	Area of Activity
Bob	Media recycling to facilitate the production of cultured protein products
Phat	Production of milk fat from algae
List of Companies Hosted by The Kitchen 2.0 in 2024	
Cocomodo	Since February 1, 2024. Active in the production of cocoa using cell cultures instead of the cocoa tree
Finally	Since March 1, 2024. Active in the production of plant-based casein protein.

The information in this section regarding the activity of Strauss NEO and "The Kitchen 2.0", including the establishment of innovative businesses with significant future potential is forward-looking information, as this term is defined in the Securities Law, which is based on the information available to the Company 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 Group's success in establishing such innovative businesses and/or regarding 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 opportunities that are relevant to the Company, the maturity of the innovative ventures that are hosted, their suitability to the project and market conditions, etc.

For research and development in the Strauss Water operation, see section 11.8 above.

In the Company's estimate, total financial resources invested in 2023 and 2022 in the development of new flavors and products, new packaging, projects related to breakthrough technologies, etc. according to the Company's Management (Non-GAAP) Reports, amounted to approximately NIS 127 million and NIS 112 million, respectively.

16. Human capital

16.1 Organizational structure

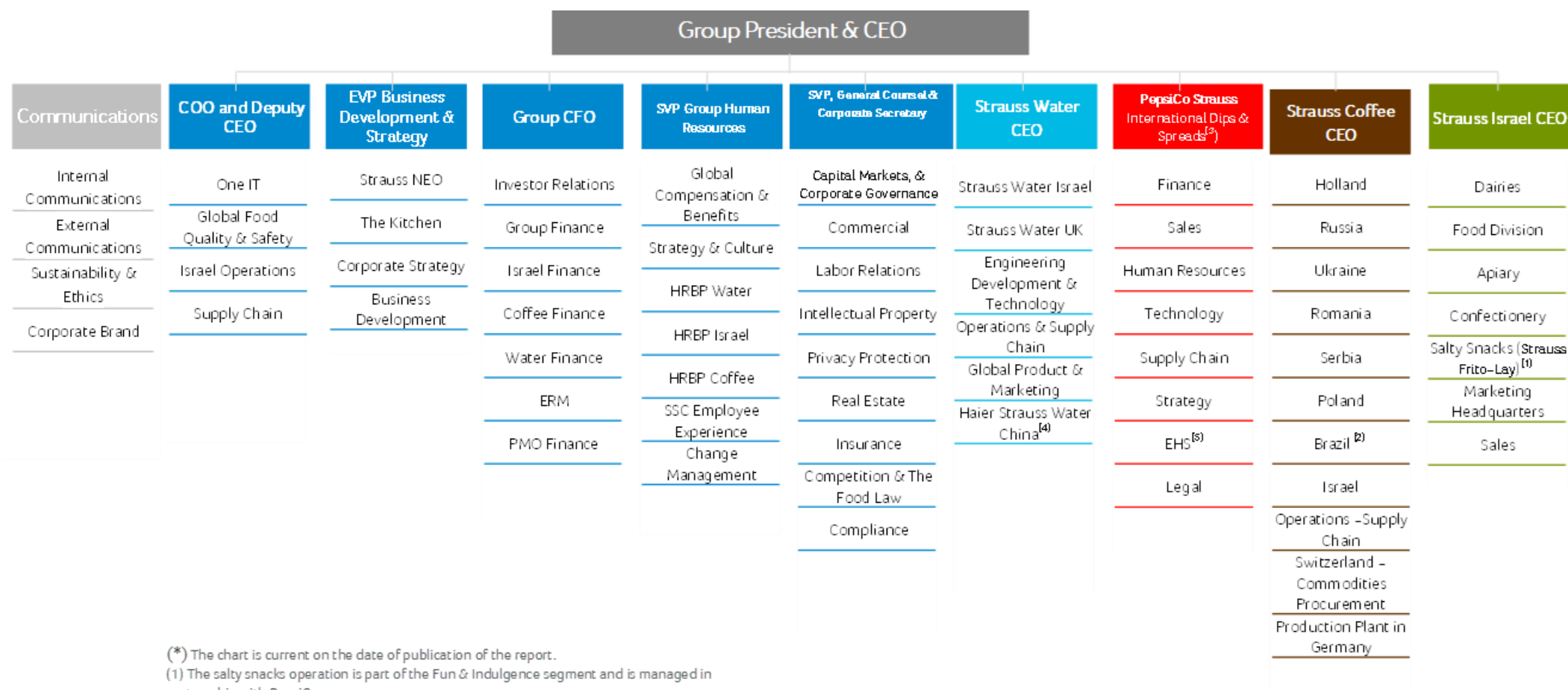
- a. The Group operates according to an operating model which is based on a matrix structure that integrates business units responsible for profitable growth with central units in Group headquarters and the Israel Operation, which manage core processes and supporting processes across the organization. In November 2022, the Board of Directors of the Company approved the implementation of the Strauss One plan, designed to improve the Group's organizational operating model and tailor it to the Group's strategy and the economic environment. In January 2024, the Board of Directors of the Company approved an organizational efficiency enhancement plan to further enhance efficiency and increase savings, while aligning the structure of the business in Israel with the Group's strategy and the macroeconomic environment.

For further information, see section 2.2 in the Board of Directors' Report as of December 31, 2023.

Following is a diagram of the Group's organizational structure as of the publication date of the Periodic Report:



Organizational Structure



(*) The chart is current on the date of publication of the report.

(1) The salty snacks operation is part of the Fun & Indulgence segment and is managed in partnership with PepsiCo.

(2) The CEO of Brazil reports to the board of directors of Três Corações (JV).

(3) The CEO reports to the board of directors of the company.

(4) The CEO reports to the board of directors of the company.

(5) The VP EHS was appointed in January 2022.

- b. Senior Management** – the Group is headed and managed by Group management. Group management defines the overall strategy of the Group and its subsidiaries and follows up on the accomplishment of business results. Most of the Group management members also serve as members of the boards of directors of the companies and the Group's main business units and craft strategic directions in the Group.
- c. Strauss Group professional units** – assist Group management in managing the Group, with emphasis on the management of strategic aspects. The professional units serve as centers of excellence and as shared resource centers, formulate strategy and provide direction, control the performance of the companies in relevant areas, and lead core aspects that support the “one group” concept.

The professional units (HR, Finance, Digital and Legal) provide professional services to the business divisions. HR is a business partner that accompanies organizational processes, change processes, etc., and provides cross-organizational professional services for recruitment, salary and benefits, training, welfare and work relations for the entire Israel Operation. Finance HQ 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 controls, strategic and budget planning, forecasts, business development, etc. The Legal Department, headed by the EVP, General Counsel & Corporate Secretary, provides legal advice to all business divisions in the Group.

- d. The Israel Operation** – the Group's activity in Israel is managed by the Israel unit management and the OT (Operations & Technologies) management, which is responsible for the manufacturing plants and supply chain (excluding Strauss Water), quality and IT. OT management is led by the Deputy CEO and COO and consists of the Operations Manager, Supply Chain Manager, Quality Manager and IT Manager. Strauss Israel management is responsible for managing the Israel Operation, for crafting its strategy and for its approval vis-à-vis Group management, as well as for implementing the strategy and achieving the goals derived from it. Strauss Israel's management comprises the CEO of Strauss Israel and the managers of the business divisions: the Manager of the Dairies and Food Division, the Manager of the Confectionery Division and Israel Coffee, and the Manager of the Salty Snacks Division.

The business divisions are responsible for growth and profitability, for crafting a customer-centric strategy for the division, and for creating demand for the division's products in their areas of responsibility.

Operations management is responsible for quality, safety, hygiene and environmental quality, and for the management of the manufacturing sites and 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 the financial, marketing, product development, retail management and human resources managers (part of whom report to the central professional units).

The professional units (Sales, Supply Chain, Marketing and Growth Engines) 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 (excluding Strauss Water) 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 serves as the professional entity that is responsible for managing demand and supply planning, which includes setting policy and strategy on issues of production planning, procurement and logistics in Israel. Marketing and Growth Engine HQ is engaged in the development of the digital space and digital innovation in Israel, marketing excellence and the customer experience and provides services to the business divisions in the areas of media buying and consumer insights research. EHS (Environment, Health and Safety) is engaged in crafting and managing a professional, effective quality assurance system throughout the value chain to ensure the supply of safe, high-quality products, while protecting the environment and the safety and health of the Company's employees.

- e. **The Internal Coffee Operation** – the Group's coffee business 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. Under service agreements between the Company and Strauss Coffee, the Company provides Strauss Coffee with certain head office services such as HR, legal services, compliance and regulation, operations and logistics, sales and distribution. Strauss Coffee management comprises the CEO, the human resources manager, the marketing manager, the CFO and the operations and supply chain manager. The International Coffee business is managed by the local managements of the companies in the different countries: Holland, Switzerland, Poland, Russia, Ukraine, Romania, Serbia⁶³, Germany and Brazil (the coffee business in Brazil operates through Três Corações (JV)⁶⁴, which is overseen by the joint venture's board of directors). Each company in each country is headed by a separate management, in line with the scope and nature of the activity carried out by the respective company. In the reporting year, the coffee business in Israel was managed by the International Coffee Operation; according to the efficiency enhancement plan approved by the Board of Directors in January 2024, its management will be transitioned to the Israel Operation.
- f. **The International Dips & Spreads operation** – the Group's International Dips & Spreads activity has a separate management. Sabra's management consists of a team comprising the company CEO, CFO, Chief People Officer, VP Supply Chain, CTO, EVP Sales, VP Quality & Health, Safety & Environment, Chief Information and Digital Officer (CIDO), and Chief Legal Officer. Obela has country managers, CFOs and managers who are responsible for different business functions, such as marketing, sales, operations and HR. Sabra's board consists of

⁶³ For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

⁶⁴ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

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 board of directors consists of six directors – three on behalf of the Company (one of whom serves as chairman of the board), and three on behalf of PepsiCo.

- g. The Strauss Water operation** – Strauss Water's management consists of the CEO, CFO, CEO of Strauss Water Israel, VP Human Resources, VP Development & Technologies, VP Global Product and Marketing, and VP Global Operations. Strauss Water's management is responsible for the complete management of the business and for crafting its strategy, implementing the strategy and achieving the objectives derived from it.

16.2 Headcount

The total number of employees employed by the Group (including all employees of jointly controlled entities in which the Company holds 50% and excluding the employees of the joint venture in China, in which Strauss Water holds 49%) is 17,860 and 18,157 as of December 31, 2023 and December 31, 2022, respectively (including 1,197 and 1,438 agency workers as of December 31, 2023 and December 31, 2022, respectively). Excluding 50% of the employees in the joint ventures (50% held by the Group), total employees are 12,689 and 12,809 as of December 31, 2023 and December 31, 2022, respectively.

Following is the number of employees in Group headquarters:

Number of Employees in Group Headquarters in Petach Tikva		
	December 31, 2023	December 31, 2022
Group HQ employees	405	228

The increase in headcount compared to 2022 is the result of the restructuring process decided on by the Board of Directors in November 2022, pursuant to which employees were reassigned from other units to establish the excellence units and shared resources centers, which craft strategy and direct business operations across the Company's entire operation in Israel, and according to which employees in the HR and Finance units were reclassified under Group HQ. For information, see section 16.1 above.

- a.** Following is the number of Group employees in the head offices of the Israel Operation, the sales division and the supply chain division, who provide services to all Group businesses in Israel, including 100 and 56 temporary employment agency workers, as of December 31, 2023 and December 31, 2022, respectively:

Number of Employees in Group Headquarters in Israel		
	December 31, 2023	December 31, 2022
Employees of the head offices of the Israel Operation, sales division and supply chain division	1,514	1,534

- b.** Collectively, the companies in the Group employ a total of 17,860 employees (of which 6,710 are employed in Israel) as described in section 16.2 above. Excluding half of the employees of proportionately consolidated companies, according to the Company's Management Reports as defined in section 5 above, the Group employs 12,689 employees. In companies controlled

by the Group, the Group employs 7,518 employees (according to the financial accounting (GAAP) reports).

16.3 Social benefits and employment agreements

16.3.1 Israel

Most of the Group's employees in Israel (including Strauss Water Israel) are employed under collective agreements. There are general collective agreements that 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 some of the Group's employees in Israel, since professionally, they belong to the instant coffee industry and the chocolate and confectionery industry. Furthermore, there are certain terms and conditions in special collective agreements that were signed in the Group's various production plants and units, which apply only to all or part of the workers employed by that respective plant or unit, and are revised from time to time in negotiations between the workers' committees of the plant/unit and its management. The employment terms of the rest of the employees are determined in personal employment contracts, including, among others, employees of the Sales Division (excluding shelf stockers and sales staff employed in the dry goods private market and institutional channel, who unionized in 2023; accordingly, a special collective agreement is expected to be signed in 2024, which will regularize their terms of employment), HQ employees and employees in the head offices of all divisions in Israel. Salespeople in the Sales Division (including Strauss Water Israel's 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 pension contributions.

16.3.2 Outside Israel

In general, employees of the Group companies outside Israel are employed under personal employment contracts or signed employment offer letters according to accepted practice in each country.

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, Três Corações (JV)⁶⁵ 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 employees in Brazil. In parallel, each state has regional trade unions organized according to occupation (drivers, production workers, etc.). There are 45 different collective agreements that apply to the Group in Brazil.

In the US, Russia, Ukraine, Poland, Romania, Germany and Serbia⁶⁶ there is no general collective agreement in place that applies to the Group's employees, and the employees are not organized

⁶⁵ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

⁶⁶ For information on the sale of the coffee company in Serbia, see section 9.1.1 above.

in trade unions. In Germany and Poland there are collective agreements that govern a number of labor aspects.

There is variance between the countries regarding 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.

16.4 Compensation plans for Group employees

The Group incentivizes its employees according to 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 occupation. The objectives are derived from the Group's work plans.

16.5 Agency employees

To address varying manufacturing and service requirements, the Group employs agency workers as needed. In some countries of operations, there is a maximum period for the employment of agency workers: in Brazil – 9 months, in Romania up to 36 months, and in Germany and Serbia no more than 24 months. In Israel, the Group is a party to agreements with a number of employment agencies for the supply of personnel services as required by the Group, for a limited period of up to 9 months. 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 the agreements, the Group will be indemnified and compensated by the employment agencies for damages or amounts which the Group is required to pay in any case where the agreement is construed in such manner that an employment relationship exists. The agreements with the employment 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. The Group has crafted tools and control mechanisms to enforce the performance of the provisions of the extension order by the personnel agencies, which include, among other things, receipt of confirmation from the agencies' accountants that payment of employment rights has been properly made.

16.6 Officers and managers

16.6.1 Long-term equity-based compensation plan

For information on the senior employee stock ownership plan (ESOP) of May 2003, see Note 21.1.1 to the Financial Statements of the Company as of December 31, 2023.

16.6.2 Incentive for managers and senior employees

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, 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 24, 2022 (reference no. 2022-01-107899). The incentive for managers in companies outside of Israel is based on the achievement of financial budget objectives of the relevant operation or a combination of said objectives and the subsidiary's financial budget objectives, and on the achievement of the manager's functional targets.

16.6.3 Benefits and employment agreements

Officers and employees of the Group's senior management are employed under personal employment contracts, which include, among other things, pension coverage in various plans. Officers and senior management employees are entitled to an adjustment period, compensation arrangements and other special personal arrangements, as described in regulation 21 in the Additional Information on the Corporation report as of December 31, 2023. For information on insurance, exemption and indemnification arrangements for officers of the Company, see regulation 29a in the Additional Information on the Corporation report as of December 31, 2023 and Note 22.4.2 to the Financial Statements of the Company as of December 31, 2023.

17. Financing

17.1 General

The Group finances its business activities using its own resources, loans from banks and financial institutions and non-bank credit. For information on bank and non-bank loans of the Company and its subsidiaries, including debentures issued by the Company, see Note 19 to the Financial Statements of the Company as of December 31, 2023. For information on secured lines of credit, see Note 19.6 to the Financial Statements of the Company as of December 31, 2023.

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 2023, according to the Company's Management Reports, as defined in section 5 above:

Average and Effective Interest Rates			
	Short-Term Loans	Long-Term Loans	Average Rate
Group headquarters			
Bank sources	3.75%	3.36%	3.39%
Non-bank sources ⁽¹⁾	-	2.82%	2.82%
Strauss Israel			
Non-bank sources	-	4.29%	4.29%
Strauss Coffee			

Average and Effective Interest Rates			
	Short-Term Loans	Long-Term Loans	Average Rate
Bank sources	10.62%	7.84%	9.40%
Non-bank sources	-	2.90%	2.90%
International Dips & Spreads			
Bank sources	6.61%	6.24%	6.36%
Strauss Water			
Non-bank sources	5.10%	5.12%	5.12%
Weighted average interest rate	9.86%	3.75%	4.57%

(1) Including Series E and F debentures.

17.2 Reportable credit

For information on debentures (Series E) and debentures (Series F) issued by the Company, see Notes 19.3, 19.4 and 19.5 to the Financial Statements of the Company as of December 31, 2023.

For information on debt and financing expenses in its respect according to the Company's Management Reports as defined in section 5 above, see sections 15 and 16 in the Board of Directors' Report as of December 31, 2023.

17.3 Restrictions applying to the receipt of credit

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

The Company has undertaken towards banks and institutional investors, which granted 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 in the terms and conditions of the letters of undertaking (other than the possibility of providing specific collateral to secure certain loans). For further information, see Note 22.2 to the Financial Statements of the Company as of December 31, 2023.

For information on covenants, see Note 19.5 to the Financial Statements of the Company as of December 31, 2023.

For information on causes for the immediate redemption of debentures issued by the Company, see Note 19.4 to the Financial Statements of the Company as of December 31, 2023.

As of the date of this report the Company is compliant with all its above undertakings.

17.4 Variable rate loans

The following table presents the Group's floating rate loans for 2023 according to the Company's Management Reports, as defined in section 5 above:

Variable Interest Rate Loans				
	Change Mechanism	Interest Rate Range During the Year	Amount of Credit as of December 31, 2023 ⁽¹⁾	Interest Rate Proximate to Publication of the Report
Strauss Coffee	Real	10.16% - 13.6%	419	11.58%
Strauss Coffee	Euro	5.74%	8	5.7%
International Dips & Spreads	US dollar – SOFR	6.98%	73	6.96%
International Dips & Spreads	Australian dollar - Libor	4.9% - 6.2%	5	6.13%

(1) In NIS millions.

17.5 Credit rating

On January 8, 2023, Maalot and Midroog announced the assignment of an iAA+ (negative) rating and an Aa1.il with negative outlook rating, respectively, to an expansion of up to NIS 375 million face value of the Company's Series F debentures. For further information, see the Immediate Reports regarding the Maalot and Midroog ratings of January 8, 2023 (reference no. 2023-01-004635 and 2023-01-004563, respectively).

On April 3, 2023, the Company announced that Standard & Poor's Maalot Ltd. ("Maalot") had left the rating outlook at "negative" against the backdrop of the recall and its possible consequences in the short and medium term, and had reaffirmed the iAA+ rating. For further information, see the Immediate Report of April 3, 2023 (reference no. 2023-01-033403).

On June 7, 2023, the Company announced that Midroog Ltd. ("**Midroog**") had reaffirmed the Aa1.il rating with negative outlook for the Company's Series E and Series F debentures. For further information, see the Immediate Report of June 7, 2023 (reference no. 2023-01-053767).

As of the date of this report, according to the Company's estimate, the Company or the Group companies may be required to raise additional funds for the operation of their current business, including debt recycling. 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 the information available to the Company 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.

18. Taxation

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

For information, see Notes 33.1 and 33.2 to the Financial Statements of the Company as of December 31, 2023.

18.2 Assessment proceedings for the Group companies in and outside Israel

For information, see Notes 33.6 and 22.1.8 to the Financial Statements of the Company as of December 31, 2023.

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

For information, see Note 33.1 to the Financial Statements of the Company as of December 31, 2023, and also Note 26e to the financial statements of Três Corações (JV)⁶⁷ as of December 31, 2023.

For information on claims from the tax authorities in Brazil, see Note 22.1.8 to the Financial Statements of the Company as of December 31, 2023, and also Note 23 to the financial statements of Três Corações (JV) as of December 31, 2023.

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

For information on the tax rate, see Note 33.9 to the Financial Statements of the Company as of December 31, 2023.

18.5 Unused losses for tax purposes and unused tax credits

For deferred taxes in respect of losses, see Note 33.10 to the Financial Statements of the Company as of December 31, 2023. For losses in which respect no deferred taxes were recorded, see Note 33.4 to the Financial Statements of the Company as of December 31, 2023.

19. Environmental Risks and Their Management

19.1 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 the Company assesses could materially affect the Group. At the same time, manufacturing processes in the Group's facilities are affected by a variety of environmental aspects, among others waste, wastewater, air pollution and hazardous materials, where the uncontrolled use or treatment thereof is liable to induce environmental risks. The Group therefore applies the necessary means to mitigate such risks.

The Group's production sites are governed by local environmental provisions of law according to the rules and laws of each country, and also by local municipal legislation. The plants in EU countries are subject to European directives applying to environmental quality standards which emphasize the obligation of routinely documenting and reporting environmental metrics, particularly air pollution, waste management and noise.

In Brazil, national regulation is determined and enforced by the following entities: the Ministry of Environment, Ministry of Justice, Ministry of Agriculture, National Water Agency, National Agency of Petroleum, Natural Gas and Biofuels, the National Environmental Council (CONAMA), and the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA). In addition, in Brazil the Group is subject to laws pertaining to waste treatment, laws applying to

⁶⁷ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

air pollution and to the contamination of water sources, as well as enforcement by municipal authorities under the Ministry of Agriculture.

Sabra's operations in the US are supervised by the US Environmental Protection Agency (EPA) and governed by its regulations.

The Group's activities in Israel are subjected to oversight by the Ministry of Environmental Protection and by environmental units 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 subjected to oversight by the Water and Sewerage Corporations and local councils, as well as oversight by the Ministry of Health.

Most of the Group's plants outside of Israel are required to obtain a certificate of approval for the operation of the plant and the approval of the local ministry of the environment (analogous to the Conditions for a Business License granted to plants in Israel by the Ministry of Environmental Protection).

In Germany, the operating license issued by the Environment and Nature Ministry is conditional on the accomplishment of targets, which is reviewed every three years. As of 2023, the operating license is valid, and the Group works continuously to comply with the targets.

In Romania, operating approval by the Environmental Protection Agency is subject to an annual inspection of the plant's compliance with environmental metrics (receipt of an "yearly visa"), and in 2023 the Group was compliant with those metrics with no deviations. Further, Romanian law requires payment to the environmental administrative fund for any deviation from the standards set forth in the law applying to packaging, electrical and electronic equipment waste and batteries.

In Russia, a fee prescribed by law is imposed on business activity that has a negative impact on the environment (calculated according to the extent of deviation from the standards prescribed in the law).

Additionally, most of the factories require a permit to hold hazardous materials, and some of the factories abroad require a permit to use well water.

Packaging and recycling laws apply to and are implemented in the Group's plants in Israel, in the various European countries and in Brazil, under which the plants are required to treat the various packaging materials through local recycling corporations. In the US, packaging regulations are mostly implemented on the state and local level. As of the date of this report, there is no relevant legislation applying to Sabra's packaging that has a significant impact on the Group.

The Group's manufacturing facilities where operations are based on natural plant raw materials are exposed to climate risks that pose a threat to agricultural produce. The Group monitors these risks, which are liable to jeopardize its business. The Group has a climate policy and targets for the reduction of greenhouse gases emitted as a result of its operations. For more information on climate risks, see sections a.1 and g.1 in section 25 below.

Following are the major environmental issues, the main provisions of law and material environmental incidents which occurred in the Group's plants in 2023:

19.1.1 Wastewater treatment

Considerable amounts of water and detergents are used in the Group's production sites in Israel, creating wastewater that contains, 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 government policy for recycling wastewater for irrigation, which necessitates high-quality wastewater purification.

Environmental provisions of law, regulations and rules governing wastewater treatment: The Business Licensing Regulations (Salt Concentrations in Industrial Sewage), 2003 (the "**Business Licensing Regulations**") determine permissible values for the concentration of polluting salts in wastewater transferred from a production site to a purification plant and define a mechanism for the grant of alleviations in respect of salt concentrations. By virtue of the Business Licensing Regulations, the Group's plants in Achihud and Karmiel were granted relief for the sodium concentration in wastewater. The Water Regulations (Prevention of Water Pollution) (pH Values of Industrial Sewage), 2003 define the permissible pH values in wastewater to be discharged to the sewage system. Additionally, the Water and Sewerage Corporations Law, 2001 and the rules promulgated thereunder, including the Rules of the Water and Sewage Corporations (Plant Wastewater Discharged into the Sewage System), 2014, regulate the manner of treatment and removal of plant wastewater and define a mechanism for granting approval to discharge "anomalous wastewater" (pollutant concentrations in wastewater that exceed the values in the Rules of the Water and Sewage Corporations), which the regional treatment facility is capable of reducing to the level required by law. The above rules also define "prohibited wastewater" based on permitted pollutant values set forth in the First Addendum, such as sodium concentration and reaction rate, as well as the concentration of dissolved sulfides in wastewater, which the regional wastewater treatment facility is incapable of reducing. Furthermore, the Rules of the Water and Sewage Corporations (Water and Sewage Service Tariffs and Setup of Water or Sewage Systems), 2009 prescribe tariffs for anomalous and prohibited wastewater. It is noted that the Group's plants in Israel operate in accordance with the tariffs set in the rules.

In light of the rejection of the Achihud Dairy's application for approval to discharge anomalous wastewater, the Company is working on the adaptation of the existing wastewater treatment plant. The Company estimates that the adjustments will be completed during 2025.

The above information regarding the Company's estimate as to completion of the adjustments in 2025 is forward-looking information, as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date, and there is no certainty as to their materialization. Completion of the adjustments may be postponed, *inter alia*, as a result of decisions by the local authorities and delays in the arrival of parts for the facility and/or professionals from other countries, which cannot be estimated in advance and are beyond the Group's control.

In the salty snack production plant in Sderot there is a deviation in the organic load in the wastewater (high COD – chemical oxygen demand). Negotiations are underway between the plant and the Sha’ar HaNegev Regional Council with the aim of reaching an agreement regarding approved organic loads and the tariff that will be charged.

In the Group’s sites outside Israel, there are a number of local laws as well as EU directives that apply to plants that are subject to EU regulation, which govern wastewater treatment. The main ones are Directive 15/98⁶⁸, which addresses the treatment of urban wastewater, Directive EEC/86/278, which addresses sludge in wastewater, and Directive 118/2006, which addresses the protection of groundwater from contamination. The sites in Europe and Brazil operate in accordance with the Water Management Act (Wasserhaushaltsgesetz – WHG), and in Brazil, also in accordance with Federal Decision 92/08, which define criteria and procedures for the protection and conservation of water and groundwater in Brazil. The site in Brazil is also required to comply with the requirements on the National Water Agency (ANA) and those of regional water resource authorities. The site in Germany also operates under the Water Resources Act, with continuous monitoring and daily sampling of wastewater performed by an outside laboratory retained by the Company. The Company pays for the treatment of discharges of anomalous wastewater as required by law.

19.1.2 Air pollution

During the Group’s activities, pollutants are emitted into the air due to the consumption of energy, fuels burned in ovens, use of steam vats, transportation of products and the use of Freon and ammonia refrigerant fluids in part of Group’s units.

The Group’s plants in Israel are subject to the Clean Air Law, 2008 and the regulations promulgated thereunder. In this context, it is noted that the Group’s plants are not required to hold air emission permits, and instructions regarding emissions of air pollutants are integrated into the business licenses of the Group’s plant where necessary.

In recent years, the Group worked on replacing the R-22 Freon cooling systems in all its plants with systems based on green refrigerant gases. In 2023, the replacement of the cooling systems was completed.

In 2023, during annual sampling at the coffee plant in Lod, a certain deviation was measured in the concentration of gas emitted from the roasting chimney. In the beginning of 2024, the catalytic oxidizer was replaced, and as of the publication date of this report, the Company is working on a repeat sampling process to ensure that the deviation no longer exists.

The Group’s sites outside Israel operate according to a number of local laws as well as EU directives that regulate the issue of air pollution. The main directive is Directive 50/2008, which presents the framework principles of the EU for dealing with air pollution. Additionally, the sites in Brazil operate under Federal Decision 8/90 as well as CONAMA Resolutions 382/06 and 430/11, which define the maximum emission limits for pollutants created by burning fuel in industrial manufacturing processes.

⁶⁸ Directive 15/98 replaced Directive 27/91.

19.1.3 Soil pollution and contamination of water sources

Some of the Group's sites use and store hazardous materials, mainly for the purpose of cleaning processes in the plant, as well as for wastewater treatment processes and refrigeration. 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 riverbanks).

The Hazardous Substances Law, 1993 regulates the manner of handling poisons and harmful chemicals and governs the grant of toxins permits to the plants. All of the Group's sites keeping hazardous materials that require a toxins permit are in possession of a valid toxins permit.

In the Group's sites outside Israel there are a number of local laws as well as EU directives that apply to the Group's plants in Poland, Germany and Romania, the main one being the Seveso II Directive⁶⁹, which addresses the methods for preventing, preparing for and responding to hazardous materials incidents. In Brazil, the sites operate in accordance with Federal Order 240/19, which regulates all activities involving chemicals, which are controlled by the federal police (purchase, sale, export and import, transportation, storage, use and disposal).

19.1.4 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. As of the publication date of this report, the Group's plants in Sderot and Achiud are connected to the distribution network and use natural gas. The rest of the Group's plants in Israel are preparing for their connection to the natural gas supply system in accordance with the national schedules of the natural gas distribution network.

In the Group's sites outside Israel there are a number of local laws as well as EU directives that regulate the issue of the waste of natural resources, which are relevant to the Group's sites in Germany, Poland and Romania. The main ones are Directive 60/2000, which determines new working frameworks for the thorough and comprehensive treatment of the water resource with the aim of achieving a significant improvement in the quality of bodies of water, protecting the water and the water environment in all EU member states; Energy Efficiency Directive 27/2012, which requires EU member states to impose the obligation of efficiency enhancement (or any

⁶⁹ Directive 96/82/EC.

other policy tool with a similar effect as chosen by each country) on manufacturers and energy suppliers; and Directive 28/2009, which promotes the use of renewable energy.

At the Group's site in Romania, in recent years solar panels were installed on the roof of one of the buildings and on another surface in the plant area. In other sites, implementation of solar panel projects is under review. The sites in Brazil operate under the National Environmental Policy (NEP), which is based on Federal Law 6938/81, the goal of which is to set standards that enable sustainable development through mechanisms and tools that lead to the protection of the environment.

19.1.5 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. In addition, the Company is a member of board of directors of the packaging recycling corporation, Tamir. Strauss Israel has set a target of 100% recyclable packaging by 2025. Additionally, Strauss Israel has set a zero waste-to-landfill target by 2030.

Strauss Water recycles spare parts (filters and UV lamps collected from customers) as well as electronic waste from the company's offices and logistics center, in accordance with the Environmental Treatment of Electrical and Electronic Equipment and Batteries Law, 2012, through an electronics recycling corporation. The coffee plants outside Israel collect packaging for recycling according to the requirements of local regulation. In Brazil, the sites operate under Federal Law 12305/10, which outlines the national solid waste policy and defines applicable principles, targets, policy tools and economic tools. The law contains reference to the recycling and reuse of packaging waste. In 2023, the company in Brazil exceeded the target set in the local regulation by approximately 10%, and collected 31.15% of the waste it produced in 2022.

In Germany, the Group's plant has three agreements with other companies for municipal waste disposal. It is noted that most of the Group's sites outside Israel are subject to local regulation applying to the recycling of packaging.

In the Group's sites outside Israel there are a number of local laws as well as EU directives that regulate the issue of waste treatment and the treatment of packaging waste in particular. The main directives are Directive 98/2008, which determines the legislative framework for the handling of waste of all kinds in EU member states; Directive 31/1999, which is intended to reduce harm to the environment caused by landfills; and Directive 62/94, which is intended to create a separate mechanism for the collection and treatment of packaging waste as well as to define recycling and reclamation targets.

19.2 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.

In Group in Israel has a methodology for keeping abreast of environmental legal requirements, for conducting comprehensive compliance tests and rectifying failures. The Group's plants outside of Israel are accompanied by local external consultants specializing in environmental

quality and operate in accordance with environmental risk management policy. In Germany, Poland, Serbia and Romania, the policy was devised according to international standards (ISO), which set environmental standards for the management of business operations. Sabra has adopted an environmental management plan (EMP).

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 energy efficiency enhancement measures. In 2023, the Group's investments in environmental protection and pollution prevention equipment and technology totaled NIS 26.7 million. In addition, NIS 35 million were invested in overall day-to-day management, which includes, among others, the costs of wastewater treatment and disposal, waste disposal costs, management costs and payment to packaging recycling corporations in the various countries.

In 2024, an investment of NIS 15 million is planned in the construction of a supplementary system for wastewater treatment in the dairy and removal of nitrogen, phosphorus and dissolved sulfides.

The information in this section regarding investments for purposes of compliance with environmental requirements in 2024, including the information on the construction of a supplementary wastewater treatment facility at the Achihud site at the end of 2024, accomplishment of the future goal of 100% recyclable packaging, zero waste-to-landfill and use of 100% renewable energy is forward-looking information, as this term is defined in the Securities Law, which is based on the information available to the Company 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, material deviations in the Group's production sites may be detected or regulatory requirements may change, which would require substantial additional investments.

As of 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 material costs in respect of legal actions relating to environmental issues.

20. Restrictions and Oversight of the Group's Activity

20.1 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 pertaining, 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 of Services and Goods Law, 1996, the Standards Law, 1953, and the Public Health Protection Regulations (Food) (Nutritional Labeling), 2017). The Group has developed and operates 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 on misleading 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 under 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 19.1 above.

Outside Israel, the Group's activities 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.

20.2 Control over product prices

- a. The Supervision of Prices of Services and Goods 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, following consultation with the Price Committee as defined in the law, the price, maximum price or minimum price for the product or service. For the Group's price-controlled products, see sections 8.2.13 and 8.3.13 above.
- b. For restrictions and oversight to ensure fair prices for manufacturers, dairies and the public, see section 8.2.13 above.
- c. On January 15, 2015, the Food Law entered into effect. The Food Law is intended to increase competitiveness in the FMCG market with the goal of lowering retail prices through the imposition of prohibitions and restrictions with respect to actions and arrangements between various entities operating in the market. For further information, see section 13.1 above.

20.3 Operating licenses

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

20.4 Competition laws

20.4.1 Declarations as a monopoly

On January 1, 2019, the Economic Competition Law was amended, significantly broadening the existing definition of a “monopoly holder”. Prior to the amendment, a “monopoly holder” was defined as a person commanding more than half (50%) of the entire supply of products (services) and/or the purchase thereof in the relevant market. The amendment determined an additional (alternative) criterion, pursuant where to the definition of “monopoly holder” now also includes a party commanding significant market power in the supply of assets (services) and/or the purchase thereof, even if that party holds a market share of less than 50%.

A monopoly holder bears the obligation to refrain from abusing his power in a manner that could harm the competition or the public. This obligation includes the following prohibitions: a prohibition on unreasonably refusing to provide an asset, a prohibition on unfair pricing, a prohibition on applying dissimilar conditions to equivalent transactions, and a prohibition on creating a linkage between products.

A corporation that violates the competition laws, including the monopoly laws, is exposed to criminal sanctions, financial penalties and civil suits, including class actions.

Further, among the statutory tools defined in the Economic Competition Law, the Competition Commissioner is granted the possibility of intervening in issues that could cause significant harm to the competition or the public by issuing guidelines and instructions to the corporation. These limitations, if and to the extent that they are imposed, are liable to affect the results of the activity segment.

For declarations of the Company as a monopoly and the Competition Commissioner’s instructions in this regard, see section 8.2.13.1 (dairy desserts); section 8.3.13 (chocolate tablets) and section 9.2.13 (instant coffee and cocoa powder for domestic consumption) above. For further information, see also risk factors in section 25.1 f.4 below.

20.4.2 Consensual decrees pursuant to the Economic Competition Law

For the announcement of the merger with Elite Coffee, see section 9.2.13 above.

20.4.3 Investigation by the Competition Authority

For information on an investigation by the Competition Authority on suspicion of an attempted restrictive trade arrangement through a public announcement in the Company’s quarterly financial statements, see section 2.2 in the Board of Directors’ Report as of December 31, 2023.

20.4.4 Notice of intent to impose a financial sanction

For information on the Competition Authority’s announcement of the intent to impose a financial sanction on the Company and officers (former and holding office) under an argument alleging the suspected violation of section 19 of the Economic Competition Law, 1988, see section 2.2 in the Board of Directors’ Report as of December 31, 2023.

20.4.5 The Food Law

For information on the Food Law, see section 13.1 above.

20.5 Kosher certification

The Group's products that are manufactured or marketed in Israel and other countries are under the supervision of the relevant local rabbinate, in addition to other kashrut mehuderet certifications which are approved by the Chief Rabbinate of Israel.

The Group has a dedicated kashrut unit that centrally manages all kashrut issues in the organization. The kashrut unit is a knowledge and expertise hub and represents the Group in all dealings with the various kashrut bodies and the Chief Rabbinate of Israel.

Salty snacks, a considerable part of the confectionery and bakery products and most coffee products are kosher certified by Badatz Eda Haredit. Most of the ready salads, dips and spreads and frozen products are certified by "She'erit Israel", and the bulk of the dairy products (Strauss-Yotvata) are kosher le'mehadrin and are also marketed to the Haredi market under the supervision of Rabbi Rubin. Yad Mordechai products are kosher certified by Belz Kashrut.

Kashrut certificates are issued for defined periods, and at the end of each period the Group arranges for their renewal. As of the publication date of the report, all kashrut certificates for the Group's finished products are valid.

In 2023, the Group completed the process of building a digital filing system for kashrut certificates for finished products, and is continuing the process of digital filing in the system for all raw materials and outsourced products. The system provides alerts of upcoming expirations of certificates to allow for their timely renewal.

20.6 Certified Supplier of the Ministry of Defense

The Company and several of its subsidiaries in Israel are approved as "recognized vendors" by the Ministry of Defense.

20.7 Standardization

The Group manufactures its products in accordance with various regulations, orders and standards that are relevant to its areas of business, both in Israel and in countries where it is active, where relevant standards exist. In Israel, standards are issued from time to time under the Standards Law, 1953. The standards specify 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 and are also subject to risk-based preventive controls, HACCP, ISO 22000, and other elective standards such as ISO 14001. Strauss Water products are subject to official Israeli standards: Israeli Standard 1505 Part 1, "Drinking Water Systems for Domestic Use – Filtration and Purification"; Israeli Standard 5452, "Safety of Parts and Products in Contact with Drinking Water"; and Israeli Standard 900, "Household and Similar Electrical Appliances –

Safety". These standards determine the efficiency and safety of drinking water treatment systems and define the appropriate technical and marketing statements for product labeling. In addition to compliance with the standards, Strauss Water products are subject to Standard Mark permits – a voluntary program for the regular oversight of products and manufacturing sites by the Standards Institution of Israel.

The Group's products in China bear a Green Label, certifying that they are ecofriendly.

The tami4edge series, launched in 2021, is NSF and WQA certified. The Group has internal enforcement processes in place to ensure compliance with the standards and regulations with respect to food, 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".

20.8 Quality management

The Group works to ensure food safety and quality and to manage risks at all sites and in all manufacturing operations, throughout the length of the supply chain. The quality assurance system is based on international standards, regulations and risk analysis, and preventive action and the various controls (including laboratory testing) are updated according to the Company's research in light of incidents occurring in Israel and other countries, as well incidents at the Company's sites. QA is also updated following updates in voluntary standards adopted by the Company as part of the food safety system.

Following the recall at the confectionery plant in Israel in 2022 and a warning letter received by Sabra from the FDA at the end of 2021, and as part of the organizational Gs were made in infrastructure in the manufacturing and logistics sites (the confectionery plant in Israel and Sabra's plant during their closure, as well as in other plants and sites in the Group), largely allocated to safety and food quality infrastructure to improve the quality and safety standard in the plants. In addition, as part of the Strauss One plan, the Company decided on the formation of an operations arm in Israel, which is responsible for the management of all operations, the supply chain, quality, food safety and IT, including optimization of expenses and investments and the implementation of advanced processes. For further information on Strauss One, see section 2.2 in the Board of Directors' Report as of December 31, 2023. Sabra also enhanced its quality control system in 2023, including the appointment of the VP Quality & Health, Safety & Environment, upgrade of procedures and processes, training and enforcement, and information systems that support quality.

Additionally, Strauss Water manages the quality process through the inspection of supplier quality by a team of quality engineers in Israel and China, with the aim of ensuring that suppliers have the required quality controls in place. The plants have an experienced team of tasters. The Group measures the number of consumer complaints, as well as the satisfaction of consumers contacting customer service monthly, and takes action to reduce complaints and increase consumer satisfaction with the products and service.

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21. Material Agreements

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

21.1 Provisions regarding use of the “Strauss” name and brand, non-competition and indemnification

The merger agreement of 2004 between the Company and Strauss Holdings (hereinafter in this section: the “**Agreement**”) (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**”) contains 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” (the late 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 the various 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 and 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 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 – the “**Unilever Agreement**”), 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 merger Agreement, Strauss Holdings undertook, subject to no statute of limitations, to indemnify the Company in respect of a number of claims or demands for indemnification, the cause whereof preceded the closing date, including in respect of a claim or cause relating to the breach of Strauss Holdings’ obligation to grant the Company an exclusive right to use the Strauss Name or the Strauss Brand and Strauss Holdings’ non-compete obligation (all as provided in the Agreement).

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.

22. Legal proceedings

For information on legal proceedings against the Company, see Notes 22.1.1, 22.1.2, 22.1.3, 22.1.4 and 22.1.5 to the Financial Statements of the Company as of December 31, 2023.

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23. Purpose and Business Strategy

23.1 The Group's purpose

The essence of the Group's purpose, Nourishing a Better Tomorrow, is a promise to leave a positive mark on the world through food, beverages and in other ways, and to nurture a better tomorrow. A world where people live in an egalitarian, supportive society, in a sustainable environment that will continue to flourish for generations to come (the **"Group's Purpose"**). The Purpose unites the Group around a common worldview, a shared way and values, and is a guiding star for all its activities.

23.2 Business strategy

It is the Group's practice to review its strategic plans from time to time and to revise its goals according to shifts in the business environment and internal circumstances within the Group. In the past two years, the world underwent significant changes while the Group contended with internal challenges, all of which compelled the Group to revise its 2024-2026 strategy.

Accordingly, on March 25, 2023, the Board of Directors approved a revision of the strategy (the **"Revised Strategy"**), as described below:

The Group has made it its goal to flourish and grow in its home base in Israel, to expand the coffee business and to grow in the international water market while investing in infrastructure and capabilities, with the aim of ensuring performance excellence and the highest of standards in the quality of the products and services supplied by the Group to all stakeholders.

Accordingly, the Revised Strategy is founded on three key pillars as described below.

1. Renew the Core⁷⁰ – renew and strengthen the core.
2. Expand and Build – expand existing businesses and build infrastructure for future growth drivers.
3. Transform – significantly boost the Group's resilience to ensure improved productivity and profitability alongside business excellence.

The Group intends to execute the variety of actions to renew the core, expand and build growth drivers and achieve the transformation across all geographies and operations, as described below:

Israel

Renew the Core

- Snacking – in this space, the Group is cultivating a broad, diverse portfolio of products and categories, such as dairy desserts, yogurts, milk drinks, plant-based drinks, coffee drinks, protein drinks, sweet snack bars, salty snacks, energy and protein bars, etc.
The Group will work to boost manufacturing capabilities and innovation in the categories in which it is active and to expand product availability to encompass all locations where the

⁷⁰ "Core business" is defined by the Group as categories in which the operating margin is above 10%, together with strong sales growth, and in which the Group has competitive value in a growing category that is a fit with the Group's business.

consumer is present, including delivery of a comprehensive response and special experiences for a variety of different snacking occasions and preferences – healthy snacks, vegan snacks and protein snacks. This specialization will create a competitive advantage for the Group in an established, growing and evolving space, with the aim of establishing the Group as Israel's leading snacking company.

- The Company is taking action in the Health & Wellness and Fun & Indulgence segments:
 - i. **In the dairy space**, the Group will develop sustainability categories, enter new categories and enlarge its dairy product offering to include a broad variety of sources and to provide a response to specific consumer groups (e.g., low-lactose, lactose-free, high-protein, plant-based drinks, etc.).
 - ii. **In coffee**, the Group will strengthen its brands among new target audiences and will develop the Turkish coffee and capsule categories, focusing on the core and creating innovation. The Group will also expand its ready-to-drink offering and its business in the capsule space.
 - iii. **Confectionery**. The Group will maintain its focus on growth and innovation in a number of core categories, chocolate bars, tablets and others, while enhancing its expertise in chocolate production and increasing the variety of consumption opportunities.
 - iv. **Salty snacks**. The Group will focus the salty snack business on value propositions for diverse opportunities, strengthening its core brands and penetrating new, healthy consumption worlds.
 - v. **Salads, dips and spreads**. The Group will manufacture products using advanced technologies and will drive innovation, and will target new audiences with products and brands offering diverse value propositions, while growing the variety of plant-based solutions.

Expand and Build

- Build the Group's presence in plant-based (PB) offerings across all categories in which it is active to deliver solutions for flexitarians, vegetarians and vegans. In 2025 the Group is expected to initiate operations in a new plant for PB products, which will enable it to significantly grow its business in this category. In addition, the production capabilities will enable it to manufacture refrigerated PB products for the first time.
- Innovation surrounding the core. The Group is working to manufacture, develop and leverage new technologies for products that complement the core.

Transform

- Support growth and higher profitability in the confectionery business through product innovation, growing core products and the Group's brands, improving the production array and boosting operational efficiency.
- Strengthen the consumer-centric approach – target new audiences and communities, deliver a response to the changing needs of the public by delivering customized solutions, as well as AI-based and data-driven innovation.

Coffee

Renew the Core

- **Brazil.** The joint venture in Brazil (Três Corações)⁷¹ plans to strengthen its competitive position as the leading coffee company in the country and to accelerate the improvement of its R&G business while maintaining the company's position as the largest and leading player in the Brazilian R&G market. Três Corações will also grow the distribution network from some 170 thousand customers to 200 thousand customers with the aim of reaching new sales channels and customers.
- **Eastern Europe.** The Group aims to boost the coffee business's international markets by strengthening the core and developing diverse value propositions.

Expand and Build

- **Brazil.** Expand the business of the company in Brazil in the instant coffee, capsule, juice powder and cocoa categories, as well as in PB drinks, protein drinks and others, and penetrate new categories. This will be achieved through ongoing organic growth as well as new M&A. These are non-R&G categories that are characterized by relatively high profit margins, and hence the aspiration to grow their share of the joint venture's product portfolio.

Transform

- Improve profitability in **Brazil** by focusing on enhancing operational efficiency and growing the share of non-R&G businesses. The Group aspires to drive sales growth while improving operating profit and developing business excellence.
- Data, advanced IT systems and information – use of information and data to expand the range of value propositions to the customer and enhance the consumer experience.

Water

Renew the Core

- **Israel.** It is the Group intention to strengthen the water company's leading brand, maintain its position as the leading water company in Israel, manufacture a variety of products and enlarge its portfolio in Israel, among other things through water bars designed for new target audiences, including young consumers, and by penetrating the under-sink category. All this will be achieved while continuing to improve quality and service.

Expand and build

- **China.** The company in China (Haier Strauss Water) plans to enlarge its offering in the point-of-use space through its existing plants and logistic infrastructure and the construction of a new plant, as well as by investing in tech R&D capabilities, with the goal of being market leader in this sphere.

⁷¹ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

- Expand the **international water business**. The water company is working to achieve further international growth and will review expansion into other countries.

Transform

- Strengthen core capabilities, develop learning processes and build centers of excellence.
- Improve profitability in the Group's business in Israel through productivity processes designed to yield significant across-the-board efficiency enhancement.
- Strengthen the manufacturing array, supply chain and sales, quality, technology, IT, data and AI.
- Reinforce and improve infrastructure – CapEx investments placing emphasis on core business coupled with a significant increase in investments in digital and IT infrastructure and in master plans in the plants to support the growth of the various categories.
- Optimize and rotate the current portfolio through M&A and by terminating activities that are not within the Group's strategic focus areas.
- **Sabra** in the US will work to grow sales through product innovation and by increasing shelf space, while improving profitability through productivity and cost-reduction processes.

People

- The Group's people are the driving force that creates the competitive advantage for its business in Israel and worldwide. The Group will work to continue to harness, invest in and grow its people as a meaningful part of its ability to execute on its goals and create business excellence. As part of the strategic moves, the Group will aim to strengthen and improve a performance culture, high-level performance and excellence, combined with personal and collective accountability. The Group will continue to develop engagement with the Group's identity and values, and will anchor organizational engagement as a significant tool for the realization of its goals and objectives in the short and long term.

ESG

- Integration of the commitment to sustainability in all Group operations in alignment with the Group's purpose, with ongoing improvement in sustainability, CSR and ESG metrics, while refining processes to achieve defined goals.

In the context of the strategy, the Group has set the following key financial goals:

- 5% average organic annual sales growth in 2024-2026.
- Increase profitability according to the Company's Management Reports, as defined in section 5 above, to an EBIT margin of 10%-12% in 2026.
- Significant productivity methods to achieve across-the-board improved annual operating income (EBIT) of NIS 300-400 million, expected to be reached in full by 2026.
- The Group has set the goal of allocating the majority of CapEx investments to its core business, with annual CapEx investments of 5%-7% of sales in 2024-2026.

- The Group has set the goal of regaining the margins that were typical of its operations in the past in the confectionery business as well as in Sabra's business in the US, beginning in 2026.
- Raise the percentage of sales from core activities to 85% of the Group's total sales in 2026.

23.3 Implementation of the Group's Revised Strategy

The successful implementation of the Group's Revised strategy depends, among other things, 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 consistently continue to improve its managerial qualities.

The information in this section concerning the Group's strategic plans, as described above, including the key objectives of the strategy, is forward-looking information, as this term is defined in the Securities Law, 1968, which is based on the Group's plans and the information available to the Company on the date of this report, and there is no assurance as to its materialization. It is possible that all or part of the objectives described above will not be accomplished in the future, or that the Group will decide not to implement all or part of the abovementioned strategy, for the following reasons among others: changes in the macroeconomic and geopolitical trends that affect the Group; circumstances 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 the risk factors affecting the Group's activity, as set forth in section 25.1 below.

24. Financial Information on Geographical Regions

For information on the geographical regions where the Group is active, see Note 25.4 to the Financial Statements of the Company as of December 31, 2023.

For explanations on developments occurring in income and assets in each geographical region, see section 22 in the Board of Directors' Report as of December 31, 2023.

24.1 Risk exposure arising from operations in a variety of geographical regions

The large number of geographical regions in which the Group operates leads to exposure to a variety of risks, including instability (fiscal and monetary) of the local economy in each country of operations, sensitivity of the regimes to political changes, gaps in business culture, large international competitors that are already present or may join the competition in these countries, frequent changes to regulation, etc. At the same time, the Group's activity in diverse countries is a mitigating factor, since it contributes to spreading the risk and reduces dependency on the Company's activity in a particular country. For details regarding macro-economic risks, see Note 26, paragraphs 1-4 to the Financial Statements of the Company as of December 31, 2023.

25. Discussion of Risk Factors and Their Management

25.1 Mapping of risk factors and the extent of their effect on the Group's operations

The Group has several risk factors arising from its general environment (macro risks), from the industry in which it operates and from the unique characteristics of its business. Materialization of the risk factors is liable to have a material impact on the Group's business operations.

The following table presents the risk factors, which shall be described below, distinguishing between macro risks, industry risks and risks that are unique to the Group. These risk factors were ranked according to risk level, which is the outcome of two factors – the magnitude of the impact, should the risk materialize, and the probability of its materialization. The risk ranking is based on the estimates of Group management, continuous risk monitoring and risk mitigation actions applied by the Group.

Effect of Risk Factors on the Activity of the Group as a Whole		
Macro risks		
a.	Global and local emergencies	High
a.1	Natural disasters, pandemics and security situation	
a.2	Geopolitical and social instability	
b.	Financial crisis and economic instability	Medium-High
b.1	Financial crisis and/or economic downturn	
b.2	Economic instability in local markets, currency volatility, inflation and interest rates	
Industry risk factors		
c.	Financial stability and flexibility	Low
c.1	Customer credit	
c.2	Financial debt	
d.	Operational risks: production and supply chain	Medium
d.1	Supply chain disruptions and raw material prices	
d.2	Green coffee prices	
d.3	Price of raw milk	
d.4	Supplier dependency	
d.5	Limitation of production and storage capacity	
d.6	Kashrut	
d.7	Customs duties in the Group's countries of operations	

c.	Financial stability and flexibility	Low
c.1	Customer credit	
e.	Safety and quality of products and services	High
f.	Legal, regulatory and compliance risks	High
f.1	Compliance and regulatory developments	
f.2	Exposure to class actions	
f.3	Nutritional labeling of food products	
f.4	Competition laws, monopoly holder and its obligations	
f.5	Tax liability and critical tax estimates	
f.6	Workplace safety and hygiene	
f.7	Protection of information and trade secrets	
g.	Sustainability, environment and climate	Medium
g.1	Climate risk	
g.2	ESG compliance	
g.3	Meeting investors' ESG expectations	
g.4	Environmental quality	
Unique risk factors		
h.	Cybersecurity and information security risks	High
i.	Strategy and competitive position	Medium-High
i.1	Operating in a competitive market	
i.2	Private labels and retail	
i.3	Downward pressure on profit margins in the food and beverage industry	
i.4	Dependency on branding	
i.5	Dependency on products	
i.6	Failure to implement strategy	
i.7	New business models	
j.	Customer management	Medium-Low
j.1	Changes in consumer trends and innovation	
j.2	Dependency on key customers	
k.	Partnership management	Medium-High
k.1	Complexity in managing partnerships and joint ventures	

i.1	Operating in a competitive market	
i.2	Private labels and retail	
k.2	Restrictions on the transfer or sale of the Group's share in joint ventures and in subsidiaries	
k.3	Numerous businesses in the Group that are managed with strategic partners	
k.4	Licenses and franchises	
k.5	Change of control of the Group	
l.	Human resources	Medium

25.2 Macroeconomic risk factors

a. Global and local emergencies

a.1 Natural disasters, pandemics and security situation – a significant part of the Group's activity is concentrated in a limited number of sites across the globe, including subcontractors' sites. Natural disasters (e.g., flooding, fires, frost, epidemics, earthquakes, etc.) or any other damage caused to these sites and to national infrastructure (e.g., energy, transport, water, etc.) are liable to have a material impact on the Group's operations to the point of a shutdown of manufacturing and logistics processes in extreme cases, leading to loss of earnings and/or assets.

Extreme weather events (floods, droughts, sea level rises, etc.), have become increasingly frequent, which has forced the Group to take these risks into consideration, as well as their impact on its operating results.

In addition, most of the Group's plants in Israel are located close to areas of security conflict and are therefore exposed to damage of various kinds. The salty snacks plant in Sderot, the cut vegetables factory in Bror Hayil and the Strauss Yad Mordechai plant at Kibbutz Yad Mordechai are exposed to attacks from the Gaza Strip. Furthermore, the Group's plants in Safed and Achihud and the logistics centers in Acre and Masaryk are exposed to attacks from Lebanon and Syria. Additionally, attacks on ships in the Gulf of Aden could disrupt marine traffic from Asia to ports in Israel and Europe.

Military conflicts between Israel and its neighbors and acts of hostility may also have an adverse impact on the Company's production and sales volumes in Israel, impair the ability to collect debts from customers experiencing financial difficulties, harm the ability to supply raw materials and affect their prices, as well as outsourced products, cause the absence of essential workers, and lead to a possible overall economic slowdown in the Israeli economy. The Group is also exposed to security risks at sites outside Israel (such as Ukraine) and is preparing for various scenarios in the context of business continuity, as well as for extreme situations. For further information, see section 3 in the Board of Directors' Report as of December 31, 2023.

a.2 Geopolitical and social instability – the Group’s activity in some emerging markets is exposed to risks arising from the type and structure of the regimes in those countries. Autocratic and/or unstable regimes that are sensitive to political change may lead to instability of the entire business system in the country, among other things through fiscal or monetary expansion or contraction of the economies, frequent changes in economic legislation (e.g. pertaining to taxation), restrictions on the movement of capital and foreign currency, various restrictions on foreign companies, which could prevent or limit the Group’s ability to withdraw profits from the local company and even be subject to nationalization or expropriation of assets. In addition, as an international player, the Group is exposed to risks arising from regional and global political crises. Such crises may develop into military conflicts that are liable to harm employee safety and business continuity, lead to sanctions being imposed on a specific geographical region, and to trade wars in general and the specific boycott of Israeli products or goods. It is noted that the perpetuation or expansion of the sanctions imposed on Russia by various countries could impact the Russian economy, and consequently, the Group’s business. For further information, see section 5 in the Board of Directors’ Report as of December 31, 2023. Differences in business culture in some countries of operations are liable to expose the Group to modes of action that are inconsistent with its values and the culture of corporate governance it wishes to adopt. Political instability and social unrest are liable to also be expressed in public protests against manufacturers and retailers. A public protest is liable to arise with the goal of lowering product prices, or even as a result of marketing activity that represents attitudes and values of the Group. A prolonged public protest that includes consumer boycotts and/or economic reforms in various spheres is liable to erode the Group’s profitability and harm its business results.

b. Financial crisis and economic instability

b.1 Financial crisis and/or economic downturn – should a financial crisis affect the world economy or the economy in Israel, it could seriously hurt financial institutions, lead to a reduction in 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 drop in private consumption and to a preference for inexpensive products. Generally, an economic slowdown could impair the growth of the Group, which focuses on branded products, impede the realization of its strategy and harm its profitability. It is noted that in February 2024, Moody’s announced the downgrade of Israel’s credit rating from A1 to A2. For further information, see sections 3, 6, 7 and 11 in the Board of Directors’ Report as of December 31, 2023.

b.2 Economic instability in domestic markets, currency volatility, inflation and interest rates – the Group’s activity in Brazil, China and Central and Eastern European countries is directly affected by the instability of the economic system in those countries. This instability affects activity in a variety of channels, such as heightened volatility in exchange rates, with most of the cash flow exposure being to the US dollar against local currencies (in Israel, also to the euro and the pound sterling), since the appreciation of the purchasing currency is liable to lead to a rise in the purchase prices of 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 is liable to erode the reported profit in shekels and the Group's equity, and also to increase competition posed by imported goods. In addition, economic instability may result in an increase in the interest rate and/or inflation that exposes the Group to harm to its business results due to an increase in financing expenses, a rise in the cost of new loans if taken, financial difficulties among customers with high leverage and even changes in the consumption habits and purchasing power of the end consumer. Among other things, inflation may lead to erosion of the Group's profits due to rising raw material prices and supply chain costs. For further information on developments in the inflationary environment and their impacts, see sections 6, 9 and 10 in the Board of Directors' Report as of December 31, 2023.

25.3 Industry risk factors

c. Financial stability and flexibility

c.1 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 credit to the private market that is not covered by guarantees is at risk, particularly in recession periods. However, the broad spread of the Group's customers in the private market mitigates this risk. Most of the credit to the large retail chains in Israel is covered by credit insurance. Non-payment of this credit by any of the large retail customers could impact the Group's cash flows and business results with respect to the portion that is not covered by credit insurance or liquid collateral (and taking the rate of the deductible in consideration). It is noted that part of the credit granted to customers overseas is secured. In Brazil, Ukraine and Russia, the Group does not have credit insurance. Additionally, in Strauss Water payment for the service is made monthly over the term of the service agreement. The Group has factoring arrangements with third parties for part of these payments and non-recourse factoring arrangements for the sale of water bars.

c.2 Financial debt – the Group has debts to different financial institutions, which are partially backed by an undertaking to comply with covenants. The amortization schedule was constructed such that the debt is repaid gradually over many years. 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 Group's ability to refinance the debt is liable to be affected by external factors such as an economic crisis, which will lead to a credit crunch or finance costs, or by internal factors such as damage to business, leading to the violation of covenants or a credit rating downgrade. As a result, the Group may be forced to divert resources that were intended for real investments to service the debt, thus preventing future growth. In addition to the foregoing, some of the Group's liabilities to financial institutions include conditions for cause for prepayment due to a change of control in the Group that is accompanied by a rating downgrade to below a certain level. For further information, see Notes 19.4 and 19.5 to the Financial Statements of the Company as of December 31, 2023.

d. Operational risks: production and supply chain

d.1 Supply chain disruptions and raw material prices – raw materials are a substantial component of manufacturing inputs for the Group's products. A considerable part of the raw materials are agricultural commodities whose prices and availability depend on factors such as climate, natural disasters, outbreaks of epidemics in the crop environment, security risks and political stability in the countries of origin. In the reporting period, supply chain disruptions on a global scale were experienced due to a variety of causes, including climate change, the Swords of Iron war, manpower shortages including port, transport and production workers, a world energy crisis, changes in global consumption habits and others. These disruptions led to a sharp rise in the costs of shipping, storage and raw materials, their availability, as well as various operating costs such as insurance. In addition, a substantial portion of the raw materials used by the Group is traded in the global commodities market (coffee, cocoa and sugar) and is therefore exposed to fluctuations in prices in response to market forces and weather effects (e.g., drought and frost in Brazil). These price changes could erode the Group's profitability due to the fact that the Group is limited in its ability to adjust the sales prices of its products. It is the Group's practice to purchase financial derivatives to partially hedge the risk of an increase in raw material prices. As these derivatives are measured at fair value on a current basis, the reported accounting profit (loss) is subject to substantial volatility. However, some agricultural products are not traded on the world commodities market and therefore cannot be hedged using financial derivatives (e.g., raw milk). Furthermore, the Group is exposed to supply chain disruptions originating in China. For further information, see section 6 in the Board of Directors' Report as of December 31, 2023.

d.2 Green coffee prices – the price of green coffee, a major raw material in coffee production and in the Group's business through Strauss Coffee, is affected by demand and supply (climate, trade restrictions, etc.). Any change in green coffee prices without adjusting the prices of the relevant products may be detrimental to the Group's profitability. To mitigate this exposure, the Group buys futures contracts and option contracts for the purchase and sale of green coffee. For further information, see section 6 in the Board of Directors' Report as of December 31, 2023.

d.3 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 the relevant products may be detrimental to 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. Changes in the arrangements in the milk sector are liable to increase fluctuations in milk prices and the Group's profit. For further information, see section 6 in the Board of Directors' Report as of December 31, 2023.

d.4 Supplier dependency – some of the Group companies are dependent on a small number of key external suppliers as part of production processes and the supply chain. Immediate and unexpected termination of contracts with these suppliers, goods or services may impair the Group's ability to continue manufacturing some of its products in the required quantity and quality in the short term, and as a result, adversely affect its business results. It is the Group's

practice to maintain a broad supplier base and update it from time to time to ensure the availability of alternatives and minimize dependency on key suppliers.

- d.5 Limitation of production and storage capacity** – in certain cases, the Group might not manufacture a sufficient quantity of products that is aligned with customer demand due to the limitation of production capacity as a result of an insufficient quantity or unsatisfactory quality of machinery and/or equipment, limited physical space in the Group's plants and storage spaces, or production limits among outsourced suppliers. To deal with this risk, the Group regularly monitors current and future market demand in relation to its production and storage capacity. If necessary, the Group increases its production and storage space by purchasing and/or leasing additional space. The Group also invests in machinery and equipment according to business requirements and retains the services of additional outsourced suppliers.
- d.6 Kashrut** – The Group is obliged to comply with kashrut requirements. Any doubt as to the kosher certification of a product, a product ingredient, or a change in the conditions for kashrut could harm the Group's sales in Israel. Changes in the national kashrut system following the kashrut reform in the Economic Arrangements Law for 2021 could lead to a change in work methods and in management interfaces in this sphere. For further information on the kashrut reform in the Economic Arrangements Law, see section 12 of the Board of Directors' Report as of December 31, 2023.
- d.7 Customs duties in the Group's countries of operations** – in most countries where the Group is active, imported food and beverages are subject to customs duties. Customs duties on finished goods are higher 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 harm the Group's competitive position. Conversely, when customs rates are high or rise in those 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.
- e. Safety and quality of products and services** – the nature of activity in the food and beverage industry exposes the Group's business to harm in the case of a fault in the production process or a defect in the quality of the raw materials, in the quality of the products themselves (manufactured by or for the Group) or in the quality of service directly provided to the Group's customers. These flaws, whether or not they are beyond the Group's control or whether they occurred in good faith or deliberately, raise concerns of illness, harm to health and other harm, and consequently expose the Company to lawsuits brought by consumers who are affected (if any). In addition, some of the Group's products may contain foreign bodies or components (such as nuts or gluten) that cause certain people allergic reactions and harm their health, which is liable to result in lawsuits, damage to income and profit and damage to the Group's reputation. To mitigate 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. Additionally, public announcements regarding impaired quality of rival or supplementary products are also liable

to adversely affect the scope of the Group's sales and profit, regardless of the credibility of these publications. With respect to the recall and the closure of the chocolate production plant in Nof Hagalil, see section 2.2.1 in the Board of Directors' Report as of December 31, 2023.

f. Legal, regulatory and compliance risks

f.1 Compliance and regulatory developments – the Group's activity in the different countries of operations is exposed to various regulatory restrictions and changes, including competition laws, laws relating to food safety, import laws, securities laws, corporate laws, anti-corruption and anti-bribery laws, privacy protection, environmental quality, oversight, product labeling, labor laws, workplace safety and hygiene, accessibility, etc. Changes in legislation or standardization in the countries of operations and the enforcement of stricter regulation in spheres related to the Group's business could reduce and/or limit the Group's activity and impact its business results. The Group's business will also be affected by changes relating to the market in general in the spheres mentioned above. Tightening of the regulation in the regions where the Group is active could have a negative impact on both the product offering and demand for the products, as well as on the costs involved in manufacturing them. Tighter regulation may also lead to difficulties in executing strategic moves such as mergers and acquisitions. For further information, see sections 11 and 12 in the Board of Directors' Report as of December 31, 2023.

f.2 Exposure to class actions – in view of the extensive provisions of law governing the food industry and other areas related to the Group's business and 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, including with respect to the recall, see Note 22 to the Financial Statements of the Company as of December 31, 2023.

f.3 Nutritional labeling of food products – in January 2020, the Public Health Protection Regulations entered into effect in Israel. The regulations are intended to provide consumers with clear information on the nutritional value of packaged foods, including through the use of symbols informing consumers that the food contains large quantities of sodium, sugars or saturated fatty acids, to enable them to make informed food choices for the benefit of their health. Similar labeling regulations that may be published in the future could affect the Group's operating results due to possible changes in the consumption habits of food and beverage products, including a decline in demand for the Group's products. Furthermore, such labeling could lead to negative publicity (whether or not it is based on scientific fact) or influence consumer perceptions. The Group has worked for years, and continues to work, on improving the nutritional value of its products through adaptation and product innovation, and thus delivers a response to emerging regulation as well as to consumer health trends. The Group measures the labeling of products bearing red symbols using divisional nutrition targets with the aim of monitoring and improving its products.

f.4 Competition laws, monopoly holder and its obligations – on January 1, 2019, the Economic Competition Law in Israel was amended, significantly broadening the existing definition of a

“monopoly holder” to also include a party commanding “significant market power” in the supply of products (services) and/or the purchase thereof, even if that party holds a market share of less than 50%. A monopoly holder bears the obligation to refrain from abusing his power in a manner that could harm the competition or the public. As part of this obligation, a monopoly holder is subject, *inter alia*, to the following prohibitions: a prohibition on unreasonably refusing to provide an asset, a prohibition on unfair pricing, a prohibition on applying dissimilar conditions to equivalent transactions, and a prohibition on creating a linkage between products.

A corporation that violates the competition laws, including the Economic Competition Law and the Food Law, is exposed to criminal sanctions, to the imposition of financial penalties and to civil suits, including class actions.

Additionally, among the statutory tools defined in the Economic Competition Law, the Competition Commissioner is granted the right to intervene in issues that could significantly harm the competition or the public by issuing instructions and directives to the corporation. These restrictions, if and insofar as they are imposed, are liable to impact the Group’s operating results.

The Group has been declared a monopoly by the Competition Authority in dairy desserts, chocolate tablets, instant coffee and cocoa powder for domestic consumption. For further information, see section 20.4 above and section 23.1 in the Board of Directors’ Report as of December 31, 2023.

- f.5 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, uncertain tax positions, transfer prices, dividend distributions and the like could 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 Group, 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 or by the tax authorities. For further information on the tax liability and critical tax estimates, see Note 33 to the Financial Statements of the Company as of December 31, 2023.
- f.6 Workplace safety and hygiene** – the Group’s employees and outside contractors could be exposed to physical and emotional injuries arising from the nature of the job or the work environment. The Group is required to comply with regulations and laws concerning workplace safety. To cope with this risk, the Group applies various mechanisms such as safety procedures, employee awareness, and routine monitoring and reporting procedures.
- f.7 Protection of information and trade secrets** – some of the recipes for the Group’s products and other products manufactured by the Group, their production and various processes

associated with production are trade secrets. Leakage of these trade secrets could lead to copying and harm to the Group's business. Group employees sign a confidentiality agreement in the induction process, and there are additional clauses in employment agreements and termination letters relating to information security requirements when working with the Company's computer systems.

Furthermore, the Group invests considerable resources and efforts to reduce to the minimum the possibility of the occurrence of a leak of personal information or the infringement of the privacy of the Group's employees, its customers, consumers or suppliers by applying customary cybersecurity controls, in accordance with the directives of the Privacy Protection Authority.

g. Sustainability, environment and climate

g.1 Climate risk – climate change poses a risk to the Company due to the direct impact on the availability and quality of key raw materials, on manpower along the length of the supply chain, and on essential infrastructure such as energy, transport and viable agricultural land. The impact can be immediate, following extreme climate events such as floods, frost, fires or drought, which have a direct effect, and there are also ongoing effects such as global warming, biodiversity loss, dwindling sources of water and other phenomena. These could have a material impact on the Company's business, to the point of the shutdown of production and logistics processes in extreme cases, which could lead to loss of profit and/or assets. The Group has set targets for climate risk management. Information on the targets and other steps taken by the Group to cope with climate risk is available in the Group's Sustainability Report, which is posted on the Group's website.

g.2 ESG compliance – the Group's business is exposed to regulatory restrictions and changes in ESG regulation in the various countries of operations. These changes could reduce and/or limit the Group's business and impact its business results. The reported results of the companies will need to be based on reliable, verified data that reflect the value chain. The Group is preparing for compliance with relevant ESG-related regulatory requirements according to the specific requirements and the scope of the business in each of the countries of operations.

g.3 Meeting investors' ESG expectations – failure to meet investor expectations regarding the ESG (Environmental, Social, Governance) standards expected of food and beverage companies is liable to harm the Group's brand and reputation, and in extreme cases, even to lead to a drop in demand for its products and a resulting decline in revenue and profit. The Group anticipates growing pressure for compliance with accepted standards and a high level of transparency, particularly in the food and beverage industry, such as packaging management, prevention of food waste, employee wellbeing, equal opportunity, water management, ethical conduct, animal welfare and climate risk management. The Group constantly measures its ESG performance in the various ratings⁷² as part of the risk

⁷² The Group's ESG performance is measured by several international and local rating agencies according to a number of scales, such as Greeneye and the voluntary Maala Index in Israel, MSCI ESG, FTSE4Good, and Bloomberg's voluntary Gender-Equality Index.

management concept in this space. Detailed information on Strauss Group's perception of ESG is available on the Group's website⁷³.

g.4 Environmental quality – production processes in the Group's plants are affected by a variety of environmental aspects, including waste, wastewater, air pollution and hazardous materials, where the uncontrolled use or treatment thereof is liable to induce environmental risks. Accordingly, the Group applies the necessary measures to mitigate such risks. Additionally, the Group's production sites are governed by local environmental provisions of law according to the rules and laws of each country, and also by local municipal legislation. For further information, see section 19.1 above.

25.4 Unique risk factors

h. Cybersecurity and information security risks – substantial damage to the availability of computer and communication systems, production lines and operations, and/or to data confidentiality, reliability and integrity, malicious (cyberattack) or unintentional (technical failure or human error), is liable to cause the Group significant difficulties, including the exposure of trade secrets and disruption of various core processes. A material cyber incident could lead to the shutdown of critical systems and core systems, cessation of critical services and processes in the Group, and consequently, is liable to damage the Group's business results. Considering the high risk level, at the end of 2021 the Group performed a comprehensive risk survey using an accepted methodology in the industry. The survey was performed by an outside, independent consultancy that specializes in this field. The Group also defined a cybersecurity strategy for coming years. The risk survey, its results and the cybersecurity strategy are managed on an ongoing basis. The Group's cyber defense array is the responsibility of the Deputy CEO and is managed by a designated director who is responsible, among other things, for detecting relevant cyber risks, for setting policy, procedures and controls necessary to cope with the risks, for monitoring and implementing cyber strategy, for employee and executive awareness, for server backup and for managing cyber incidents. The Group applies various technologies on a permanent basis to detect risks in the early stages and is assisted by external monitoring and response services that are active year-round. Group management runs cyber security drills in which a dedicated procedure defined by the Group for dealing with cyberattacks is rehearsed. The Group defines an annual cybersecurity audit plan which is carried out by the internal auditor. The audit findings and follow-up of recommendations are addressed by the Board's Audit Committee.

In addition, the Group has begun to use various Microsoft AI tools. Use of these tools, like any other tool, carries the risk of a data leak. To mitigate the risk, the Company verifies that all new AI tools are used in a closed organizational environment that significantly lowers the risk of a cyberattack, and also ensures that risk mitigation controls are in place.

The Group's major cybersecurity risks

- **Damage to the Group's manufacturing array** – a disruption or shutdown of the Group's manufacturing array is liable to significantly harm the Group's business results. In the

⁷³ <https://www.strauss-group.com>.

reporting year, the Group invested in the monitoring and control of manufacturing and operational environments and purchased tech products to boost detection capabilities.

- **Damage to the supply chain** – disruption or damage to the Group's supply chain could lead to the shutdown of a key activity and harm the Group's business results. Consequently, the Group is executing a comprehensive process of mapping its critical suppliers and the level of their risk to and impact on its operating activities and has retained the services of an outside independent consultancy to assess risks, identify significant exposures and mitigate the risk arising from significant suppliers.
- **Infringement of privacy** – as mentioned in section 7.1 above, a cybersecurity incident is liable to lead to a data leak that includes personal information from the Group companies' databases, encompassing customers, consumers, suppliers or employees. Strauss Group is committed to compliance with the privacy protection laws in the various territories in which it operates.
- To contend with this risk, the Group operates various processive and technological mechanisms. Access to information and systems is backed up by permission procedures and periodic controls in accordance with the Group's procedures. Employee permissions are validated throughout the employee's life cycle (induction, mobility and departure). There is also a monitoring and control system in place as well as information security systems.

It is noted that the Group did not experience a material cyber or information security incident that led to the shutdown or harm to its regular business operations in the reporting period.

i. Strategy and competitive position

- i.1 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 and channels and new business models, as well as the trend of consolidation between large multinational corporations, the growing trend of private labels and the lowering of barriers to entry by additional brands are liable to intensify the competition and harm the Group's business results. To compete effectively, the Group is required to maintain an efficient cost structure, make growing investments in technology, and invest continuous efforts in the sale and marketing of existing products and the development of new products. Additionally, some of the Group's customers have become active in distribution, including distribution of the Group's products, in different sales channels. A significant increase in this activity by the Group's customers is liable to adversely affect the Group's profitability.
- i.2 Private labels and retail** – 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, including 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 some of its product categories. Additionally, the entry of new players, including international

corporations, to the distribution and retail business and the expansion of the range of services offered by retail chains such as cash & carry, deliveries via neighborhood logistics centers and other services to the general public are liable to reduce the Group's customer base and thus harm its revenues.

- i.3 Downward pressure on profit margins in the food and beverage industry** – the prices of some of the Group's products are subject to ongoing downward pressure. As a result, the Group's ability to adjust the prices of its products for 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. Due to rising inflation and interest rates, these consumer protests are liable to increase in coming years, and could 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 Group's profitability and harm its financial results.
- i.4 Dependency on branding** – the Group has a broad variety of branded food and beverage products that enjoy a longstanding reputation. Damage to this reputation by various publications or other means (e.g., social media) could have a material impact on the Group's sales and profitability, regardless of the accuracy of these publications. Additionally, a defect in a particular product, including products that are not Strauss products but bear the brand name (for example, Strauss Ice Cream), could cause damage to the umbrella brand under which it is marketed, as well as to the entire product family marketed under that brand.
- i.5 Dependency on products** – some of the Group companies are dependent on a limited number of products, particularly upon the launch of new products in the category. Accordingly, there is a risk that harm to a particular product will affect the Group's revenue and profit. The Group has a broad product portfolio, and thus reduces dependency on a limited number of products.
- i.6 Failure to implement strategy** – the Group's strategy as approved from time to time includes numerous initiatives, which are of significant importance to the achievement of strategic goals. Strategic decisions and initiatives regarding M&A, the implementation of new business models, penetration of new markets or exiting current markets and geographic expansion are by necessity based on various economic and business assumptions. Delays in the execution of strategic initiatives or an inaccurate definition of strategic goals could lead to a futile investment of resources and damage to the Group's goodwill and valuation. For further information, see section 23 in this report.
- i.7 New business models** – the business environment in which the Group operates evolves rapidly and is dynamic, innovative and competitive. The Group contends with rapidly changing trends, technological changes and changes in preferences and consumption habits. To compete successfully and deliver a response to new business models, the Group is

required to foresee developments, to be innovative and to deliver the right products through the relevant sales channels at the right time. The emergence of new business models implemented by third parties, which disrupt the value chain in the food and beverage industry, could have a material impact on the realization of the Group's strategy and its operating results by weakening its competitive position and relevance in the eyes of some consumers. This exposure is liable to increase if the Group does not successfully foresee the emergence of these disruptive business models and/or is unable to make the necessary adjustments in terms of investments, product development and implementation of a supportive technological array for the effective implementation of the new business models in the Group.

j. Customer management

j.1 Changes in consumer trends and innovation – the Group's success is conditional to a large extent on its ability to anticipate emerging trends in consumer preferences, including changing tastes, changes in consumption habits, in the manner of consumption and in the shopping experience, and on its ability to adapt its products to varying demand. On the strategic level, the Group works to identify new trends and to adapt its product range and technological capabilities in order to respond to changing consumption trends. Failure in this regard is liable to lead to a drop in demand for the Group's products, and consequently, to negatively impact sales turnovers.

j.2 Dependency on key customers – centralization in the retail market in some of the countries of operations creates dependency on a small number of large customers, which account for a significant part of the share of sales and therefore expose the Group to a certain shortfall in sales and/or profitability in the short term if a material customer is lost. Moreover, due to the small number of large customers, the Group is subject to potential pressure and bargaining by these customers regarding commercial terms, which may worsen as the retail chains continue to grow stronger and reduce their dependency on the Group's products.

k. Partnership management

k.1 Complexity in managing partnerships and joint ventures – the Group has a wide geographical dispersal of business operations in a broad variety of businesses, some of which are jointly owned with entities that are not part of the Group. Differences in strategic vision between the shareholders and key partners, as well as differences in tactical approach, could arise due to different business concepts or cultural differences between regions that work in collaboration, particularly in partnerships that encompass developed and developing regions. These differences could lead to delays and complex decision-making processes to the point of paralyzing the business and dissolving a partnership in an unplanned manner.

k.2 Restrictions on the transfer or sale of the Group's ownership interest in joint ventures and subsidiaries – the Group has material investments and several agreements with partners in joint ventures and subsidiaries (Três Corações (JV)⁷⁴, Strauss Health, Strauss Frito-Lay, Yotvata, Sabra, Haier-Virgin Strauss Water-Strauss Water and Yad Mordechai), which contain provisions pertaining to the transfer or sale of the Group's holding in these joint

⁷⁴ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

ventures. These provisions include, *inter alia*, a tagalong right and right of first refusal, which could prevent the Group 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 Group has partners, the partners have a put option which, if exercised, will require the Group to buy the partners' interests in the joint venture or subsidiary.

k.3 Numerous businesses in the Group that are managed with strategic partners – the Group is characterized by numerous businesses that include strategic partners. As part of the Group's agreements with strategic partners, the Group agreed to restrictions concerning its businesses. For example, the Group is precluded from competing with Três Corações (JV) in Brazil for a five-year period after it ceases to be a shareholder. These restrictions could prevent the Group from developing its business in the desired direction.

k.4 Licenses and franchises – the Group is a party to licensing agreements with the owners of main brands, including the Danone brands, PepsiCo brands and Haier brands, the use of which, as a rule, is conditional on certain terms and conditions, the breach of which could impair usage rights (excluding Haier). Additionally, the continued success of the brands depends on the strategic partners' business results and their brand reputation, and on their ability to preserve the reputation of those brands. Damage to the reputation of one of the brands could lead to damage to the Group's brands.

k.5 Change of control of the Group – in the event of a change of control in the Group such that the Strauss family ceases to be the controlling shareholder, the Group could be forced to sell its holdings to the partners in Três Corações (JV)⁷⁵ in Brazil and in Strauss Frito-Lay, pursuant to the provisions and mechanisms set forth in the shareholder agreements with these partners.

l. Human resources

The Group's success depends on its ability to recruit, retain and develop high-quality human capital in a range of professional and managerial fields and to manage succession planning. In the past year, the Group has undergone significant organizational changes in tandem with external changes and increasing uncertainty. These create opportunities for growth and development among employees. However, a period of change is also a time when the risk of employee departure increases. The Group is working to retain its employees and organizational knowledge to maintain business continuity and achievement of its goals.

A part of a global trend, there has been a decline in employee engagement in the workplace. This engagement is the foundation for the employees' commitment to the Group's success in implementing its strategy and meeting the challenges it faces. The Group invests great effort in maintaining the level of engagement through development plans, learning, training, and wellbeing activities. The Group also invests in the furtherance of management and leadership development programs on the international level.

Furthermore, soaring inflation in the different countries is affecting earning capacity, and as a result, recruitment and retention difficulties may arise, which will lead to harm to

⁷⁵ Três Corações (JV) – 50% of the shares of the joint venture are held by São Miguel Group (data reflect Strauss Coffee's stake (50%) unless expressly stated otherwise).

productivity and pressure to increase wages. The Group regularly reviews wage levels to ensure fair, attractive pay in relation to the market in its various countries of operations.

Strauss Group Ltd.

Name and title of signatories:

Ofra Strauss
Chairperson of the Board of Directors

Shai Babad
Chief Executive Officer

Date: March 25, 2024



Strauss Group Ltd.

Board of Directors' Report on the Status of the Company's Affairs as of December 31, 2023



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EXPLANATIONS BY THE BOARD OF DIRECTORS REGARDING THE STATUS OF THE COMPANY'S BUSINESS AFFAIRS

1. General

The Board of Directors of Strauss Group Ltd. (the **"Company"**) respectfully submits herewith the Report of the Board of Directors of the Company for the year ended December 31, 2023 (the **"Reporting Period"**) and the three-month period then ended. The Board of Directors' Report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

The information contained in the Board of Directors' Report is based on the consolidated financial statements of the Company as of December 31, 2023. The financial data and results of the Group's operations are affected by the financial data and results of operations of the Group's investee companies. In certain cases, details reviewing events that occurred after the date of the financial statements and proximate to the date whereon the report was published are presented, with a statement to this effect presented alongside them, or other information and data pertaining to the Company only. The materiality of the information contained in this report has been tested from Group's perspective. In some cases, an additional, detailed description is provided with the aim of presenting a comprehensive picture of the subject being described, which is, in the Group's opinion, material for purposes of this report.

2. Principal Information from the Description of the Company's Business

2.1 General

The Group is engaged 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 industries globally, including Israel. It is a dynamic industry that responds to a variety of diverse needs, demands and changing tastes of the consumer public worldwide. Several critical success factors can be identified that are common to all areas of the Group's activity, which are also a positive factor that influences the Group's competitive position: brand strength, branded products that deliver an experience and added value to the consumer, a broad and diverse product range in each operating segment, which caters to the entire population and is intended for different consumption opportunities. Other factors that are highly important in the changing markets are: continuous innovation that is deeply connected to the consumer, including health issues, meticulous attention to quality, a large-scale distribution system providing for high product availability at a large number of points of sale, collaboration with prominent international entities in the industry, social objectives, protecting the environment, credibility, reliability and transparency.

The Group is engaged in six key areas of activity¹ that are reported as segments, as described in Note 25 to the Financial Statements of the Company as of December 31, 2023, with four of them concentrated

¹ In addition to the operating segments described above, the Group has various activities that are immaterial to its business, which fall short of the quantitative threshold for presentation in the financial statements of the Company as reportable segments or the criteria for aggregation and separate presentation as a reportable segment; these are included in the Financial Statements as of December 31, 2023 as the "Other Operations" segment.

under two main operating frameworks: the Israel Operation and the Coffee Operation. For further information, see section 2 in the Description of the Company's Business above.

For further information on the Company's operations and a description of the development of its businesses, see Part 1 in the Description of the Company's Business above.

2.2 Summary of major developments in the Reporting Period and thereafter

- In January 2023, the transaction for the sale of all rights in a property in Safed was completed, and the consideration, amounting to approximately NIS 88 million (plus VAT), was received in full. In the first quarter of 2023 the Company recognized a net profit of NIS 53 million. For further information, see Note 15.3 to the Consolidated Financial Statements as of December 31, 2023.
- In January 2023, the Company raised NIS 375 million par value in an expansion of its Debenture Series F. For further information, see Note 19.4 to the Consolidated Financial Statements as of December 31, 2023.
- In March 2023, Sabra's insurer filed a motion for declaratory relief with the US court under the argument that the insurance company had overpaid Sabra. Sabra rejected the argument outright. In September 2023, a settlement agreement was signed between Sabra and the insurer, following which, in the third quarter of 2023, Sabra recognized income of NIS 48 million (the Company's share) from insurance compensation. For further information, see Note 11.6.2 to the Consolidated Financial Statements as of December 31, 2023.
- On May 21, 2023, the Company and fourteen other companies received a letter from the Supervisor of Prices. In the letter to the Company, the Supervisor of Prices sought to review the need to subject part of the Group's products to price control under sections 6 and 31 of the Supervision of Prices of Goods and Services Law, 1996, and demanded that the Company furnish information on the profitability of those products. On June 22, 2023, the Manufacturers Association of Israel and eight other companies, including the Company, submitted a motion to the High Court of Justice for the award of an order nisi, a motion for an interlocutory order and for an urgent hearing of the petition, under the argument that the Supervisor of Prices lacked the authority to demand the information. The High Court granted the petitioners' motion for the award of an interlocutory order and a date for the hearing was set. On February 11, 2024, the court discussed the matter and determined that the date for the hearing would be postponed to enable negotiations that had begun between the parties to be fully leveraged. On February 25, 2024, the Price Controller announced that the negotiations between the parties had failed to deliver results, and accordingly, the hearing regarding the petitions would be held. The hearing was scheduled for May 20, 2024.
- On May 23, 2023, the Company announced that Strauss Coffee had signed an agreement for the sale of 100% of its holding in the local company operating in Serbia, Strauss Adriatic d.o.o., to Atlantic Grupa d.d., subject to the adjustment of the consideration for the cash balances, financial debt and working capital of the company in Serbia on the closing date, and to the receipt of approval from the Serbian Commission for Protection of Competition. On February 29, 2024, approval of the transaction by the Serbian Commission for Protection of Competition was received, and subsequently, on March 1, 2024, the transaction was closed and the consideration for the sale, EUR 38.8 million, was paid to Strauss Coffee. For further information, see Notes 6.2

and 36.4 to the Consolidated Financial Statements as of December 31, 2023 and section 22.2 below.

- In July 2021, the Company entered into a transaction for the acquisition of a 51% stake in Wyler Farms Ltd., which is active in the manufacture of tofu-based products. The transaction (the “**Merger Agreement**”) was subject to the satisfaction of suspending conditions, including approval by the Competition Commissioner. On February 23, 2022, the Competition Commissioner announced that the merger was not approved. The Company subsequently received a request for information concerning the Merger Agreement, following which the Competition Authority sent another request for information to three officers in the Company, alleging the suspected violation of section 19 of the Economic Competition Law, 1988, which prohibits companies from merging prior to furnishing a notice of the merger and receipt of the Commissioner’s consent. The Company responded to the requests for information in full. On June 21, 2023, the Company received a summons to a hearing prior to a decision by the Competition Commissioner concerning the violation of the provisions of section 19 of the Competition Law and the intent to impose a financial sanction on the Company at a total amount of NIS 111 million and the intent to impose financial sanctions on each of the former officers and on an officer currently serving in the Company. For clarity, the Company disputes the Commissioner’s position, and is of the opinion that its actions, as far as the body of arguments against it are concerned, were compliant with the law. The Company and the officers submitted their written arguments at a hearing on February 19, 2024, and on March 3 and March 11, 2024, an oral hearing was held before the representatives of the Competition Authority. In the opinion of outside counsel, the Company has strong arguments countering the body of arguments and against each argument individually, as well as against the alleged violation of section 19. Even if the Company’s arguments concerning the alleged violation are not accepted, the Company has strong arguments concerning the amount of the sanction and the manner in which it was calculated, which indicate a sanction that is significantly lower than the amount calculated by the Authority. Outside counsel estimates that the chances of the above financial sanction being imposed are lower than 50%, but the Company is presently unable to assess whether a sanction of a different amount will be imposed. The Company will present its position in any legal proceeding insofar as necessary. For further information, see Note 22.1.5 to the Consolidated Financial Statements as of December 31, 2023.
- On August 21, 2023, the Company, a Company officer and a former Company officer received letters of notice regarding an intent to file an indictment against them, subject to a hearing, in respect of suspicions of an attempted restrictive trade arrangement through a public announcement in the Company’s quarterly financial statements. To clarify, the Company disputes the Commissioner’s position and is of the opinion that its actions as far as the body of arguments made against the Company and the officers were legal. On January 23, 2024, an oral hearing was held, and on February 11, 2024, the Company and the officers submitted their written arguments. In the opinion of outside counsel, at the present stage the chances of the hearing’s success, the chances of a bill of indictment being filed and the chances of a conviction cannot be estimated, if a bill of indictment is filed. The Company will present its position in any legal proceeding insofar as required. For further information, see section 20.4.4 in the Description of the Company’s Business for the year 2023.

- For information on an agreement under which the Company acquired the lease rights held by Strauss Holdings Ltd., the controlling shareholder of the Company, in a property in Bar Lev Industrial Park, see Note 35.3.1 to the Consolidated Financial Statements as of December 31, 2023.
- In 2023, the average market prices of raw materials rose significantly, particularly green coffee and raw milk, compared to the corresponding period. During the year and after the date of the statement of financial position, the Group raised prices in most of the businesses in Israel and outside Israel to compensate for the effects of the increase in raw material and input prices. For further information, see sections 7, 6, 22.1 and 22.2 below.
- During November 2022, the Board of Directors approved the implementation of the "Strauss One" plan, designed to improve the Group's organizational operating model and align it with the Group's strategy and the economic environment. In January 2024, the Board of Directors approved an additional organizational efficiency enhancement plan that is expected to deliver yearly savings estimated at NIS 45-55 million. For further information, see section 16 in the Description of the Company's Business above.

The information contained in this report concerning expected yearly savings is forward-looking information, as this term is defined in the Securities Law, 1968, which is based on the Company's plans and the information available to it on the date of this report, and may not materialize if the plan is not implemented or if it is partially implemented. On March 25, 2024, the Board of Directors approved a revision of the Company's strategy. For information, see section 23 in the Description of the Company's Business above.

2.2.1 Recall and Suspension of Operations at the Chocolate Manufacturing Site in Nof Hagalil

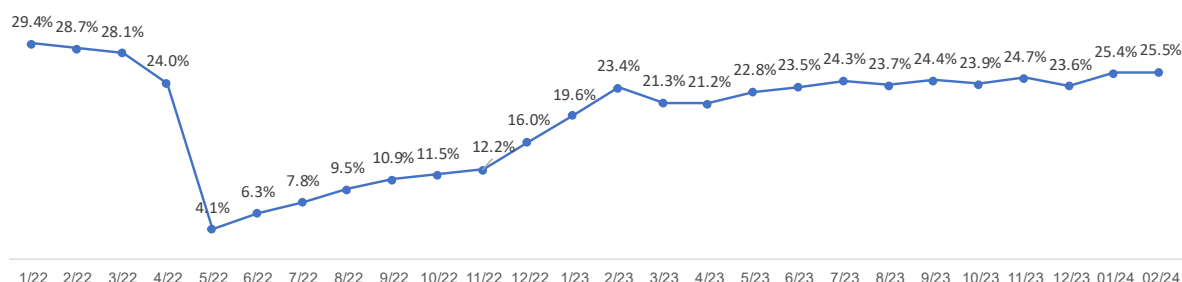
At the end of April 2022, findings that tested positive for salmonella were detected on part of the production lines in the confectionery plant in Nof Hagalil (the "**Confectionery Plant**") and on a small number of the products located in the plant, following routine tests periodically performed by the Company. The Group consequently recalled all products that had been manufactured in the Nof Hagalil chocolate plant that were then in the market and barred the distribution of all products that had been marketed until that date. Additionally, the Group shut down the Confectionery Plant and the production lines until all manufacturing systems had been thoroughly cleaned. The Company also destroyed the entire inventory.

The Group began to gradually market the products of the Confectionery Plant in November 2022, with more products being marketed each month. It is noted that the throughout the entire period, the Group continued to market products that are outsourced on a regular basis.

Following is an analysis of the gradual increase in market share in the barcoded retail market² proximate to the publication date of the report.

² According to the StoreNext report published on March 4, 2024. StoreNext measures consumption in the barcoded FMCG market in Israel, Strauss categories.

Strauss Market Share in Confectionery



For information on legal proceedings against the Company with respect to the recall and information on a motion for the disclosure of documents prior to filing a derivative claim as well as the establishment of an independent committee, see Note 24.1.3 to the Consolidated Financial Statements as of December 31, 2022 and Notes 22.1.3 and 22.1.4 to the Consolidated Financial Statements as of December 31, 2023.

For the credit rating following the recall, see section 23.1 below.

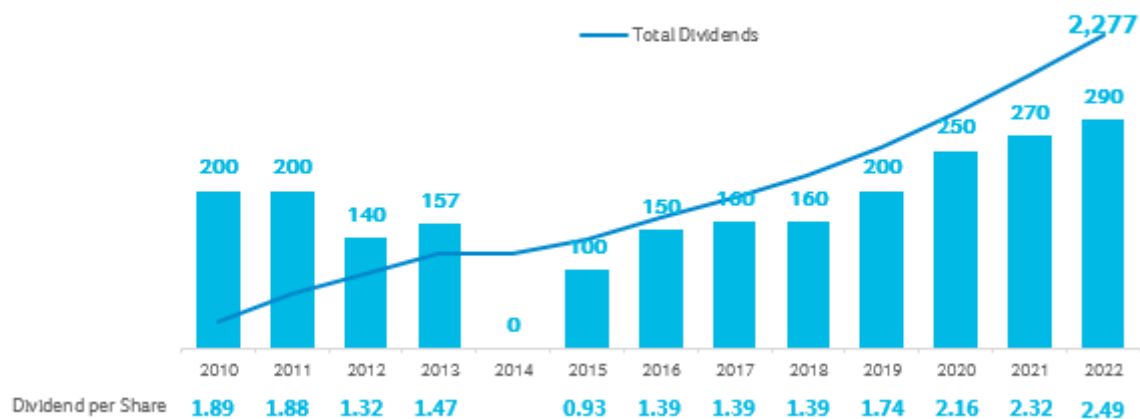
2.3 Dividends

Decisions regarding the payment of dividends are made by the Company's Board of Directors. The frequency and amounts of distributions are based on the Group's business results and according to its needs.

Since 2010 through to the present, the Company has distributed dividends amounting to approximately NIS 2.3 billion.

The following figure presents the cumulative dividend payout in recent years:

Dividend Payouts, Annual and Total, in 2010–2022



Figures are in NIS millions.

The balance of retained earnings on the date of the statement of financial position is NIS 3,784 million.

In March 2024, the Board of Directors of the Company passed a resolution to pay a dividend of NIS 270 million for 2023.

CHANGES IN THE ECONOMIC ENVIRONMENT AND MATERIAL EVENTS IN THE REPORTING PERIOD

3. The Swords of Iron War

On October 7, 2023, the Hamas terrorist organization attacked the State of Israel. Following the attack, the government of Israel declared the Swords of Iron War (the “War”). Among other things, the War led to a massive call-up of military reserves, the evacuation of communities, the temporary or partial closure of businesses, the imposition of various restrictions on civilian activities in extensive areas, a slowdown in economic activity, a slump in share prices on the Tel Aviv Stock Exchange, the devaluation of the Shekel against foreign currencies, a rise in corporate bond yields due to the increase in risk levels and uncertainty, a downgrade from stable to negative of Israel’s credit outlook by S&P Global Ratings, and furthermore, ratings agencies Moody’s and Fitch announced that Israel’s credit rating had been put on review for downgrade. All of the foregoing disrupted economic activity and consumer spending in the country.

Since then and through to proximate to the publication date of the report, the Shekel rallied, as did the nominal effective exchange rate (published by the Bank of Israel), which is now lower than before the War, and Israel’s risk premium has declined somewhat. In February, Moody’s announced the downgrade of Israel’s credit rating from A1 to A2 with negative outlook.

In January through March, reserve soldiers began to be gradually discharged and there has been a certain decrease in fighting intensity.

As of the publication date of this report, the effects of the War, described below, have had no material impact on the Group’s business and on its financial results.

Since the War broke out, in its business in Israel the Group has focused on three major goals: To maintain full business continuity to the greatest extent possible and ensure regular food supply to all customers, subject to the restrictions and the directives of the Home Front Guard; to keep its people safe and tend to the needs of employees and their families in a state of war; to support the community, provide help to soldiers and the families who were evacuated in southern and northern Israel, and to support the farmers who suffered damage in the Western Negev.

As of the date of this report, the effects of the War were mainly expressed in the full or partial closure, for a limited period, of the Group’s three production plants in the Western Negev (the salty snack factory in Sderot, the Yad Mordechai plant and the fresh and refrigerated vegetables site on Kibbutz Bror Hayil), which reopened gradually during the first three weeks after the War broke out. Following the discontinuation of manufacturing operations and closure of retail stores in southern and northern Israel, sales volumes of these products declined in the fourth quarter of 2023. There was also a decline in demand in the salty snack category. In addition, other costs were created as a result of the fighting in the south, *inter alia*, wage costs and incentives for production workers. As of the publication date of this report all plants have resumed normal manufacturing operations and are working in a reduced staff format due to the absence of some employees who were evacuated from their homes as well as those who were called up to reserves. With regard to the costs of the war that were incurred and those that are still being created, the Group is taking action to be indemnified by the government in accordance with the official compensation outline crafted for the Swords of Iron War.

Operations at the rest of the Group's production plants and sites continued as usual.

Shipping of raw materials from Asia and Africa has been affected as a result of tensions with the Houthis, but the Group took action to find solutions for importing raw materials to Israel. Further, the travel restrictions imposed on employees in some parts of Israel, the call-up of employees of the Group who serve in the reserves and the adverse impact on the Group's headcount for an indefinite period following the evacuation of communities and inaccessibility of regions that have been declared closed military zones by the Home Front Command (Kibbutz Yad Mordechai) have caused partial damage to supply chains, the distribution system and stocking and picking array in Israel. The supply of agricultural raw materials from the Western Negev has also been adversely affected to a certain extent.

In the first two weeks of the fighting demand for FMCG³ was strong, including the products of the Group, which worked to supply the demand subject to the limitations described above. In the third week of the War and thereafter, the excess demand tapered off, and purchases in the retail chains reverted to the normal levels that had prevailed before the War broke out. On the other hand, in October 2023 demand for the Group's water bars in Israel declined and sales of these appliances were adversely affected. During the quarter demand for water bars gradually improved, and as of the publication date of this report, demand for water bars has returned to normal.

To provide for maximum flexibility and financial stability, in November and December 2023 the Group entered into a number of agreements with banks to acquire secured lines of credit for its regular operations, at a total amount of NIS 200 million for a one-year period. This is in addition to the secured lines of credit that were in place before the War, at an amount of NIS 600 million. For further information, see section 23 below regarding liquidity, sources of finance and financial position.

Since the beginning of the War, the Group has implemented a broad variety of initiatives to support and encourage evacuated families and soldiers throughout Israel. Furthermore, to support the farmers of the Gaza envelope and the restoration and recovery of agriculture and businesses in the communities of the Western Negev, the Group formed an aid fund for farmers together with Leket Israel, Israel's national food bank. For further information, see the section "Sustainability, CSR, Social Investment and Donations" below.

The Group continues to monitor developments and preparing for various scenarios that could evolve, notably supply chain risks, including the location of alternative sources for the procurement of raw materials, outsourced production, adaptation of the logistics organization, monitoring the increase in cybersecurity risks and in food quality and safety risks.

As of the date of this report, no effects caused by the War have been reported on the Company's businesses outside Israel.

As of the publication date of the report, the development of the War, its scale, impacts and duration remain uncertain. Consequently, it is not possible at the present time to assess the scope of future consequences of the War on the Group's business.

To clarify, the Company's assessments regarding the possible effects and consequences of the War, as described above, on the Group's operations, businesses and results, are forward-looking information, as

³ According to the StoreNext report published on November 15, 2023, which measures consumption in the barcoded FMCG market in Israel.

this term is defined in the Securities Law, 1968. These assessments are based, *inter alia*, on the experience of Company Management in the Company's fields of business, on the information available to the Company on the date of this report and on public economic forecasts. Accordingly, materialization of all or part of these assessments is uncertain, and they may also materialize, including substantially, in a different form than anticipated as a result of various factors, including the consequences of the War and the uncertainty surrounding its nature and duration, the state of the economy, and also due to the effects of the Company's risk factors as set forth in section 25 in the Description of the Company's Business for 2023.

4. Changes to Israel's Judiciary and Wave of Protests

In January 2023, the Israeli government began to further changes to the judiciary. On July 24, 2023, the Knesset approved the law that eliminates the Supreme Court's use of the reasonableness standard. This led to a wave of protests and controversy in Israeli society, and to criticism by economic and legal bodies and experts in Israel and around the world, and is liable to adversely impact the Israeli economy. Since a considerable part of the Group's business is in Israel, negative developments in the Israeli economy, should they occur, could be harmful to the Company's business and its operating results. When the Swords of Iron War broke out the protests were discontinued. As of the reporting date, the Company is unable to assess the future impacts of the foregoing, if any, on the Israeli economy, on the Israeli food industry in general, and on the Company's business.

5. The Russia-Ukraine War

The fighting between Russia and Ukraine has continued, as have the economic sanctions that were imposed on Russia by the West, but as of the date of this report, they have not had a material effect on the Group's business results.

Since the war broke out, the Company has taken steps to ensure that its business in Russia will be managed as a stand-alone business to the greatest extent possible. In Russia, business activity in the coffee market has stabilized, after a period in 2022 in which the Group experienced strong growth in the volume of its coffee business after some of the players in the local coffee market abandoned their activity or were temporarily unable to operate. In Ukraine, the Group's business has operated continuously given the circumstances, and despite the decline in the number of citizens residing in the country, sales volumes in the full year of 2023 rose compared to sales volumes in 2022.

The Group continues to be exposed to possible global consequences of the war, which are likely to include, *inter alia*, increases in commodity, raw material and energy costs. For changes in commodity and energy prices as of the publication date of this report, see sections 6 and 7 below.

Since these are unfolding events that involve a high degree of uncertainty, there are several possible geopolitical scenarios that could lead to further negative economic and financial consequences. The Company continuously monitors events in Ukraine, Russia and the markets. As mentioned, until the publication date of this report, the actual impact of these events has been immaterial. However, in view of the high degree of uncertainty they involve and regarding their duration, the Group is unable to assess their future impact on its business results.

For further information on the Company's business in Russia and Ukraine, see section 22.2 below and Note 1.1.2 to the Consolidated Financial Statements as of December 31, 2023.

6. Prices of Raw Materials and Other Production Inputs

A substantial part of the raw materials used to manufacture the Group's products are traded on the commodities markets. In the full year of 2023, the average market prices of part of the Group's raw materials rose significantly compared to the corresponding period last year, including Robusta green coffee, sugar, cocoa and sesame, contrasting with a decline in the prices of Arabica green coffee and grain prices. In the fourth quarter of 2023, there was a sharp increase in the average market prices of Robusta green coffee, cocoa, sugar and sesame, whereas grain prices declined. The average price of raw milk in Israel ("target price") rose in the full year of 2023 by 7%, and in the fourth quarter declined by 1.1% compared to the same quarter last year. In January-March 2024, the target price was set at 2% lower. Furthermore, since the beginning of 2024 through to proximate to the publication date of this report, there has been a sharp uptrend of 115% in cocoa prices and an increase in the prices of Robusta green coffee, sugar and sesame, whereas grain prices have declined.

Following are the rates of change in the average market prices of major inputs in the full year and fourth quarter of 2023 compared to the corresponding periods last year:

Inputs	Average rate of change	Average rate of change
Arabica ⁽¹⁾	(20%)	(1%)
Robusta ⁽¹⁾	18%	35%
Sugar ⁽¹⁾	24%	30%
Sesame ⁽¹⁾	15%	13%
Plastic ⁽²⁾	(3%)	(4%)
Cocoa ⁽¹⁾	46%	68%
Raw milk ⁽³⁾	7%	(1%)

⁽¹⁾ Figures are retrieved from Bloomberg. The exchanges on which the commodities are traded are: Arabica – New York, Robusta – London, sugar – London, Humera sesame and cocoa – London.

⁽²⁾ Figures are retrieved from FRED Producer Price Index – Polystyrene Foam Product. The index is indicative only.

⁽³⁾ Figures are retrieved from the Israel Dairy Board website.

* Market prices of all inputs are denominated in USD, except for the price of cocoa, which is denominated in GBP, and the price of milk, which is denominated in NIS.

The Group applies measures to mitigate the effects of raw material cost fluctuations, among other things through hedges, mitigation plans and operational efficiency enhancement. Additionally, in certain geographies and products, some of the Group companies revised their sell-in prices (see section 22 below).

The Company's green coffee procurement center in Switzerland provides for all companies in the Group (except for the operation in Brazil). To manage exposure to market risks, the Group uses transactions in derivatives 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 Strauss Coffee's COO and convenes from time to time according to established procedures.

The procurement of green coffee in Brazil is carried out by the local management of Três Corações (JV) according to internal procedures determined by Três Corações (JV)'s board of directors, and is the responsibility of the procurement, export and financial managers of Três Corações (JV).

The Group also has a committee for commodity exposure management. The committee is managed by the CFO of Strauss Israel.

Gains or losses arising from commodity hedges are mainly included in the non-GAAP income statement on the date of sale of the inventory to outside parties.

7. Energy Prices

Average prices of Brent oil in the full year of 2023 and the fourth quarter of 2023 were 17% and 7% lower, respectively, compared to the corresponding periods last year. Since the beginning of 2024 through to proximate to the date of the report, the price rose by 11%.

8. Exchange Rate Fluctuations

The impact of the significant devaluation of the Shekel based on average exchange rates against most of the Group's functional currencies in the full year and fourth quarter of 2023, excluding the Ruble which weakened significantly and the Hryvnia in the full year, compared to the corresponding periods last year, led to positive translation differences in sales on the income statement. In terms of changes in exchange rates in the full year of 2023 (based on closing rates), the Shekel weakened against most currencies (excluding the Ruble), mainly the Real, and the aggregate effect on the Group's equity was positive. In terms of changes in exchange rates in the fourth quarter of 2023 (based on closing rates), the Shekel strengthened insignificantly against most functional currencies (excluding the Ruble and the Zloty), and the net effect on equity was negligible.

Based on average exchange rates, in the full year and fourth quarter of 2023, the US Dollar strengthened significantly, mainly against the Ruble and the Shekel, compared to the corresponding periods, and weakened against most of the other currencies.

The following table presents the average exchange rates **against the Shekel** in the full year and fourth quarter of 2023 compared to the corresponding periods last year:

Average Exchange Rates Against the Shekel							
Currency		Average Exchange Rate Year		% change	Average Exchange Rate Fourth Quarter		% change
		2023	2022		2023	2022	
United States Dollar	USD	3.687	3.358	9.8%	3.819	3.493	9.3%
Euro	EUR	3.986	3.535	12.7%	4.106	3.562	15.3%
Ukrainian Hryvnia	UAH	0.101	0.105	(3.8%)	0.104	0.096	9.2%
Russian Ruble	RUB	0.044	0.051	(14.1%)	0.041	0.056	(26.7%)
Serbian Dinar	RSD	0.034	0.030	13.0%	0.035	0.030	15.4%
Romanian Leu	RON	0.806	0.717	12.4%	0.826	0.724	14.2%
Polish Zloty	PLN	0.878	0.755	16.3%	0.929	0.754	23.2%
Brazilian Real	BRL	0.739	0.651	13.4%	0.770	0.663	16.2%
Chinese Renminbi	CNY	0.519	0.500	3.8%	0.530	0.491	7.9%
Canadian Dollar	CAD	2.731	2.580	5.9%	2.804	2.572	9.0%
Australian Dollar	AUD	2.448	2.330	5.1%	2.485	2.293	8.4%
Mexican Peso	MXN	0.208	0.167	24.6%	0.218	0.177	22.6%
Pound Sterling	GBP	4.584	4.150	10.5%	4.735	4.094	15.7%

The following table presents the average exchange rates **against the Dollar** in the full year and fourth quarter of 2023 compared to the corresponding periods last year:

Average Exchange Rates Against the Dollar							
Currency		Average Exchange Rate Year		% change	Average Exchange Rate Fourth Quarter		% change
		2023	2022		2023	2022	
New Israeli Shekel	ILS	0.272	0.298	(8.9%)	0.262	0.286	(8.4%)
Ukrainian Hryvnia	UAH	0.027	0.031	(12.6%)	0.027	0.027	(0.2%)
Russian Ruble	RUB	0.012	0.015	(21.2%)	0.011	0.016	(32.9%)
Serbian Dinar	RSD	0.009	0.009	2.7%	0.009	0.009	5.6%
Romanian Leu	RON	0.219	0.214	2.3%	0.217	0.207	4.5%
Polish Zloty	PLN	0.238	0.225	5.7%	0.244	0.216	12.8%
Brazilian Real	BRL	0.200	0.194	3.2%	0.202	0.190	6.3%
Chinese Renminbi	CNY	0.141	0.149	(5.6%)	0.139	0.141	(1.3%)
Pound Sterling	GBP	1.243	1.238	0.4%	1.241	1.173	5.8%

Since the beginning of 2024 through to proximate to the publication date of the report, the Shekel remained stable against the Dollar and strengthened by 3% against the Real and the Ruble.

9. Inflation

In 2023, a downtrend in inflation was recorded in Israel and globally. The Consumer Price Index (CPI) in Israel rose in the year by 3% compared to 5.3% in 2022. In Brazil, the CPI rose by 4.6% compared to an increase of 5.8% last year, in Russia, the CPI rose by 7.4% compared to an increase of 11.9% in 2022, and in the US, the CPI rose by 3.4% compared to 6.5% last year.

Since the beginning of 2024 through to proximate to the publication date of the report, inflation in Israel rose by 0.3%.

Most of the Group's long-term loan liabilities are at fixed interest rates, unlinked and Shekel denominated, and the rest are floating rate loans. Most of the Group's lease liabilities are CPI-linked.

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 operations, the Group does not regularly hedge the measurement basis of its operating results or its statement of financial position against changes arising from the various currency exchange rates against the Shekel. The Group 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 performed by the Finance 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 with respect to the business of the Group as a whole.

10. Interest

The Bank of Israel interest rate rose to 4.75% at the end of 2023 compared to 3.25% at the end of 2022 (proximate to the publication date of the report, the interest rate was lowered to 4.5%). In Brazil, the interest rate declined from 13.75% at the end of 2022 to 11.75% at the end of 2023 and 10.75% proximate to the publication date of the report. In Russia, the interest rate rose from 7.5% at the end of 2022 to 16% at the end of 2023 (remaining steady proximate to the publication date of the report), as the Central Bank worked to curb the ongoing significant devaluation. In 2023, the Federal Reserve raised interest in the US to 5.25%, up from 4.25% at the end of 2022 (remaining steady proximate to the publication date of the report). In the rest of the Group's main countries of operations (excluding Ukraine), interest was single-digit, and the trend during the year was mixed.

The Group has floating interest loans, mainly in the Real and Dollar. The Group has Dollar, Shekel and other short-term bank deposits, earmarked for current use. It is noted that also in the future, changes in interest rates could have a positive or negative effect on the Group's business and financial results, according to their trend. The extent of the effect, if any, depends, among other things, on the intensity of the changes, their scope and duration, and on the Group's ability to contend with them. For further information, see also Note 26.2 to the Consolidated Financial Statements as of December 31, 2023.

11. Regulatory Developments in Israel

The Group is affected by regulatory changes applying from time to time to inputs, mainly with respect to wages in Israel and raw milk prices in Israel, which account for a major part of its inputs.

The milk sector

In January 2021, the Ministries of Finance and Agriculture signed a sectoral agreement that regulates policy for the local production and importation of dairy products to Israel in the coming years. The agreement determines that the raw milk price mechanism (the “target price”) will remain unchanged in the next three years, after which the Ministers of Finance and Agriculture will be given the possibility of deciding whether to extend the mechanism for a further two years, until 2026. The agreement further determines that an exemption from customs duty will be granted on the importation of cheeses, yogurts and desserts containing up to 5% fat, and customs-exempt quotas for the importation of yellow cheese will be raised to 65% over a 5-year period. In the Company’s estimate, as of the date of this report, the agreement has not had a material effect on its business results.

Furthermore, in June 2022 an agreement was signed, the heads of which are a 4.9% increase in the prices of price-controlled dairy products, implementation of an automatic mechanism for updating the prices of price-controlled dairy products, a reduction in the target price, and a revised formula for calculating the costs of milk production.

On August 4, 2021, the Knesset approved the Milk Sector Planning bill in the second and third readings. The bill extends the temporary order enabling the Ministers to define a mechanism for revising the minimum price per 1 liter of milk until December 31, 2023, granting the Ministers the possibility of extending the validity of the temporary order for a further two years. In the Company’s estimate, extension of the temporary order will contribute to stability in the Israeli milk sector.

In January 2023, a decree was issued, introducing a change in import tariffs applying to cheeses, which significantly lowered the customs duty charged on various cheeses.

In March 2023, a temporary order was issued, amending the Milk Sector Planning Law, which largely concerns the implementation of a mechanism for a reduction in the target price, a revision of the formula for calculating the costs of milk production, a reduction of 2.90 agorot in the target price in the second quarter of 2023 and 2.15 agorot for three quarters, commencing in the third quarter of 2023 through to the end of the first quarter of 2024. On March 19, 2023, the Knesset Economic Affairs Committee approved the request by the Ministry of Agriculture and Rural Development to amend the Milk Sector Planning Regulations, which address the mechanism for updating the target price. According to the proposal that was approved, in the second quarter of 2023 the target price would be reduced by 4.4 agorot per liter, in the third and fourth quarters of 2023 and in the first quarter of 2024, the target price would be reduced by 3.65 agorot, and from the second quarter of 2024 and thereafter, the price would be reduced by 1.5 agorot. The Company estimates that the agreement that was signed is not expected to materially affect its results in the foreseeable future.

In April 2023, a price update was announced, raising the prices of price-controlled dairy products by 16.0%. One week later, at the beginning of May, an amendment to the order was published, revising the prices of those price-controlled products upward by a lesser rate of 8.3%. At the end of May 2023, the

prices of said products were again updated by a further 0.9%. In addition, according to the same outline, the prices of price-controlled dairy products are expected to increase by a further 3.35% in May 2024.

In July 2023, a three-month temporary order was signed, eliminating customs duties on milk. On October 19, 2023, the Minister of Finance published an order extending the customs exemption for a further three months. The order was not renewed, and accordingly, since January 18, 2024 the exemption is cancelled, and the tariff applying to milk reverted to its prior rate. The order did not have a material impact on the Company's business results and none is expected in the foreseeable future.

Wages in Israel

Commencing on April 1, 2023, the minimum wage in Israel was raised to NIS 5,571.75 per month (compared to NIS 5,300). The increase in the minimum wage did not have a material effect on the Group's business results in 2023.

Further, on September 11, 2023, an extension order was signed, pursuant to which the convalescence allowance in the private sector will be set at NIS 418 per day (as opposed to NIS 378). The extension order is applicable retroactively from July 1, 2023. The increase in convalescence pay did not have a material effect on the Group's business results in 2023.

Consumer Protection Regulations

On January 1, 2023, an amendment to the Consumer Protection Law regarding the creation of a database called "Don't Call Me" entered into force, as well as regulations promulgated under the amendment. In the context of the amendment and the regulations, consumers/customers may register their telephone numbers with the database to prevent businesses from contacting them with marketing pitches (by telephone or digital communications). Since the law and the regulations took effect, Strauss Water has complied with them and is reviewing their effects. On the publication date of this report, the Company is unable to assess their implications.

The Public Health Protection Law

In the framework of the Economic Plan, substantial amendments were made to the Public Health Protection (Food) Law, 2015. The purpose of these amendments is to facilitate the import of food to Israel and to eliminate significant import barriers, *inter alia*, through the adoption of three EU regulations governing chemical and biological contaminants and pesticide residue.

As part of the reform, the official status of approximately 100 food standards was cancelled, which will allow for the importation and manufacture of various food products without requirements that are unique to Israel. However, food standards are binding even when they are not official, subject to the Consumer Protection Order (Marking and Packaging of Food Products).

With the goal of reducing waiting times and clearance times at the ports, special arrangements were defined for importers registered under section 115 of the Public Health Protection (Food) Law, 2015 as "Valid Importers" for the release of foods from quarantine stations for products marketed in Europe, similar to the procedure for the release of regular foods.

In August, the Ministry of Health published a guideline for the expansion of the Food Reform, which places emphasis on the removal of import barriers. The current guideline perpetuates the trend of

transferring responsibility for food safety and standards to the parties that deal in food, while protecting public health.

In the context of the guideline, several steps were proposed for implementation, which include broadening the adoption of EU legislation.

In December, the reduction regulations were published in the Gazette of Record, enabling the National Food Services to now impose financial sanctions for violations under the Public Health Protection Law (Food). The reduction regulations took effect on January 1, 2024.

The information contained in this section, including the estimates that the Milk Sector Planning bill and the reforms in the Economic Arrangements Law are not expected to have a material effect on the Company's business results, is forward-looking information as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date and there can be no certainty as to their materialization.

12. Business Regulation and Changes in the Food Sector in Israel

To the best of the Company's knowledge, in 2024 a change is expected in the Israeli standard, which is slated to adopt the NSF⁴ standards for drinking water systems – treatment of aesthetic contaminants, treatment of contaminants with health effects, systems for the reduction of microbiological contaminants. The standard is currently being discussed by the Ministry of Economy's Adoption Committee after having passed the "public comment" process. Strauss Water has reviewed the implications and estimates that the impact of the change in the standard will not be significant. This estimate is forward-looking information as this term is defined in the Securities Law, 1968, which is based on the assessment of the professional parties in the Company and may not materialize if there is a material change between the NSF's requirements and what is actually approved.

As part of the Economic Arrangements Law for 2023 and 2024, the Promotion of Competition in the Food Sector Law, 2014 was amended in a 3-year temporary order and the following provisions were defined, inter alia: Prohibition on a supplier whose determinative sales turnover exceeded NIS 307 million to merge with a supplier whose determinative sales turnover exceeded NIS 30 million, unless the Commissioner's approval has been granted under the terms and conditions set forth in the Law; prohibition on a large supplier to stipulate a discount to a large retailer on any of its products on the purchase of another of said large supplier's products; and exemption of a large retailer from obtaining the Commissioner's approval to open another large store in a high-demand area, if, in each of the six months that preceded the date on which the large store was opened, 55% of the sales volume of the products sold by the large retailer in Israel did not consist of products supplied to the large retailer by large suppliers. Additionally, the sum of the maximum financial sanction was raised to NIS 40 million. Furthermore, as part of said Economic Arrangements Law, provisions were also determined with the intention of facilitating the process of importing food products. The Company reviewed the impact of the Economic Arrangements Law and assessed that the effect on the Group's business is immaterial. This

⁴ NSF is an American organization that tests and certifies various products, including drinking water treatment products. The organization is engaged in the definition of standards, testing and product certification.

estimate is forward-looking information as this term is defined in the Securities Law, 1968, which is based on the information available to the Company on the date of the report and includes the Company estimates on the reporting date.

On May 21, 2023, the Israeli government approved a decision that the Minister of Finance would appoint a public advisory committee and an inter-ministerial team ("Public Committee"). Each of the two new committees will include representatives of the public, representatives of the government and a representative of the Bank of Israel, and they will be responsible for recommending steps to reduce centralization and increase competition in the food market, and for reviewing the need for additional regulation to mitigate the market power of large retailers. In light of the state of emergency, the Public Committee announced the suspension of its work. As of the date of this report, the Company is unable to assess the implications of the foregoing on the Company and its financial results.

On September 6, 2023, the Company and all large suppliers and large retailers received a demand for information from the Competition Authority. In the demand, the Company was requested to furnish, *inter alia*, sales data, COGS and operating costs from 2019 through to the present. In light of the security situation, the Competition Authority announced the postponement of the date for responding to the demand for information for several days, during which Regulations 3 to 5 of the Courts and Enforcement and Execution Chambers Regulations (Civil Procedures in a Special State of Emergency), 1991 would apply. On November 13, 2023, the Commissioner published an announcement that the dates for responding to the demand for information would not be extended for a further period, even if Regulations 3 to 5 are applied by the Minister of Justice beyond November 30, 2023. Accordingly, the Company submitted the reply to questions 1 and 4 in the demand for information on January 30, 2024, and the reply to questions 2 and 3 in the demand for information on February 29, 2024.

On June 27, 2023, the Promotion of Competition in the Food Sector Bill (Promotion of Competition in the Food and Toiletries Sector) (Temporary Order), 2023 was published. The bill proposes that a large supplier that supplies the goods of a large manufacturer will not supply retailers with the goods of other large or medium manufacturers. The Company furnished its reference to the bill in the call for submissions that was issued. At the present stage, continuation of the legislative process with respect to the bill is uncertain, as is the version of the law that will be passed. Accordingly, as of the date of this report, the Company is unable to estimate the impacts of the law if and insofar as the legislative process is completed.

The information contained in this section with respect to the effects of said regulation on the Company is forward-looking information, as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date, and as such, its materialization is uncertain, *inter alia*, due to changes in macroeconomic conditions, the final versions that are approved, and other factors.

On February 19, 2023, the Competition Commissioner announced that she had decided to repeal the Rules for the Promotion of Competition in the Food Industry (Exemption for Actions and Arrangements Regarding Product Arrangement in Stores of a Large Retailer) (Temporary Order), 2017 ("Arrangement Exemption"). On November 24, 2023, the Competition Commissioner announced that the Arrangement Exemption would be extended for a further six months until May 31, 2024, and that she would announce new rules for exemption that will increase sales of products of small suppliers in the retail chains. In the draft rules that are to be published for public comment, two tracks for the receipt of exemption will be

set – a general track and an individual track. In the general track, a large retailer will be required that the total sales of products of “small suppliers” by the chain will be greater than 55% of total sales, and that this percentage will be raised by one percentage point per year up to 60%. In the individual track, a large retailer will be required, each year, to significantly increase total sales of products of “small suppliers” by the chain in relation to the prior year.

At the present stage, there is no certainty as to the form of the Exemption and when it will take effect. Accordingly, as of the date of this report, the Company is unable to assess the impact of the form and content of the Exemption insofar the process is completed.

On February 26, 2024, the Stabilization of Product Prices in a State of Emergency Bill, 2024, was submitted. The bill determines that in a state of emergency, large suppliers and retailers will not raise the prices of staple goods they provide to the public, and that a supplier seeking to raise the price of a staple good will submit a request to the Price Committee, which includes an itemization of inputs, including the purported increases in input prices. The staple goods defined in the bill include, *inter alia*, white cheeses, dairy desserts and oils.

At the present stage, continuation of the legislative process with respect to the bill is uncertain, as well as regarding the version that will be passed. Accordingly, as of the date of this report, the Company is unable to assess the impact of the law, if and insofar as the legislative process is completed.

13. Qualitative Disclosure Regarding Market Risk Exposure and Risk Management

For a description of the market risks to which the Group is exposed, see section 25.1 in the Description of the Company’s Business as of December 31, 2023 (Discussion of Risk Factors).

RESULTS OF BUSINESS OPERATIONS

14. Overview of the Results of Business Operations

Several of the Group's businesses are operated by jointly controlled entities in which the Company or subsidiaries hold a 50% stake: the coffee business in Brazil (Três Corações (JV)), the salty snacks business in Israel (Strauss Frito-Lay Ltd.), the dips and spreads business in North America (Sabra Dipping Company), and the international dips and spreads business – PepsiCo Strauss Fresh Dips & Spreads International ("Obela"). To clarify, the above companies are included in the management (non-GAAP) reports of the Company according to the stake held by the Company and/or the subsidiaries therein.

According to generally accepted accounting principles, in the financial statements of the Company, the income statements and statements pertaining to financial position, comprehensive income, changes in equity and cash flows of businesses which are jointly controlled by the companies in the Group and other partners are presented in one separate row ("Profit of equity-accounted investees", and in other reports in the relevant section).

Notwithstanding the foregoing, since in the Company's non-GAAP reports and in view of the method in which Group Management measures the results of the subsidiaries and jointly owned companies, the Group presents the activity segments by presenting the Company's relative share of the income and expenses of the jointly controlled entities (50%) as well as other adjustments described below. Presentation of the data in this manner is different to the manner of their presentation in the financial accounting (GAAP) reports of the Company.

The next pages present the management (non-GAAP) reports, the financial accounting (GAAP) reports and the various adjustments made by Company Management in making the transition from the financial accounting reports to the non-GAAP reports.

Following are the condensed results of business operations, based on the management (non-GAAP) reports, for the twelve months ended December 31, 2023 and 2022 (in NIS millions):

Condensed Results of Business Operations				
	Year			Explanation
	2023	2022	% change	
Sales	10,549	9,501	11.0%	Sales growth is largely due to the Fun & Indulgence segment following the resumption of production and sales by the Confectionery Division after the recall last year; the Health & Wellness segment due to growth in quantities sold and higher prices of dairy and dairy alternative beverages; the International Coffee segment due to positive foreign currency effects on sales; and growth in International Dips & Spreads following Sabra's partial return to business. For further information, see section 18 below.
Organic growth excluding foreign currency effect	6.8%	6.5%		
Cost of sales	7,166	6,667	7.5%	Growth in gross profit and the gross margin is primarily the result of the resumption of operations after the recall in the Confectionery Division and the adjustments at the Sabra plant in the corresponding period last year, as well as price increases implemented in several categories and geographies, which were offset by higher raw material prices. For further information, see section 19 below.
Gross profit – non-GAAP	3,383	2,834	19.4%	
% of sales	32.1%	29.8%		
Selling and marketing expenses	2,070	1,936	7.0%	Most of the increase is due to the International Coffee segment in line with sales growth.
General and administrative expenses	545	527	3.3%	Most of the increase is due to an increase in IT expenses, and was partially offset by an insurance payout received by Sabra. For further information, see section 22.3 below.
Total operating expenses	2,615	2,463		
Share of profit of equity-accounted investees	38	34	14.9%	The increase is largely due to growth in the earnings of Haier Strauss Water following increased sales and gross profit.
Operating profit before loss of incubator investees	806	405	99.0%	
Share of loss of equity-accounted incubator investees	(34)	(26)	31.6%	The change is the result of an increase in losses of the incubator companies and gains recognized on loss of control in the corresponding period last year.
Operating profit – non-GAAP	772	379	103.9%	Growth in operating profit and the operating margin is largely due to the effects of the recall last year (for further information, see section 2.2.1 above), sales growth and price increases, which were offset by an increase in raw material costs and higher selling and marketing expenses and HQ expenses.
% of sales	7.3%	4.0%		
Finance expenses, net	(133)	(67)	97.3%	The increase in finance expenses is mainly the result of the revaluation of foreign currency derivatives and exchange differences, as well as interest expenses due to debt raised and higher interest rates.
Income before taxes – non-GAAP	639	312	105.3%	
Taxes on income	(134)	(85)	57.5%	The increase in taxes is in alignment with growth in taxable income. The decrease in the effective tax rate is largely the result of the profit mix for tax purposes between the companies in the different countries.
Effective tax rate	20.9%	27.3%		
Income for the period – non-GAAP	505	227	123.3%	
Attributable to shareholders of the Company	439	174	154.0%	Most of the increase in net profit is due to growth in operating profit and was partially offset by an increase in finance expenses and tax expenses.
% of sales	4.2%	1.8%		
Attributable to non-controlling interests	66	53	23.5%	
EPS (NIS)	3.77	1.49	153.7%	

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

Following are the condensed results of business operations, based on the management (non-GAAP) reports, for the quarters ended December 31, 2023 and 2022 (in NIS millions):

Condensed Results of Business Operations				
	Fourth Quarter			
	2023	2022	% change	Explanation
Sales	2,695	2,460	9.6%	Sales growth is largely due to the Fun & Indulgence segment following the resumption of production and sales by the Confectionery Division after the recall; the Health & Wellness segment due to growth in quantities sold and higher prices of dairy and dairy alternatives; and the International Coffee segment due to positive foreign currency effects on sales. For further information, see section 18 below.
Organic growth excluding foreign currency effect	4.6%	3.5%		
Cost of sales	1,843	1,725	6.8%	Growth in gross profit and the gross margin is primarily the result of the resumption of operations after the recall in the Confectionery Division last year as well as price increases implemented in several categories and geographies, which were offset by higher raw material prices. For further information, see section 19 below.
Gross profit – non-GAAP	852	735	15.9%	
% of sales	31.6%	29.9%		
Selling and marketing expenses	529	513	3.3%	The change is due to an increase in variable costs following sales growth as well as an increase in marketing expenses in the International Coffee segment.
General and administrative expenses	139	152	(8.9%)	Most of the decline is due to a provision recorded in Sabra against the backdrop of a disagreement with the insurer in the corresponding period last year.
Total operating expenses	668	665		
Share of profit of equity-accounted investees	8	9	(1.7%)	There was no material change quarter-on-quarter.
Operating profit before loss of incubator investees	192	79	143.0%	
Share of loss of equity-accounted incubator investees	(11)	(15)	(24.7%)	Capital losses in the incubator investees declined compared to the same quarter last year.
Operating profit – non-GAAP	181	64	184.9%	Growth in operating profit and the operating margin is largely due to the effects of the recall in the corresponding period last year (for further information, see section 2.2.1 above) as well as sales growth and price increases, which were offset by raw material costs.
% of sales	6.7%	2.6%		
Finance expenses, net	(53)	(21)	146.4%	The increase in finance expenses is mainly the result of the revaluation of foreign currency derivatives and exchange differences, as well as interest expenses due to debt raised and higher interest rates.
Income before taxes – non-GAAP	128	43	204.7%	
Taxes on income	(10)	(6)	52.6%	The increase in taxes is in alignment with growth in taxable income. The decline in the effective tax rate is largely the result of the profit mix for tax purposes between the companies in the different countries.
Effective tax rate	7.4%	14.7%		
Income for the period – non-GAAP	118	37	231.0%	
Attributable to shareholders of the Company	100	26	304.4%	Most of the increase in net profit is due to growth in operating profit and was partially offset by an increase in finance expenses and tax expenses.
% of sales	3.7%	1.0%		
Attributable to non-controlling interests	18	11	64.9%	
EPS (NIS)	0.86	0.21	304.2%	

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

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, 2023 and 2022 (in NIS millions):

Condensed Results of Business Operations by Operating Segment						
	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Israel						
Net sales	4,074	3,496	16.5%	1,006	877	14.8%
Operating profit (loss)	382	(22)	1839.3%	103	15	594.7%
Coffee						
Net sales	5,154	4,804	7.3%	1,370	1,270	7.9%
Operating profit	355	460	(22.8%)	75	82	(9.4%)
International Dips & Spreads						
Net sales	513	415	23.7%	126	119	5.3%
Operating profit (loss)	14	(111)	(112.9%)	(8)	(26)	(70.9%)
Water						
Net sales	805	785	2.6%	192	193	(0.4%)
Operating profit	90	97	(7.4%)	24	23	0.7%
Other						
Net sales	3	1	374.4%	1	1	(163.4%)
Operating profit (loss)	(69)	(45)	52.9%	(13)	(30)	(55.7%)
Total						
Net sales	10,549	9,501	11.0%	2,695	2,460	9.6%
Operating profit	772	379	103.9%	181	64	184.9%

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

Following are the condensed financial accounting (GAAP) statements of income for the years and quarters ended December 31, 2023 and 2022 (in NIS millions):

Condensed GAAP Statements of Income						
	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Sales	6,795	6,105	11.3%	1,705	1,565	9.0%
Cost of sales excluding impact of commodity hedges	4,375	4,104	6.6%	1,095	1,053	4.0%
Adjustments for commodity hedges ⁽¹⁾	(23)	25		(7)	29	
Cost of sales	4,352	4,129	5.4%	1,088	1,082	0.6%
Gross profit	2,443	1,976	23.6%	617	483	27.7%
% of sales	35.9%	32.4%		36.2%	30.9%	
Selling and marketing expenses	1,390	1,359	2.3%	345	347	(0.8%)
General and administrative expenses	471	425	10.8%	112	111	1.3%
Total expenses	1,861	1,784		457	458	
Share of profit (loss) of equity-accounted investees	197	80	148.0%	35	(5)	(673.3%)
Share of loss of equity-accounted incubator investees	(34)	(26)	31.6%	(11)	(15)	(24.7%)
Operating profit before other expenses	745	246	202.8%	184	5	3630.9%
% of sales	11.0%	4.0%		10.8%	0.3%	
Other income (expenses), net	70	(54)		12	(20)	
Operating profit (loss) after other expenses	815	192	325.7%	196	(15)	1336.0%
Finance expenses, net	(94)	(41)	126.7%	(44)	(16)	167.0%
Income (loss) before taxes	721	151	380.2%	152	(31)	576.6%
Taxes on income	(167)	(34)	390.9%	(30)	10	(405.3%)
Effective tax rate	23.2%	22.7%		19.6%	30.6%	
Income (loss) for the period	554	117	377.1%	122	(21)	652.2%
Attributable to: Shareholders of the Company	488	64	668.0%	104	(32)	422.1%
Non-controlling interests	66	53	25.4%	18	11	77.4%

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

(1) Reflects mark-to-market as of end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices and all adjustments necessary to delay recognition of gains or losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

15. Condensed Statement of Financial Position

Following is the condensed financial accounting (GAAP) statement of financial position as of December 31, 2023 and 2022 (in NIS millions):

Condensed GAAP Statement of Financial Position				
	December 31 2023	December 31 2022	% change	Explanation
Total current assets	2,539	2,478	2.4%	The change is largely due to an increase in the trade receivables balance due to sales growth and to inventory growth following build-up.
Of which: Cash and cash equivalents	517	517	(0.1%)	For information on the change in the cash and cash equivalents item, see section 23.1 below. According to Company policy, these assets are mainly held in liquid deposits.
Total non-current assets	5,631	4,934	14.0%	The change is largely due to an increase in investments in associates due to positive translation differences as well as the profits of investees, which were offset by dividends declared and distributed in the period; and also, investments in fixed assets and intangible assets and an increase in right-of-use assets, mainly a new lease for a logistics center in Kfar Masaryk.
Total assets	8,170	7,412	10.1%	
Total current liabilities	2,497	2,806	(11.0%)	The decline is largely due to the repayment of short-term loans and credit
Total non-current liabilities	2,358	1,917	22.6%	The increase is mainly the result of the expansion of Debenture Series F, loans taken and a new lease for a logistics center in Kfar Masaryk.
Total equity attributable to majority shareholders	3,037	2,483	22.3%	The change primarily comprises income attributable to majority shareholders and positive translation differences in equity-accounted investees, largely the result of the change in the exchange rate of the Brazilian Real against the Shekel.
Total equity attributable to minority shareholders	278	206	35.1%	Most of the increase is due to income attributable to minority shareholders and a transaction with minority shareholders, which was offset by dividends declared and distributed in the period.

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

Following is the outstanding debt balance as of December 31, 2023 and 2022 (in NIS millions):

Outstanding Debt				
	December 31 2023	December 31 2022	Change	Explanation
Gross debt – non-GAAP reports	3,326	3,260	66	Most of the increase in gross and net debt is due to the expansion of Debenture Series F, long-term debt raised, and an increase in lease liabilities following the leasing of a logistics center in Kfar Masaryk and fleet leasing, which were offset by the repayment of short-term loans.
Gross debt – financial accounting (GAAP) reports	2,630	2,614	16	
Net debt – non-GAAP reports	2,400	2,322	78	
Net debt – financial accounting (GAAP) reports	2,113	2,097	16	

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

16. Adjustments to the Management (Non-GAAP) Reports

Adjustments for IFRS 11 – transition from the equity method in the financial accounting (GAAP) reports to the proportionate consolidation method (according to the segmental information based on the Group's internal management reports).

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

Adjustments to the Management (Non-GAAP) Reports – Yearly Comparison						
	Full Year 2023			Full Year 2022		
	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method
Sales	6,795	3,754	10,549	6,105	3,396	9,501
Cost of sales excluding impact of commodity hedges	4,375	2,791	7,166	4,104	2,563	6,667
Adjustments for commodity hedges ⁽¹⁾	(23)	-	(23)	25	1	26
Cost of sales	4,352	2,791	7,143	4,129	2,564	6,693
Gross profit	2,443	963	3,406	1,976	832	2,808
% of sales	35.9%		32.3%	32.4%		29.6%
Selling and marketing expenses	1,390	680	2,070	1,359	577	1,936
General and administrative expenses	471	100	571	425	121	546
Share of profit of equity-accounted investees	197	(159)	38	80	(46)	34
Operating profit before loss of incubator investees	779	24	803	272	88	360
Share of loss of equity-accounted incubator investees	(34)	-	(34)	(26)	-	(26)
Operating profit before other expenses	745	24	769	246	88	334
% of sales	11.0%		7.3%	4.0%		3.5%
Other income (expenses), net	70	(9)	61	(54)	(33)	(87)
Operating profit after other expenses	815	15	830	192	55	247
Finance expenses, net	(94)	(39)	(133)	(41)	(26)	(67)
Income before taxes	721	(24)	697	151	29	180
Taxes on income	(167)	24	(143)	(34)	(29)	(63)
Effective tax rate	23.2%		20.5%	22.7%		35.3%
Income for the period	554	-	554	117	-	117
Attributable to: Shareholders of the Company	488	-	488	64	-	64
Non-controlling interests	66	-	66	53	-	53

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

(1) Reflects mark-to-market at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices and all adjustments necessary to delay recognition of most of the gains or losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

Adjustments to the Management (Non-GAAP) Reports – Quarterly Comparison						
	Fourth Quarter 2023			Fourth Quarter 2022		
	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method
Sales	1,705	990	2,695	1,565	895	2,460
Cost of sales excluding impact of commodity hedges	1,095	748	1,843	1,053	672	1,725
Adjustments for commodity hedges ⁽¹⁾	(7)	-	(7)	29	4	33
Cost of sales	1,088	748	1,836	1,082	676	1,758
Gross profit	617	242	859	483	219	702
% of sales	36.2%		31.9%	30.9%		28.5%
Selling and marketing expenses	345	184	529	347	166	513
General and administrative expenses	112	33	145	111	46	157
Share of profit of equity-accounted investees	35	(27)	8	(6)	14	8
Operating profit before loss of incubator investees	195	(155)	40	19	21	40
Share of loss of equity-accounted incubator investees	(11)	-	(11)	(14)	-	(14)
Operating profit before other expenses	184	(2)	182	5	21	26
% of sales	10.8%		6.7%	0.3%		1.1%
Other income (expenses), net	12	(5)	7	(20)	(18)	(38)
Operating profit (loss) after other expenses	196	(7)	189	(15)	3	(12)
Finance expenses, net	(44)	(9)	(53)	(16)	(5)	(21)
Income (loss) before taxes	152	(16)	136	(31)	(2)	(33)
Taxes on income	(30)	16	(14)	10	2	12
Effective tax rate	19.6%		10.2%	30.6%		33.5%
Income (loss) for the period	122	-	122	(21)	-	(21)
Attributable to: Shareholders of the Company	104	-	104	(32)	-	(32)
Non-controlling interests	18	-	18	11	-	11

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

(1) Reflects mark-to-market at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices and all adjustments necessary to delay recognition of most of the gains or losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

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

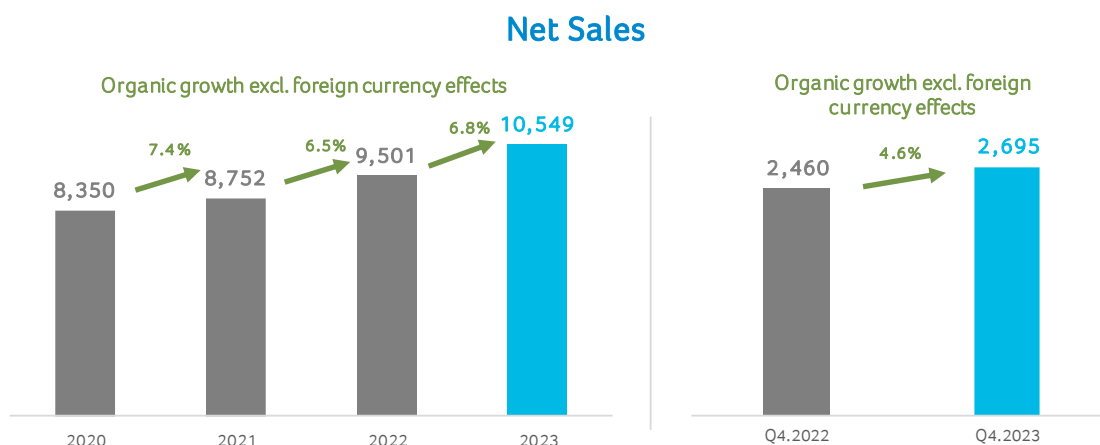
Additional Adjustments to the Management (Non-GAAP) Reports						
	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Operating profit (loss) (according to the proportionate consolidation method) after other expenses	830	247	236.3%	189	(12)	(1694.5%)
Share-based payment	26	19		6	5	
Adjustments for commodity hedges ⁽¹⁾	(23)	26		(7)	33	
Other expenses (income), net	(61)	87		(7)	38	
Operating profit – non-GAAP	772	379	103.9%	181	64	184.9%
Finance expenses, net	(133)	(67)		(53)	(21)	
Taxes on income	(143)	(63)		(14)	12	
Taxes in respect of adjustments to the above non-GAAP operating profit	9	(22)		4	(18)	
Income for the period – non-GAAP	505	227	123.3%	118	37	231.0%
Attributable to: Shareholders of the Company	439	174	154.0%	100	26	304.4%
Non-controlling interests	66	53	23.5%	18	11	64.9%

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

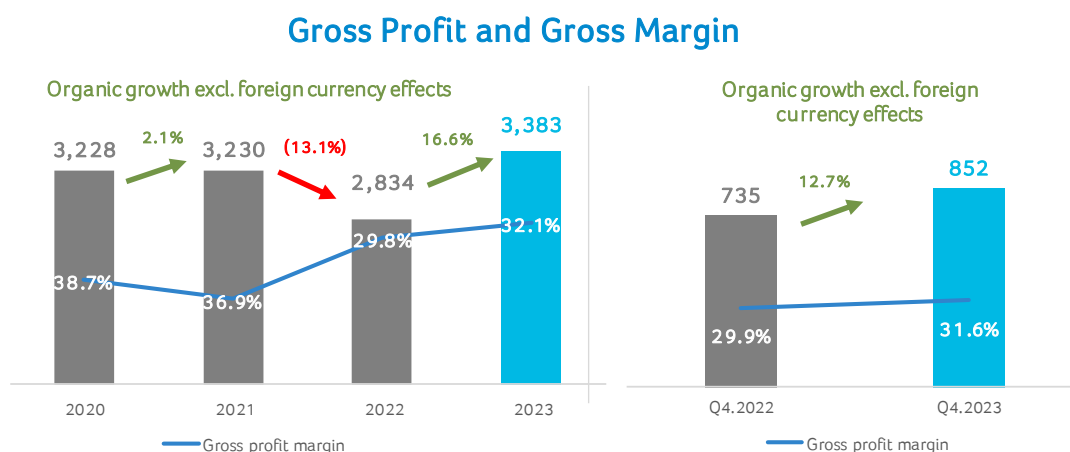
(1) Reflects mark-to-market at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices and all adjustments necessary to delay recognition of most of the gains or losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

17. Key Comparative Financial Data According to the Non-GAAP Reports

Following are key financial data presented in a quarterly and multi-year comparison, according to the management (non-GAAP) reports:



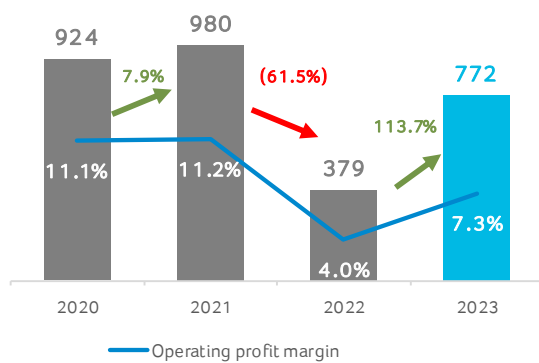
Financial data were rounded to NIS millions. Percentages changes were calculated based on the exact figures in NIS thousands.



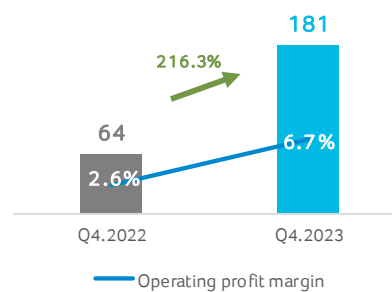
Financial data were rounded to NIS millions. Percentages changes were calculated based on the exact figures in NIS thousands.

Operating Profit and Operating Margin

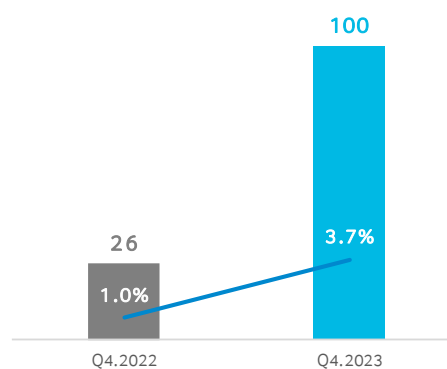
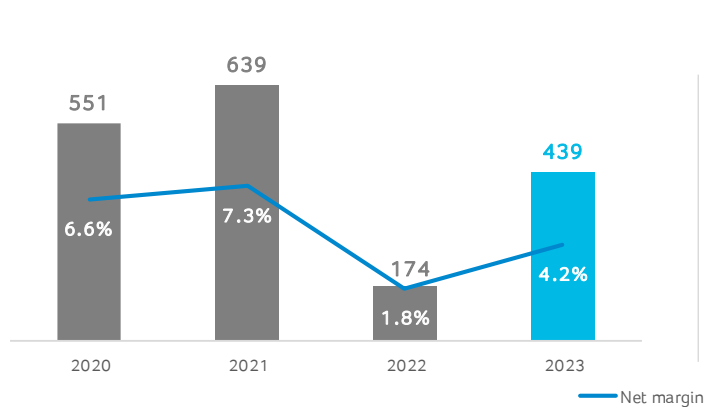
Organic growth excl. foreign currency effects



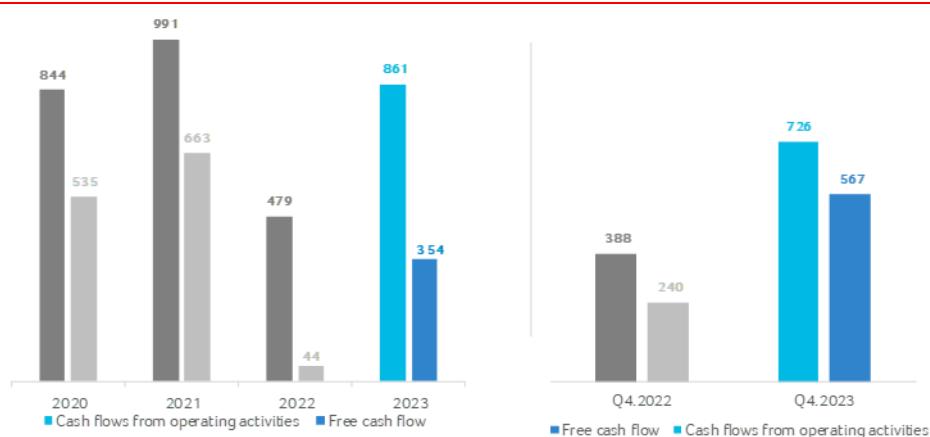
Organic growth excl. foreign currency effects



Net Profit and Net Margin



Cash Flows from Operating Activities and Free Cash Flow

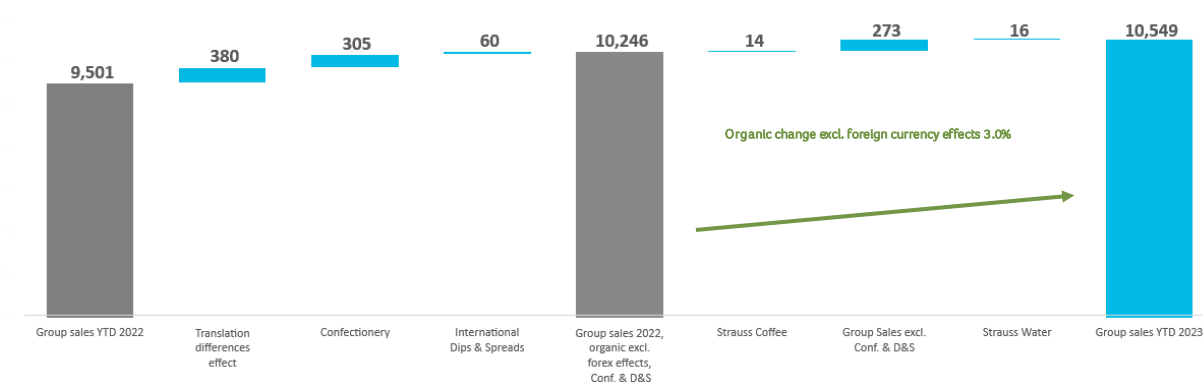


Financial data were rounded to NIS millions. Percentages changes were calculated based on the exact figures in NIS thousands.

18. Sales – Non-GAAP

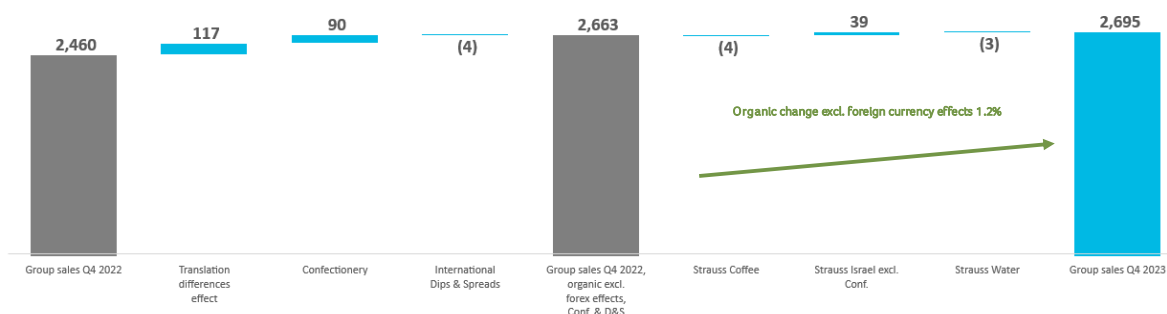
Following are the components of the change in sales in the period in local currency and growth rates according to the Group's major business segments in local currency, together with the overall impact, mainly of translation differences (the "translation differences effect") and inorganic growth (M&A):

Components of the Change in Sales – Full Year



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

Components of the Change in Sales – Fourth Quarter



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

The Group's sales in the full year of 2023 were affected by positive translation differences amounting to NIS 380 million, of which NIS 359 million and NIS 48 million were due to the strengthening of the Brazilian Real and the Polish Zloty against the Shekel and were partially offset by the weakening of the Russian Ruble against the Shekel by NIS 113 million compared to 2022.

The Group's sales in the fourth quarter of 2023 were affected by positive translation differences amounting to NIS 117 million, of which NIS 113 million were due to the strengthening of the Brazilian Real against the Shekel compared to the same quarter last year.

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

- See section 22.1 below for explanations on organic sales growth in the Strauss Israel segment.
- See section 22.2 below for explanations on organic sales growth in the Strauss Coffee segment.
- See section 22.3 below for explanations on organic sales growth in the International Dips & Spreads segment.
- See section 22.4 below for explanations on organic sales growth in the Strauss Water segment.

19. Gross Profit – Non-GAAP

Gross Profit – Non-GAAP								
	Year				Fourth Quarter			
	2023	2022	% change	% organic change excluding effect of translation differences into NIS	2023	2022	% change	% organic change excluding effect of translation differences into NIS
Gross profit	3,383	2,834	19.4%	16.6%	852	735	15.9%	12.7%
Gross margin	32.1%	29.8%			31.6%	29.9%		

The Group's non-GAAP gross profit in the full year of 2023 was affected by positive translation differences, which amounted to NIS 68 million and were largely due to the strengthening of the Brazilian Real against the Shekel, compared to 2022 (NIS 84 million).

The Group's non-GAAP gross profit in the fourth quarter of 2023 was affected by positive translation differences amounting to NIS 21 million, largely due to the strengthening of the Brazilian Real against the Shekel, compared to the same quarter last year (NIS 24 million) (see also the exchange rate table in section 8 in this report).

The Group's non-GAAP gross profit in the full year and fourth quarter of 2023 rose by NIS 549 million and NIS 117 million, respectively, compared to the corresponding periods last year.

- See section 22.1 below for explanations on the change in gross profit in the Strauss Israel segment.
- See section 22.2 below for explanations on the change in gross profit in the Strauss Coffee segment.
- See section 22.3 below for explanations on the change in gross profit in the International Dips & Spreads segment.
- See section 22.4 below for explanations on the change in gross profit in the Strauss Water segment.

20. Operating Profit – Non-GAAP

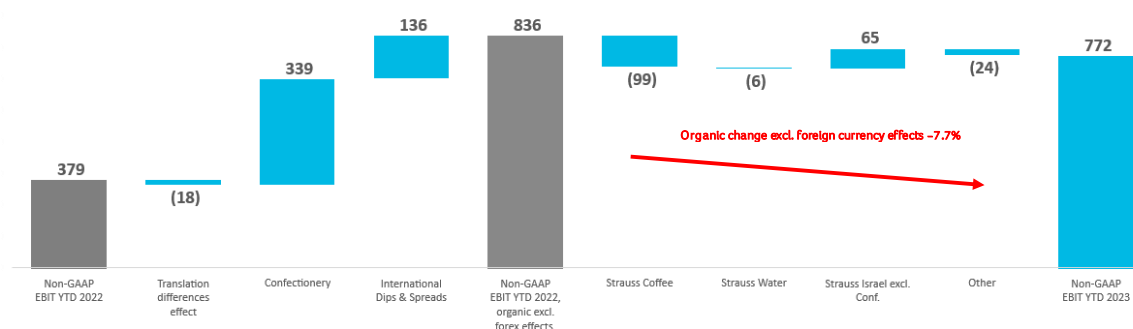
Operating Profit – Non-GAAP								
	Year				Fourth Quarter			
	2023	2022	% change	% organic change excluding effect of translation differences into NIS	2023	2022	% change	% organic change excluding effect of translation differences into NIS
Operating profit	772	379	103.9%	113.7%	181	64	184.9%	216.3%
Operating margin	7.3%	4.0%			6.7%	2.6%		

The Group's non-GAAP operating profit (EBIT) in the full year of 2023 rose by NIS 393 million and was adversely affected by negative translation differences, which amounted to NIS 18 million (see also the exchange rate table in section 8 in this report).

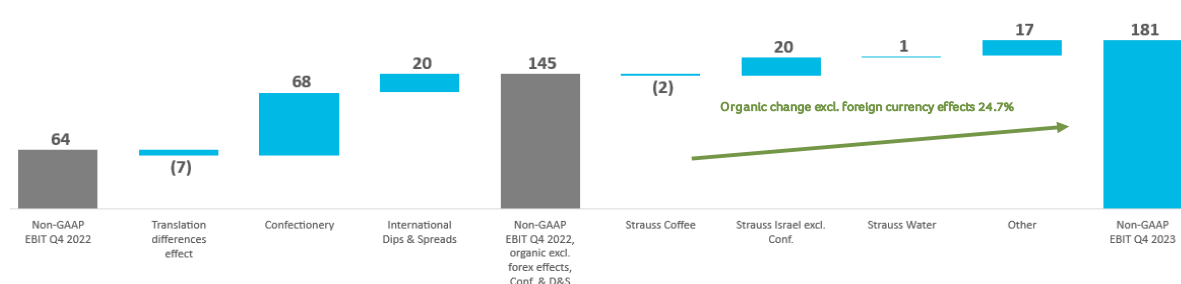
The Group's non-GAAP operating profit (EBIT) in the fourth quarter of 2023 rose by NIS 117 million and was adversely affected by negative translation differences, which amounted to NIS 7 million (see also the exchange rate table in section 8 in this report)

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

Components of the Change in Operating Profit – Full Year



Components of the Change in Operating Profit – Fourth Quarter



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

The change in the Group's operating profit in the full year and fourth quarter of 2023 was the result of the following:

- See section 22.1 below for explanations on the change in operating profit in the Strauss Israel segment.
- See section 22.2 below for explanations on the change in operating profit in the Strauss Coffee segment.
- See section 22.3 below for explanations on the change in operating profit in the International Dips & Spreads segment.
- See section 22.4 below for explanations on the change in operating profit in the Strauss Water segment.
- A decline of NIS 23 million in the profit of the Other Operations segment in the full year of 2023 compared to the corresponding period was mainly due to higher gains on a decrease in holding percentage and loss of control of equity-accounted investees in Strauss's incubator in the full year of 2022. For further information, see section 22.5 below.

21. Comprehensive Income for the Period (According to the Financial Accounting (GAAP) Report)

In the full year of 2023, GAAP comprehensive income amounted to NIS 632 million, compared to comprehensive income of NIS 322 million in 2022. In the Reporting Period, gains from translation differences, which are the main component of other comprehensive income, were NIS 77 million, compared to foreign currency translation gains of NIS 198 million in the corresponding period last year.

Foreign currency translation gains in 2023 are largely due to Strauss Coffee's business; of said amount, NIS 93 million are due to the strengthening of the Brazilian Real against the Shekel compared to exchange rates at the end of 2022.

GAAP comprehensive income in the fourth quarter of 2023 amounted to NIS 97 million, compared to a comprehensive loss of NIS 38 million in the same quarter last year. In the Reporting Period, losses from translation differences, which are the main component of other comprehensive income, were NIS 3 million, compared to foreign currency translation losses of NIS 79 million in the corresponding period.

22. Analysis of the Business Results of the Group's Major Business Units

22.1 The Group's activity in Israel

Strauss Group is the second-largest company in the barcoded food market in Israel in terms of sales turnover, and in 2023 the Group's market share, according to StoreNext⁵, was 11.8% of the total domestic retail food and beverage market (compared to 11.1% in 2022), an increase of 0.7%, largely due to the gradual return of confectionery products to the market compared to last year.

⁵ According to a report published on January 10, 2024. It is noted that Strauss Water business is not included in StoreNext's market share measurements.

Following are sales by the Group's overall operation in Israel, based on the management (non-GAAP) reports, which includes the Health & Wellness and Fun & Indulgence divisions, the coffee business in Israel and Strauss Water Israel (Tami 4):

Information on Strauss Group’s Sales in Israel							
	Year			Fourth Quarter			Explanation
	2023	2022	% change	2023	2022	% change	
The Group’s sales in Israel	5,622	5,028	11.8%	1,362	1,247	9.2%	Sales growth in 2023 is largely due to the effects of the recall in the Confectionery Division last year (for further information, see section 2.2.1 above) and to growth in the Health & Wellness segment following growth in sales of dairy products and dairy alternatives.

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

In December 2022, the Group updated the sell-in prices of part of its products in Israel after twelve years in which it refrained from raising prices in Israel, by an average of 2.9%.

At the beginning of May 2023, the Group updated the sell-in prices of its dairy products by an average of 2.33% following the government decision to revise the prices of price-controlled dairy products. The products whose sell-in prices were updated include price-controlled dairy products and other related products, among them the various Yotvata dairy products, Ski cheese, yogurt, cottage cheese, sour cream, whipping cream, and Pro beverages. The products whose list prices were revised account for approximately 30% of the products of the dairies, and raw milk serves as a key raw material in their production.

In May 2023, the Company announced another update to the sell-in price list, applying to products whose prices had not been revised in the past twelve years and were not included in the December 2022 price increase or in the price increase of early May 2023, referring to the dairy and dips and spreads products. The increase was prompted by further increases in the prices of raw and packaging materials and industrial inputs, after the Company had implemented significant efficiency enhancements. These products include sweet snack bars, Splendid chocolate tablets, Cheetos and Tapuchips, and Yad Mordechai olive oil. The update is at an average rate of 1.4% and includes a maximum increase of up to 6% per individual product. The revised sell-in tariffs took effect on June 4, 2023, and the update covers a small portion of the ongoing price hikes that the Group has absorbed.

Organic sales growth in 2023, excluding the effects of the price increase, was 11.5%.

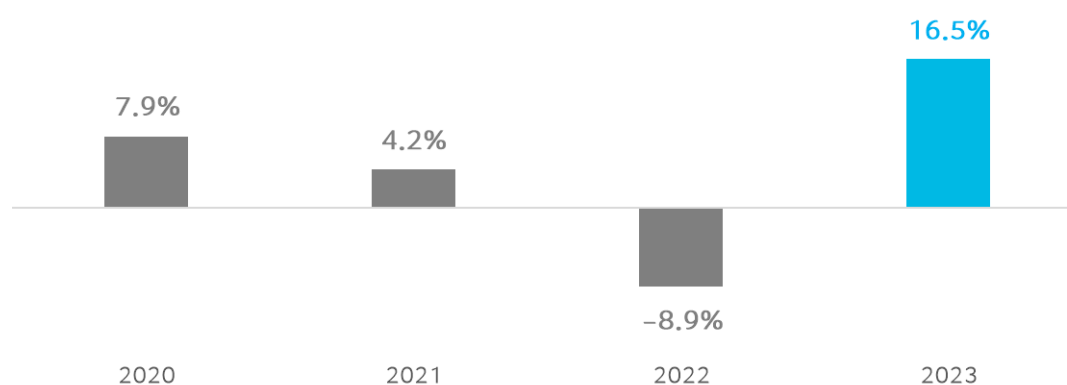
In January 2024, the Company revised the sell-in prices of its products in Israel by approximately 1.7% following the increase in the prices of raw materials, energy, inputs and packaging.

In August 2023, after an eighteen-month pilot, the Group decided to terminate the frozen ready-to-heat meal business, which accounts for amounts that are immaterial to the Group.

Further to a request by the Competition Authority for the disclosure of comprehensive data by companies operating in the Israeli food market, including the Company, under the Promotion of Competition in the Food Sector Law, 2014, and the Company's reply, in May 2023 the Competition Authority and the Company reached an agreement, pursuant to which the Company would pay NIS 785,622 as an agreed financial penalty, with no admission of liability by the Company or a party on its behalf.

For information on a letter received on May 21, 2023 from the Supervisor of Prices and the merger agreement with Wyler Farms Ltd., see section 2.2 above and Note 22.1.5 to the Consolidated Financial Statements as of December 31, 2023.

Organic Sales Growth in the Israel Operation Based on the Management (Non-GAAP) Reports



Following are the condensed results of business operations, based on the management (non-GAAP) reports, of the Israel Operation by activity segment for the years and quarters ended December 31, 2023 and 2022:

Condensed Results of Business Operations – the Israel Operation							
	Year			Fourth Quarter			Explanation
	2023	2022	% change	2023	2022	% change	
Net sales	4,074	3,496	16.5%	1,006	877	14.8%	Sales growth in the full year and fourth quarter of 2023 is largely due to the Fun & Indulgence segment after the recall in the Confectionery Division (for further information, see section 2.2.1 above) and to growth in sales by the Health & Wellness segment thanks to sales volume growth and price increases. The effects of the price increases were 5.1% and 5.6% in the year and quarter, respectively.
Gross profit	1,447	1,029	40.6%	358	271	32.2%	Growth in gross profit and the gross margin is largely due to sales growth in most divisions as well as the impact of the recall in the Confectionery Division last year, and was partially offset by the increase in the prices of materials and negative currency effects.
Gross margin	35.5%	29.4%		35.6%	30.9%		
Operating profit (loss)	382	(22)	1843.2%	103	15	600.4%	Growth in operating profit and the operating margin in the full year and fourth quarter of 2023 is largely due to increased sales and gross profit after the recall last year (for further information, see section 2.2.1 above).
Operating margin	9.4%	(0.6%)		10.3%	1.7%		

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

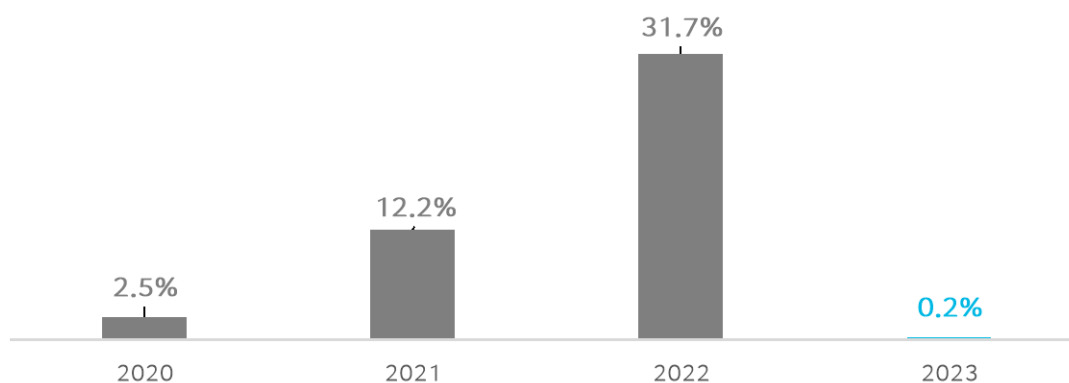
Condensed Results of Business Operations by Segment – the Israel Operation							
	Year			Fourth Quarter			Explanation
	2023	2022	% change	2023	2022	% change	
Health & Wellness							
Net sales	3,066	2,784	10.1%	765	715	6.9%	Sales growth in the full year and fourth quarter of 2023 is largely due to volume growth in most categories, mainly in sales of dairy products and dairy alternatives, and higher selling prices. Growth in operating profit and the operating margin is largely due to sales growth and was offset by higher raw material costs, including the target price of milk, and currency effects on outsourcing.
Operating profit	355	280	26.7%	92	68	35.3%	
Operating margin	11.6%	10.1%		12.1%	9.6%		
Fun & Indulgence							
Net sales	1,008	712	41.6%	241	162	49.3%	Growth in sales and operating profit is the result of the recall in the Confectionery Division last year (for further information, see section 2.2.1 above).
Operating profit (loss)	27	(302)	109.1%	11	(53)	121.1%	
Operating margin	2.7%	(42.5%)		4.7%	(33.1%)		

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

22.2 The Coffee Operation

Following is the development of the Company's net sales and operating profit, based on the management (non-GAAP) reports, in 2020-2023 in the Coffee Operation:

Organic Sales Growth Excluding Foreign Currency Effects



In the past decade, Strauss Coffee has become one of the world's five biggest coffee companies in terms of market share (according to Euromonitor⁶). Strauss Coffee's brands hold leading positions in Israel and Brazil (where it is ranked as the Number 1 company), and have a strong market presence in Romania, Poland and Serbia (where the Company is ranked in second or third place).

Strauss Coffee's flexible approach in providing a locally tailored response to consumer needs and agile supply chain management, combined with expertise in building partnerships and growth through acquisitions in emerging markets, were the key drivers of this growth.

The Group's local business teams build strong local brands, supported by an efficient centralized management structure. This structure includes a green coffee procurement center in Switzerland, as well as activity in Vietnam and Brazil – major green coffee growing regions.

Strauss Coffee also has a global R&D and innovation center in Israel, which focuses on several aspects such as flavor, aroma, freshness, quality and improving production yield, as part of the Group's belief in ensuring sustainable coffee production. Strauss Coffee also has a program in place for supporting local farmers around the world and collaborates with 4C (the Common Code for the Coffee Community), whose aim is to anchor sustainability in green coffee supply chains.

In Brazil (through Três Corações (JV)⁷), Israel, Russia and Eastern European countries, the Group manufactures, markets and distributes a variety of coffee products – roast and ground (R&G) coffee (including filter coffee, roasted coffee beans and coffee capsules), instant coffee (including soluble coffee powder and freeze-dried soluble coffee), hot drink powders (such as chocolate and cappuccino powders) and cocoa powders for baking. The Group also markets and distributes coffee machines for home use in Brazil and in Israel. In addition, the Group markets and distributes coffee machines and coffee products for away-from-home (AFH) consumption at hotels, cafés, offices, etc. Furthermore, in Israel the Group is active (through the Elite Café chain) in sales of coffee products, bakery products and soft drinks to the public at some 64 points of sale. Additionally, as part of its activity in Brazil (through Três Corações (JV)) the Group purchases, processes and sells green coffee, corn products, plant-based dairy alternatives and juice powders.

In the fourth quarter of 2023, the average market price of Arabica green coffee declined by 3% compared to the corresponding period last year, whereas the average market price of Robusta green coffee rose by 15% compared to the corresponding period. After the date of the statement of financial position through to the publication date of this report, the market price of Arabica declined by 2% and the price of Robusta rose by 10%.

In the first quarter of 2023, the prices of various coffee products were raised in Romania, Poland and in the Elite Café Chain, and in June 2023, the prices of soluble coffee, freeze-dried coffee and capsules were raised in Israel with the aim of contending with the increase in green coffee prices. In August 2023, a process of price increases was launched in Russia.

⁶ Excluding mixes, including 100% of Três Corações (JV)'s market share.

⁷ Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% by São Miguel Group. (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

In addition to revising sales prices, Strauss Coffee is taking steps to further mitigate the effects of rising coffee prices by applying the Group's formal hedging policy, mitigation plans and operational efficiency enhancement.

For information on the fighting between Russia and Ukraine, see section 5 above.

On May 23, 2023, the Company announced that Strauss Coffee had signed an agreement for the sale of 100% of its holding in Strauss Adriatic d.o.o. (hereinafter: the "Company in Serbia") to Atlantic Grupa d.d.

On February 29, 2024, approval of the transaction by the Serbian Commission for Protection of Competition was received, and subsequently, on March 1, 2024, the transaction was closed. In accordance with the adjustments determined in the agreement, the consideration for the sale at an amount of EUR 38.8 million, gross, was paid to Strauss Coffee on the closing date. The Company will record a net loss in respect of the closing of the transaction in its consolidated financial statements as of March 31, 2024 at an amount of NIS 25 million, comprising a profit of NIS 65 million from the transaction less a loss of NIS 90 million arising from translation differences attributable to the Company in Serbia.

Following are the condensed results of business operations, based on the management (non-GAAP) reports, of the Coffee Operation by reportable segments for the years ended December 31, 2023 and 2022 (in NIS millions):

Condensed Results of Business Operations – The Coffee Operation				
	Year			Explanation
	2023	2022	% change	
Israel Coffee				
Net sales	793	778	1.8%	Most of the sales growth in the full year of 2023 compared to 2022 is the result of an increase in sales prices and growth in quantities sold. Growth in operating profit and the operating margin is largely the result of an increase in sales prices and an improvement in operating costs.
Operating profit	107	97	10.3%	
Operating margin	13.5%	12.5%		
International Coffee				
Net sales	4,361	4,026	8.3%	The decline in coffee sales in local currency across all regions largely reflects higher discounts granted to customers, and was offset by an increase in sales prices following the rise in green coffee prices. Coffee sales in the full year of 2023 were favorably affected by the weakening of the Shekel against most of the relevant currencies compared to the corresponding period last year, mainly the Brazilian Real and the Polish Zloty. For further information, see Sales by the Coffee Operation by Major Geographical Region in section 22.2.1 below. The decline in operating profit and the operating margin of the International Coffee segment in the full year of 2023 is mainly due to the change in sales and to an increase in selling and marketing expenses.
Operating profit	248	363	(31.8%)	
Operating margin	5.7%	9.0%		
Total Strauss Coffee				
Net sales	5,154	4,804	7.3%	In the full year of 2023, sales by the Coffee Operation grew by NIS 350 million compared to last year. Translation differences into Shekels in 2023 had a favorable effect on sales by the Coffee Operation and amounted to NIS 337 million, of which the positive effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 359 million, and the change in the average exchange rates of the Polish Zloty, the Romanian Leu and the Serbian Dinar accounted for NIS 48 million, NIS 25 million and NIS 18 million, respectively. By contrast, the negative effect of the change in the exchange rate of the Russian Ruble against the Shekel amounted to NIS 113 million.
Organic growth excluding foreign currency effects	0.2%	31.7%		
Gross profit	1,403	1,389	1.1%	The change in gross profit in 2023 is mainly due to an increase in discounts granted to customers in Brazil and an increase in raw material prices in Russia. By contrast, the change in the exchange rate of the Shekel against the average exchange rates of the relevant currencies compared to 2022 had a favorable effect. The decline in the gross margin in 2023 is largely due to an increase in raw material prices.
Gross margin	27.2%	28.9%		
Operating profit	355	460	(22.8%)	The change in operating profit and the operating margin is largely due to the change in gross profit and the gross margin as mentioned, as well as an increase in selling and marketing expenses compared to the corresponding period last year.
Operating margin	6.9%	9.6%		

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

Following are the condensed results of business operations, based on the management (non-GAAP) reports, of the Coffee Operation by reportable segments for the quarters ended December 31, 2023 and 2022 (in NIS millions):

Condensed Results of Business Operations – The Coffee Operation				
	Fourth Quarter			Explanation
	2023	2022	% change	
Israel Coffee				
Net sales	176	183	(4.2%)	The decline in sales in the fourth quarter of 2023 compared to the corresponding period is largely the result of a decline in quantities sold.
Operating profit	24	6	311.1%	Growth in operating profit and the operating margin is largely the result of a decline in Arabica green coffee prices as well as an improvement in operating costs.
Operating margin	13.7%	3.2%		
International Coffee				
Net sales	1,194	1,087	9.9%	The decline in coffee sales in local currency across all regions largely reflects higher discounts granted. By contrast, sales prices increased following the increase in Robusta green coffee prices. Coffee sales in the fourth quarter of 2023 were favorably affected by the weakening of the Shekel against the relevant currencies, mainly the Brazilian Real, compared to the corresponding period last year. For further information, see Sales by the Coffee Operation by Major Geographical Region in section 22.2.1 below.
Operating profit	51	76	(34.0%)	The decline in operating profit and the operating margin of the International Coffee segment in the fourth quarter of 2023 is mainly due to an increase in green coffee prices.
Operating margin	4.2%	7.1%		
Total Strauss Coffee				
Net sales	1,370	1,270	7.9%	In the fourth quarter of 2023, sales by the Coffee Operation grew by NIS 100 million compared to the corresponding period last year.
Organic growth excluding foreign currency effect	(0.3%)	21.3%		Translation differences into Shekels in the fourth quarter of 2023 had a favorable effect on sales by the Coffee Operation and amounted to NIS 104 million, of which the positive effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 113 million, which were partially offset by the negative effect of change in the average exchange rate of the Russian Ruble against the Shekel, amounting to NIS 45 million.
Gross profit	359	343	4.9%	The change in gross profit and the gross margin in the fourth quarter of 2023 is mainly due to an increase in discounts granted to customers in Brazil and Poland, and by contrast, a decline in raw material prices in most countries as well as the favorable effect of changes in the exchange rate of the Shekel versus the average exchange rates of the relevant currencies compared to the corresponding period last year.
Gross margin	26.3%	27.0%		
Operating profit	75	82	(9.4%)	The decline in operating profit and the operating margin is largely due the change in gross profit and the gross margin as described, offset by savings in G&A expenses.
Operating margin	5.5%	6.5%		

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

22.2.1 Sales by the Coffee Operation by Major Geographical Region

Following are sales by the Coffee Operation, based on the management (non-GAAP) reports, in the major geographical regions (not including intercompany transactions), and growth rates for the years ended December 31, 2023 and 2022 (in NIS millions):

Sales by the Coffee Operation in Major Geographical Regions					
Geographical region	Full Year				Explanation
	2023	2022	% change	% change in local currency ⁽¹⁾	
Israel Coffee	793	778	1.8%	1.8%	Most of the sales growth in the full year of 2023 compared to 2022 is due to higher sales prices and an increase in quantities sold.
International Coffee					
Brazil (Três Corações (JV)) ^{(2) (3)} – 50%	2,912	2,660	9.5%	(3.3%)	The decline in Três Corações's sales in local currency is largely due to lower sales prices and higher discounts. The Company's sales in the full year of 2023 were favorably affected by the weakening of the Shekel against the Brazilian Real by NIS 359 million compared to last year. For further information, see section 22.2.2 below.
Russia and Ukraine	684	755	(9.4%)	6.5%	Sales growth in local currency is largely due to an increase in sales prices. The Company's sales in 2023 were adversely affected by NIS 117 million due to currency effects compared to last year.
Poland	362	283	28.0%	9.6%	Sales growth in local currency is due to higher sales prices. The Company's sales in 2023 were favorably affected by the strengthening of the Polish Zloty against the Shekel by NIS 48 million compared to last year.
Romania	234	193	21.2%	7.4%	Sales growth in local currency is largely due to higher sales prices and was partially offset by a decline in quantities sold, mainly to the retail market. The Company's sales in 2023 were favorably affected by the strengthening of Romanian Leu against the Shekel by NIS 25 million compared to last year.
Serbia	169	135	25.3%	10.8%	Most of the sales growth in local currency is due to higher sales prices and growth in sales volumes, mainly to the retail market. Sales in 2023 were favorably affected by the strengthening of the Serbian Dinar against the Shekel by NIS 18 million compared to last year.
Total International Coffee	4,361	4,026	8.3%	(0.0%)	
Total Coffee	5,154	4,804	7.3%	0.2%	

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

(1) The growth rate in local currency neutralizes the effect of changes in exchange rates in the different countries against the Shekel on growth in the countries' sales.

(2) Três Corações – Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% by São Miguel Group. (Data reflect Strauss Coffee's share (50%)).

(3) Três Corações' sales – excluding intercompany transactions between Três Corações Alimentos S.A. and Strauss Coffee.

Following are sales by the Coffee Operation, based on the management (non-GAAP) reports, in the major geographical regions (not including intercompany transactions), and growth rates for the quarters ended December 31, 2023 and 2022 (in NIS millions):

Sales by the Coffee Operation in Major Geographical Regions					
Geographical region	Fourth Quarter				Explanation
	2023	2022	% change	% change in local currency ⁽¹⁾	
Israel Coffee	176	183	(4.2%)	(4.2%)	The decline in sales in the fourth quarter of 2023 compared to the corresponding period last year is largely the result of a decline in quantities sold.
International Coffee					
Brazil (Três Corações (JV)) (2) (3) – 50%	795	699	13.8%	(2.1%)	The decline in Três Corações's sales in local currency is largely due to an increase in customer discounts. The Company's sales in the fourth quarter of 2023 were favorably affected by the weakening of the Shekel against the Brazilian Real by NIS 113 million compared to the same quarter last year. For further information, see section 22.2.2 below.
Russia and Ukraine	183	213	(14.0%)	6.2%	Most of the sales growth in local currency is due to an increase in sales prices. Sales in the fourth quarter of 2023 were adversely affected by NIS 42 million due to currency effects compared to the corresponding period last year.
Poland	103	75	38.4%	12.9%	Most of the increase in local currency sales compared to the corresponding period is due to growth in quantities sold as well as an increase in sales prices, which were offset by higher discounts. Sales in the fourth quarter of 2023 were favorably affected by the strengthening of the Polish Zloty against the Shekel by NIS 17 million compared to the same quarter last year.
Romania	65	59	8.7%	(4.8%)	Most of the decline in local currency sales is due to a decline in quantities sold. Sales in the fourth quarter of 2023 were favorably affected by the strengthening of the Romanian Leu against the Shekel by NIS 8 million compared to last year.
Serbia	48	41	17.9%	2.6%	Most of the sales growth in local currency is due to growth in sales volumes, mainly to the retail market, and was partially offset by an increase in discounts. Sales in the fourth quarter of 2023 were favorably affected by the strengthening of the Serbian Dinar against the Shekel by NIS 6 million compared to the corresponding period last year.
Total International Coffee	1,194	1,087	9.9%	0.3%	
Total Coffee	1,370	1,270	7.9%	(0.3%)	

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

(1) The growth rate in local currency neutralizes the effect of changes in exchange rates in the different countries against the Shekel on growth in the countries' sales.

(2) Três Corações – Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% by São Miguel Group. (Data reflect Strauss Coffee's share (50%)).

(3) Três Corações' sales – excluding intercompany transactions between Três Corações Alimentos S.A. and Strauss Coffee.

22.2.2 Três Corações (JV) (Brazil) – 3C – a joint venture between the Group (50%) and São Miguel Group (50%); (Data reflect Strauss Coffee's share (50%))

In the full year of 2023, Três Corações (JV)'s average value market share in roast and ground (R&G) coffee was 33.8%, compared to 32.9% last year. In the financial statements (GAAP) report, the Group's share of the joint venture is accounted for in the equity method.

Following are selected financial data on Três Corações (JV)'s business, in **BRL millions** (data reflect the Group's holding (50%)):

Selected Financial Data on Três Corações (JV)’s Business							
	Year			Fourth Quarter			Explanation
	2023	2022	% change	2023	2022	% change	
Sales	3,949	4,085	(3.3%)	1,034	1,058	(2.3%)	The decline in sales is largely the result of lower sales prices.
Organic growth excluding currency effects	(3.3%)	50.8%		(2.3%)	33.6%		
Gross profit	860	941	(8.6%)	217	217	0.0%	The decline in gross profit and the gross margin in the full year of 2023 is largely due to the decline in sales, partially offset by a decline in raw material prices.
Gross margin	21.8%	23.0%		21.0%	20.5%		
Operating profit before other income/expenses	157	284	(44.7%)	23	30	(22.0%)	The decline in operating profit and the operating margin is largely the result of the decline in gross profit and the gross margin, and was partially offset by savings in marketing and G&A expenses
Operating margin	4.0%	7.0%		2.2%	2.8%		

Financial data were rounded to BRL millions. Percentages changes were calculated based on the exact figures in BRL thousands.

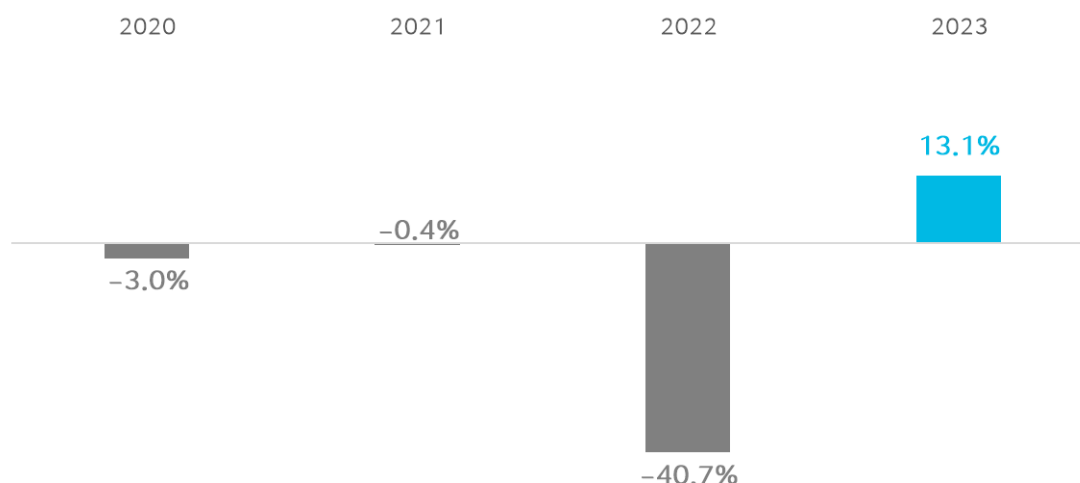
Following are selected data on Três Corações (JV)'s business, in **NIS millions** (data reflect the Group's holding (50%)):

Selected Financial Data on Três Corações (JV)'s Business						
	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Sales	2,920	2,669	9.4%	796	701	13.6%
Gross profit	635	613	3.6%	167	144	16.4%
Operating profit before other income/expenses	115	184	(37.2%)	17	20	(12.1%)

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

22.3 The International Dips & Spreads Activity

Organic Sales Growth Excluding Foreign Currency Effects



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 New Zealand. The operations of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (50/50). In the financial accounting reports, the Group's share of the operations of Sabra and Obela is accounted for in the equity method.

In February 2022, the board of directors of Sabra approved an adjustment plan for Sabra's manufacturing site in Virginia, USA. The plan was approved following the receipt of a warning letter from the FDA, dated December 1, 2021, further to tests carried out by the FDA at the plant in April and May 2021. On April 6, 2022, the Company reported that due to further disruptions in Sabra's manufacturing organization, material delays and changes were expected in the scope and schedules of the adjustment plan at the plant. The disruptions to the adjustment plan caused a prolonged suspension of production in April 2022. In May, the FDA conducted an extensive audit of the plant and retracted the warning letter. In August 2022, the plant resumed production at full capacity, which gradually lead to growth in inventory levels as well as a gradual increase in sales volumes. Nonetheless, sales volumes have not yet returned to their level prior to the decision on the adjustment plan. In 2022, the Company recognized income from indemnity insurance in respect of the recall and shutdown of the Nof Hagalil plant and the shutdown of the Sabra plant, at an aggregate amount of NIS 65 million (according to the Company's stake in Sabra), which was received from the insurance company in cash during 2022 and was not disputed at the time of receipt.

In March 2023, Sabra's insurer filed a motion for declaratory relief with the US court under the argument that the insurance company had overpaid Sabra. In September 2023, a settlement agreement was signed between Sabra and the insurer, following which the Company recognized income of NIS 48 million (the Company's share) from insurance compensation in the third quarter of 2023. For further information, see Note 11.6.2 to the Consolidated Financial Statements as of December 31, 2023.

In light of the foregoing, according to Circana, Sabra's average value market share of the hummus market in the quarter ended December 31, 2023 was approximately 37.1% (Number 1 in the market) compared to 34.4% in the corresponding period last year.

Until February 2023, the Group was also active in Western Europe under the Florentin brand. Following the discontinuation of the business in February 2023, Obela recognized an impairment loss on assets. Consequently, the Company recognized a loss, according to its stake in the investee, at an amount of NIS 23 million, of which NIS 20 million were recognized in 2022. The expense was included in the share of profit of equity-accounted investees line item in the financial accounting (GAAP) income statement. For further information, see Note 11.6.1 to the Consolidated Financial Statements as of December 31, 2023.

22.3.1 Sabra

Following are selected financial data, based on the management (non-GAAP) reports, on Sabra's business (in USD millions, reflecting 50% ownership):

Condensed Results of Business Operations – Sabra							
	Year			Fourth Quarter			Explanation
	2023	2022	% change	2023	2022	% change	
Sales	119	99	20.5%	27	27	0.5%	Sales growth in the full year of 2023 is largely the result of the suspension of operations at the plant at the end of March 2022 and their partial resumption some two months later.
Operating profit (loss) before other expenses	4	(32)	113.9%	(3)	(8)	(67.5%)	Operating profit in 2023 is largely the result of an insurance payout recognized during the year and a decline in manufacturing costs due to the adjustments made at the plant last year, as well as sales growth after the closure of the plant in the corresponding period last year.
Operating margin	4.4%	(31.9%)		(9.1%)	(27.4%)		

Financial data were rounded to USD millions. Percentages changes were calculated based on the exact figures in USD thousands.

Following are selected financial data, based on the management (non-GAAP) reports, on Sabra's business (in NIS millions, reflecting 50% ownership):

Condensed Results of Business Operations – Sabra						
	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Sales	432	328	31.9%	103	94	9.2%
Operating profit (loss) before other expenses	19	(104)	118.30%	(10)	(25)	63.8%
Operating margin	4.4%	(31.9%)		(9.1%)	(27.4%)	

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

22.3.2 Obela

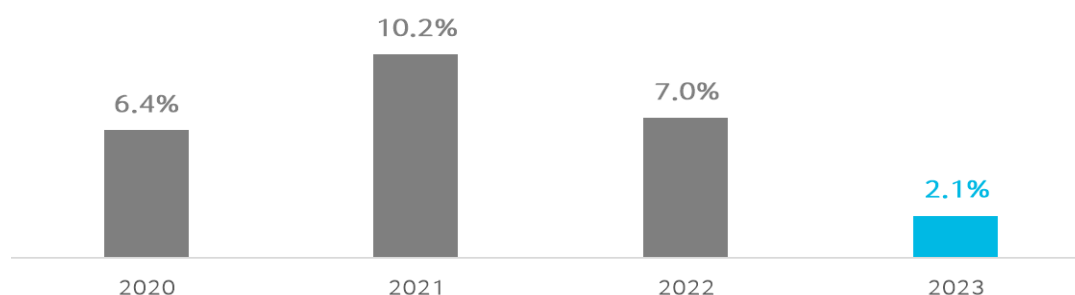
Following are selected financial data, based on the management (non-GAAP) reports, on Obela's business (in NIS millions, reflecting 50% ownership):

Condensed Results of Business Operations – Obela						
	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Sales	81	87	(7.1%)	23	25	(9.6%)
Organic growth excluding foreign currency effects	(14.3%)	7.3%		(18.5%)	10.1%	
Operating profit (loss)	(5)	(7)	29.2%	2	(1)	674.0%

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

22.4 Strauss Water

Organic Sales Growth Excluding Foreign Currency Effects



Through Strauss Water, the Group is active in the drinking water market in the development, assembly, marketing, sale and servicing of POU (point-of-use) systems for the filtration, purification and carbonation of drinking water. Operations are carried out mainly in Israel, and on an immaterial scale in the UK. Strauss Water also has a material investment (49%) in an associate (HSW), which is a joint venture established by Strauss Water and Haier Group of China and is active in the filtration and purification of drinking water in China.

In Israel, filtration, purification and carbonation appliances for drinking water are sold to end customers in combination with a service agreement for consumable components. In the framework of these service agreements Strauss Water provides a warranty and service for the duration of the term of the agreement, and the customer may terminate the transaction at any time (subject to the terms and conditions of the service agreement). Payment for the service is made monthly throughout the term of the agreement. Strauss Water has factoring arrangements with third parties for part of these payments and non-recourse factoring arrangements for the sale and servicing of water bars.

In January 2023, Strauss Water announced the expansion of its business in Britain through a partnership with Culligan Water, which acquired a 49% stake in Strauss Water's business in the UK. The partnership will operate under the Virgin Pure brand with the goal of making safe water solutions available to more communities around the world, realizing growth potential and expanding the product offering to British households. For further information, see section 11.8 in the Description of the Company's Business above.

The information contained in this section regarding the realization of growth potential is forward-looking information as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date, and there can be no certainty as to their materialization.

Following are the condensed results of business operations, based on the management (non-GAAP) reports, of Strauss Water for the years and quarters ended December 31, 2023 and 2022 (in NIS millions):

Condensed Results of Business Operations – Strauss Water							
	Year			Fourth Quarter			Explanation
	2023	2022	% change	2023	2022	% change	
Net sales	805	785	2.6%	192	193	(0.4%)	Most of the sales growth in the full year of 2023 compared to 2022 is due to growth in the customer base and an increase in the sales prices of appliances.
Operating profit	90	97	(7.4%)	24	23	0.7%	The decline in operating profit and the operating margin in 2023 compared to last year is largely the result of an increase in the cost of sales due to raw material costs and a subsidy received in the corresponding period by the associate in China.
Operating margin	11.2%	12.4%		12.1%	12.0%		

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

22.4.1 Results of Haier Strauss Water (HSW)

Following are selected financial data on HSW's business in **RMB millions** (data reflect 100% ownership):

Condensed Results of Business Operations – HSW							
RMB millions	Year			Fourth Quarter			Explanation
	2023	2022	% change	2023	2022	% change	
Sales	1,609	1,445	11.4%	445	426	4.5%	Sales growth in the full year and fourth quarter of 2023 is the result of growth in sales volumes.
Net profit	167	155	7.5%	36	40	(9.9%)	Growth in net profit in 2023 compared to last year is primarily the result of the increase in sales and gross profit, and was offset by a subsidy received last year by the associate in China.

Financial data were rounded to RMB millions. Percentages changes were calculated based on the exact figures.

Following are selected financial data on HSW's business, in **NIS millions** (data reflect 100% ownership):

Condensed Results of Business Operations – HSW						
NIS millions	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Sales	836	721	16.7%	236	209	15.1%
Net profit	87	77	16.9%	20	19	19.0%

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

In December 2022, the board of directors of HSW passed a resolution to establish another production site in China, near the first plant, which is expected to become operational during 2025. The investment, totaling NIS 200 million (the Company's share), is in alignment with HSW's growth and market leadership strategy, which is supported by the establishment of a second plant. In November 2023, the Company made an initial investment of NIS 77 million.

22.5 Other Operations

Since its inception in January 2015 through to the date of this report, the FoodTech incubator project has invested in 27 companies, some of which have completed product development, commenced initial sales and raised further funds. The Company participated in some of these funding rounds, investing sums that are immaterial to the Company. For a list of the companies included in the incubator project and their areas of activity, see section 15 in the Description of the Company's Business in the 2023 Periodic Report. In October 2022, The Kitchen Hub 2.0 launched its activity. For further information, see section 15 in the Description of the Company's Business above. In the fourth quarter of 2023, the incubator project invested in two of the startups, and in total, in 2023 the project invested in eleven startups.

On December 31, 2023, the total value of investments in incubator investees, which are presented in the financial statements according to the equity method, was NIS 103 million (on December 31, 2022: NIS 126 million). The estimated value of these investments on the above date was NIS 531 million (on December 31, 2022: NIS 552 million).

Since the beginning of 2023, a global downtrend has been observed in fundraising by tech companies, negatively impacting the incubator investees' ability to raise capital and their future value. Following the Swords of Iron war, the negative effect on fundraising and on the value of Israeli startups has grown even stronger in light of the economic slowdown in Israel, as reflected in falling prices on the Tel Aviv Stock Exchange, the devaluation of the Shekel against foreign currencies, a rise in corporate bond yields due to the increase in risk levels and uncertainty, foreign investors pulling out of Israel, as well as following the downgrade of Israel's credit rating by Moody's.

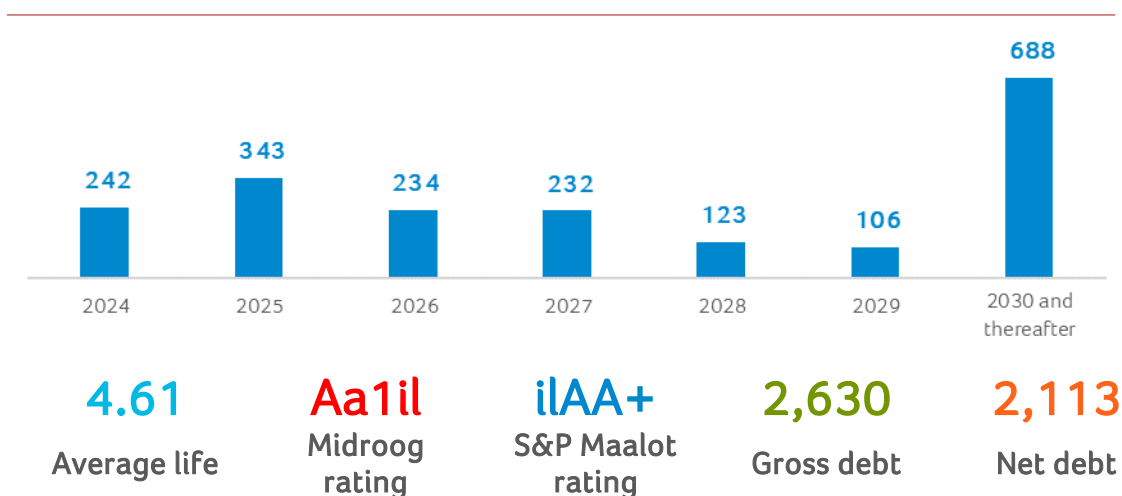
The estimated value of the incubator project's investments in most of the incubator investees is based on the data of last funding rounds executed in 2021-2023 and refers to the date of the last funding round by the investees, the market trend in the period since the date of the round and the ROI on the companies' R&D. Companies in which respect certainty as to their ability to raise funds in the future is low or whose activity was discontinued were zeroed out or valued at their most up to date estimated value proximate to the publication date of the report.

To the best of the Company's knowledge, the cash flows provided by the abovementioned funding rounds are earmarked to serve the incubator investees for the purpose of further investment activity, research and development, sales and marketing, and consequently, in the Company's estimate, in the foreseeable future the Company is expected to record losses on the incubator companies, which could reduce all or part of the gains recognized to date.

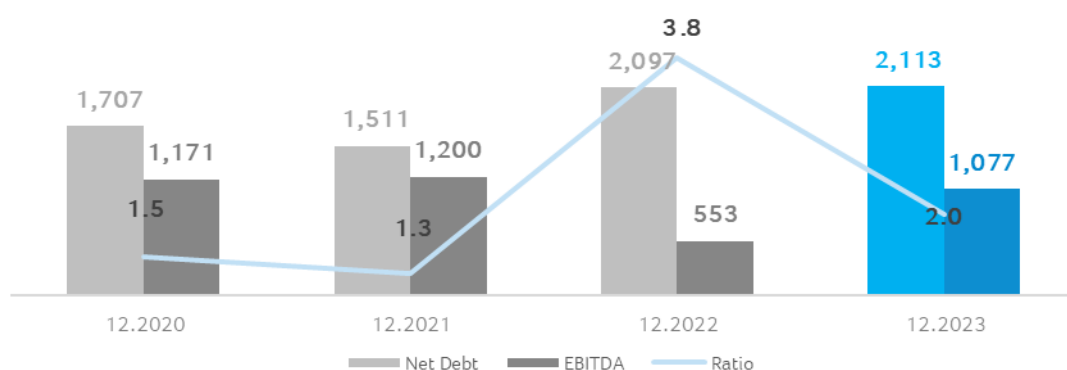
The information contained in this section with respect to the estimated value and expected losses is forward-looking information as this term is defined in the Securities Law, which is based on the Company's estimates regarding the realization of the incubator investees' business plans, which may not materialize or may materialize differently if the actual realization of those business plans differs from the Company's expectations, and also since they are contingent on the environment and market conditions in which the investees operate.

LIQUIDITY, SOURCES OF FINANCE AND FINANCIAL POSITION

Debt Burden



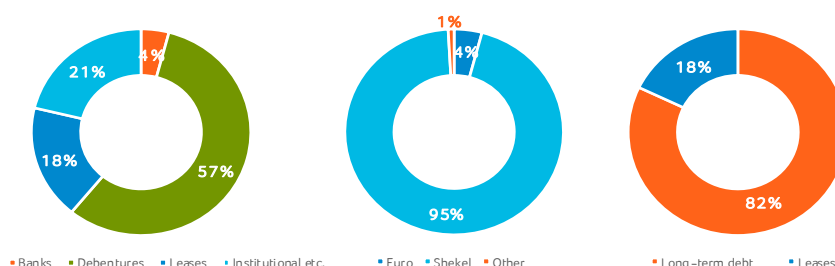
Net Debt-to-EBITDA Ratio



The decline in the financial accounting net debt-to-EBITDA ratio is mainly due to the growth in profit owing to the impacts of the recall in the Confectionery Division in the corresponding period last year (see section 2.2.1 above). On the other hand, debt increased, largely as a result of new lease agreements (for further information, see Note 23.2 to the Consolidated Financial Statements as of December 31, 2023).

The net debt-to-EBITDA ratio as of December 31, 2023 is 2.0, compared to 3.0 on December 31, 2022. The change between the non-GAAP and GAAP measures is the result of the operations of proportionately consolidated investees.

Debt Composition



Financial data are GAAP data in NIS millions. Percentages were calculated based on the exact figures in NIS thousands.

23. Liquidity

23.1 Credit rating

As of the reporting date, the Company's credit rating is iIAA+ with negative outlook in light of the possibility of further repercussions of the recall in the current challenging economic environment (see the Immediate Report of April 3, 2023, reference no. 2023-15-033259).

For the rating of the Company's Debenture Series E, see Note 19.4 to the Consolidated Financial Statements as of December 31, 2023.

The Company's Debenture Series F, which was expanded in January 2023, is rated is iIAA+ with negative outlook by S&P Maalot (see the Immediate Report of January 8, 2023, reference no. 2023-01-004635), and Aa1.il with negative outlook by Midroog (see the Immediate Report of January 8, 2023, reference no. 2023-01-004563).

Cash flows

Following is information on cash flows provided by the Group's operating activities and used in investing and financing activities:

Cash Flows				
	Year			Explanation
	2023	2022	Change	
Cash flows provided by operating activities	686	307	379	Most of the increase is due to positive EBITDA, mainly in light of the recall last year (for further information, see section 2.2.1 above). The increase was offset by a higher negative change in working capital and higher interest payments compared to the corresponding period last year.
Cash flows used in investing activities	(420)	(350)	(70)	The change is largely due to increased investments in fixed and intangible assets. By contrast, the Company recorded income from the sale of real property in Safed.
Cash flows used in financing activities	(271)	(21)	(250)	Most of the change is due to the proceeds and redemption of debentures and repayment of short- and long-term credit in the Reporting Period, offset by a dividend paid in the corresponding period last year.

Financial data were rounded to NIS millions.

23.2 Average credit levels

Following is information on average credit levels:

Average Credit				
	Year			Explanation
	2023	2022	Change	
Long-term credit according to the non-GAAP reports	3,401	2,697	704	The increase in long-term credit in the non-GAAP reports is largely due to the Series F expansion and additional loans taken in the current period, and the impact of translation differences on outstanding debt, mainly in Brazil.
Average short-term credit according to the non-GAAP reports	109	229	(120)	
Long-term credit according to the financial accounting (GAAP) reports	2,778	2,296	482	The increase in long-term credit in the financial accounting (GAAP) reports is largely due to the Series F expansion and additional loans taken in the current period.
Average short-term credit according to the financial accounting (GAAP) reports	26	127	(101)	

Financial data were rounded to NIS millions.

23.3 Status of Liabilities Report according to repayment dates

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

23.4 Net working capital

Following is information on the change in net working capital:

Change in Net Working Capital				
	Year		Fourth Quarter	
	2023	2022	2023	2022
Change in net working capital according to the financial accounting (GAAP) reports	(15)	(22)	266	138
Change in net working capital according to the management (non-GAAP) reports	(61)	(26)	480	325

Financial data were rounded to NIS millions.

23.5 Customer and supplier financing arrangements

From time to time, the Group executes non-recourse factoring transactions in accounts receivable, as well as reverse factoring transactions in supplier credit. For further information, see Notes 8.5 and 16.2 to the Consolidated Financial Statements as of December 31, 2023.

23.6 Additional information on liquidity and operating cash flow

Following is additional financial accounting information regarding the Company's liquidity:

Additional Information		
	December 31, 2023	December 31, 2022
Liquidity ratio	1.02	0.88
Liabilities in respect of long-term loans and credit (including current maturities)	2,630	2,403
Short-term credit (excluding current maturities)	-	211
Supplier credit	1,238	1,186
Ratio of equity attributable to shareholders of the Company to total assets on the consolidated statement of financial position	37.2%	33.5%
Financial debt-to-EBITDA ratio	2.0	3.8
Equity attributable to shareholders of the Company	3,037	2,483

Financial data were rounded to NIS millions.

Following is information on the debenture trustees:

	Debentures E	Debentures E expansion	Debentures F	Debentures F expansion
Trust company	Reznik Paz Nevo Trusts Ltd.			
Name of manager in trust company	Mr. Yossi Reznik			
Email	yossi@rpn.co.il			
Tel.	03-6389200			
Fax	03-6389222			
Address	14 Yad Harutzim Street, Tel Aviv			

As of December 31, 2023, equity attributable to shareholders of the Company was NIS 3,037 million, the financial debt-to-EBITDA ratio according to the financial statements was 2.0, and the equity-to-assets ratio was 37.2%. As of December 31, 2023, the Company is compliant with the required covenants.

Following is the split of non-GAAP EBITDA between the Group's operating segments (in NIS millions):

Distribution of EBITDA Between the Group's Operating Segments						
	Year			Fourth Quarter		
	2023	2022	% change	2023	2022	% change
Strauss Israel	554	141	291.9%	148	57	157%
Strauss Coffee	488	588	(16.9%)	106	117	(10.0%)
International Dips & Spreads	42	(78)	153.5%	(1)	(17)	93.4%
Strauss Water	142	145	(2.1%)	38	35	5%
Other Operations	(34)	(22)	59.0%	(4)	(24)	(83.1%)
Total	1,192	774	54.0%	287	168	69.5%

Financial data were rounded to NIS millions.

24. Disclosure Regarding the Examination of Warning Signs in Respect of a Working Capital Deficiency Under Regulation 10(b)(14)(a)

In the Company's Separate Financial Information ("Solo Report") for the full year of 2023 there is a working capital deficiency of NIS 530 million. There is no working capital deficiency in the Company's Consolidated Financial Statements for 2023. Neither the Consolidated Financial Statements nor the Solo Report reflect an ongoing negative cash flow from operating activities. In the 2023 Solo Report there is a positive cash flow from operating activities of NIS 41 million, compared to a negative cash flow from operating activities of NIS 206 million in the 2022 Solo Report. In view of the working capital deficiency in the Solo Report, on March 25, 2024, the Board of Directors of the Company examined the Company's liquidity as described below and determined that the said working capital deficiency is not indicative of a liquidity issue in the Company. This decision is based on a review, *inter alia*, of the Company's financial results as reported in the Financial Statements of the Company as of December 31, 2023, and is also based on information regarding the Company's projected cash flow for the next two years given the Company's existing and anticipated liabilities, including the Company's liabilities to the holders of its debentures (Series E and F) and to banking corporations and their maturity dates, and on an inspection of existing and anticipated sources for the repayment of those liabilities and the resources arising from the Company's holdings in its major investees, including receipt of dividends, repayment of loans by investees, raising capital from banking corporations and/or other sources if necessary; as well as on the financial strength of the major investees of the Company and their leading competitive position in the markets where they operate. The Board of Directors also reviewed sensitivity analyses of the Company's projected cash flows in the next two years, and asserted that the working capital deficiency is not indicative of a liquidity issue in the Company.

It is emphasized that the abovementioned assessment by the Board of Directors is forward-looking information, as this term is defined in the Securities Law, 1968, which is largely based on the Company's forecasts and on its analysis of its cash flows in the period since the end of the year and its future cash flows, its existing and anticipated liabilities, its existing assets, its expectations as to future profits and dividend distributions by investees, etc. There can be no assurance that these assessments, in whole or in part, will, in fact, materialize, or that they will not materialize in a different form, including materially, than estimated, among other things due to market behavior and the materialization of the risk factors set forth in section 25 in the Description of the Company's Business in the 2023 Periodic Report.

25. Information Regarding Significant Valuations

During the Reporting Period, the Company performed an annual impairment test for cash-generating units to which goodwill and indefinite-lived intangible assets are allocated, as of December 31, 2023. Accordingly, in the Reporting Period, the Company performed valuations to determine the recoverable amount of those cash-generating units.

The recoverable amount of the cash-generating unit Strauss Water Israel, which is based on the unit's value in use, was calculated by discounting future cash flows at a pre-tax discount rate of 13.7%, assuming a long-term growth rate of 2%. No impairment loss was recognized following the test. The carrying value of the valuation subject as of the valuation date is NIS 447 million, and the recoverable amount of the cash-generating unit exceeds the carrying value.

Additionally, the recoverable amount of the cash-generating unit Strauss Health, which is based on the unit's value in use, was calculated by discounting future cash flows at a pre-tax discount rate of 15.5%, assuming a long-term growth rate of 2%. No impairment loss was recognized following the test. The carrying value of the valuation subject as of the valuation date is NIS 564 million, and the recoverable amount of the cash-generating unit exceeds the carrying value.

The valuations of the cash-generating units Strauss Water and Strauss Health were performed by the Company⁸.

The sensitivity of the units to impairment is very low due to a highly substantial difference between the recoverable amount and their carrying amount. Furthermore, the indefinite-lived intangible assets and goodwill are assets that are insignificant in relation to the Company's assets.

⁸ The weighted cost of capital was calculated by an external valuation analyst, Guy Feibish, CPA, a partner in the valuation department at EY Israel and a valuation specialist. Mr. Feibish has a bachelor's degree with distinction in Economics with an Accounting major from Ben-Gurion University of the Negev. He is highly experienced in performing valuations for financial reporting as well as for transactions and/or legal opinions. Mr. Feibish and/or EY Israel are independent of Strauss or any of the Group companies in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. The Company has undertaken to indemnify the valuation analyst for any compensation he may owe to a third party in connection with the opinion, including losses and legal expenses, other than if he acted fraudulently. The valuation analyst's total liability is limited to three times the amount of his fee for rendering the opinion.

Sustainability, CSR, Social Investment and Contributions

The Group's purpose, **"Nourishing a Better Tomorrow"**, serves as a North Star for its work – to leave a positive mark on the world through food, beverages and in other ways, to nourish a better tomorrow where people live longer, live better, live in a society that is inclusive, equal and supportive, in a sustainable environment that will continue to flourish for generations to come. The Group's sustainability focus areas were derived from its values and commitments: to provide better food, better choices, and create a positive, better influence. **Better food:** The commitment to continue to make popular food products and constantly work to improve the Group's products through innovation and technology that will allow for the creation of a sustainable future for all. **Better choices:** The commitment to expand the variety of offerings for more people, so they can make choices based on better options in choosing their place of work, partners or brands, in making decisions that affect the environment, society and profits. **Better influence:** The commitment, through the Group's business, to create a positive and more meaningful influence on communities and the environment, and to integrate, across the organization, a more conscious, deeper and broader perception of business success that is purpose-driven and oriented to the expectations of all stakeholders.

2030 Sustainability Strategy

Strauss Group has continued to further and to implement the Group's sustainability strategy. The sustainability strategy is part of the of the Group's business strategy and a key dimension in the transformation that the Group aspires to achieve. In 2023, an in-house forum of sustainability leaders was formed, encompassing all business units, and work plans were crafted accordingly, in alignment with the Group's goals and focus areas.

In 2023, following an 18-month process and large-scale financial investments, an ESG management system was launched. The dedicated system will help to improve data collection and management capabilities, improve consistency and facilitate progress on the way to achieving the Group's objectives.

Strauss Group publishes an annual sustainability report on a dedicated website, which provides greater detail on the aspects presented below and is available at <https://sustainability.strauss-group.com>. The report is written according to the GRI Standard – the global standards for sustainability reporting, and in the spirit of the SASB Standards, TCFD framework and UNGC principles. An external audit is performed by a third party according to ISAE 300 standards. The Group's international and local ESG scores measuring its performance have continued to improve. Rating companies include Sustainalytics, Bloomberg, MSCI, FTSE4Good, Maala – Business for Social Responsibility, Greeneye, and Bloomberg's Gender-Equality Index.

For more information on ESG risks and climate risks, see section 25 in the Description of the Company's Business.

Noteworthy highlights in 2023

Nutrition and a healthy lifestyle

Better food and delivering a variety of options for a healthier diet are the foundation for our existence. In the context of achieving nutrition targets in Israel, an in-house forum was established to further our

objectives in this sphere, comprising product development managers and marketing people to implement nutrition objectives and deepen involvement and accountability. The forum is devising up-to-date nutrition objectives together with the team of dietitians. In addition to addressing and improving the product offering, diverse products were launched in alignment with the nutritional improvement objectives Strauss has set:

The **measured portion objective** included expansion of the offering of sweet and savory mini-snack packs.

Sugar reduction target. The sugar-free Multi yogurt line was expanded into beverages, the sugar-free Danone Pro series was enlarged and a sugar-free Yotvata Pro drink was launched as well as a low-carb protein bar.

To further the **enabling product target**, a nutritional response for the Third Age was developed via the Multi brand, and vegan salads with a mayonnaise substitute were also launched. Additionally, the Group is committed to responsible nutritional content and is creating and promoting professional nutritional content on the various platforms, encouraging good nutrition for the Third Age (Multi), children (Gamadim), and the physically active (Pro). In early 2024, a protein snack bar was launched for the latter group as part of the Pro product line, with a high protein content and virtually no sugar. The protein bars support the ability of people who engage in physical activity to consume the product anywhere, anytime.

Managing environmental impacts

The Group continues to pursue its business operations while managing environmental impacts in spheres such as energy consumption, water consumption, wastewater, waste, greenhouse gas emissions and addressing climate change. To achieve the Group's target of 100% consumption of renewable energy by 2030, the Group is a co-founder of the "Electricity 100" project for the advancement of the subject among its suppliers. Strauss is in the process of maximizing electricity generation by installing solar panels at its sites around the world. Today, more than 12% of energy consumption in Israel is solar powered at the Group's sites.

As part of the Group's goal to achieve an absolute reduction in landfill waste, the Company is investing in actions that support this effort. In 2023, an innovative pilot was launched in the dairy for the treatment of solid waste that has the potential to reduce waste by 150 tons per year. In 2023, Strauss Water signed an agreement with M.A.I. – Israel Electronics Recycling Corporation Ltd. for the transfer of end-of-life water bars to a customized recycling facility.

Managing social impact

In 2023, Strauss focused its social impact on three areas: (1) advancement of sustainable food systems, (2) promotion of equal opportunity on the path to employment, and (3) emergency response.

This year, donations by Strauss were valued at NIS 17.5 million, including more than 4.4 million products. Strauss's donations supported 74 organizations and nonprofits, and the Company partnered in and initiated 25 community impact projects.

In the context of supporting the advancement of sustainable food systems, Strauss worked to **promote a healthy lifestyle and balanced diet**. Two dedicated projects were implemented for the advancement

of the subject in the Arab community, one in collaboration with AJECC – The Negev Institute, where Strauss operated a project among 5,700 members of the Bedouin community in the Negev; and another with the Ashuja'an association, in which the Group promoted informational workshops for the prevention of diabetes for 60,000 Arab teens. Today, diabetes is 3 times more prevalent in the Arab community compared to the general Jewish population⁹.

In addition, Strauss continued to support the advancement of food security in Israel, and donated 55,000 holiday meals to families and individuals throughout the year. In 2022, the scale of food loss in Israel was 37% of food production in Israel; the value of food waste and food loss in Israel was NIS 23.1 billion, while 1.4 million Israelis live in food insecurity¹⁰. The Group took action to promote awareness of reducing food waste. In partnership with the Robin Hood Israel Foundation, the Company held a public event at the Food Waste Reduction Week in which chefs, 300 influencers and the general public participated, and together with the Food Rescuers organization, a system for the advancement of food rescue was established in suburbs through local schools and communities.

Strauss Group continues to broaden its activities for the advancement of **equal opportunity on the path to employment**. In the spirit of the Group's mission and purpose, diversity, equality and inclusion are implemented at Strauss both as organizational values and a business concept. It is a way of life for the Company and is integrated into the strategy, daily interactions and business operations. To raise awareness and provide tools for inclusive management, the Group held inclusive leadership workshops for managers around the world. Strauss's key community project in this arena was the second year of the Qudwati ("my role model" in Arabic) project, in collaboration with the Amanina organization, designed to further employment opportunities for Arab youth through exposure to diverse role models. In 2023, over 2,000 teens participated in the project. The Group also launched a second cycle of the **Leap – Entelaka** program for the encouragement of high-quality employment for university graduates in the Arab community in collaboration with Co-Impact, Kav Mashve and the Rothschild Foundation, in which Strauss employed 11 students half-time in their final year of study in a variety of disciplines (technology, engineering, finance, procurement, HR, IT). The students also participated in a group program to enhance their work skills. This year, Strauss held an Iftar fast-breaking meal for Muslim employees, hosted by the Group CEO. Strauss continues to celebrate and mark the various festivals of the different religions and ethnic communities among its employees by holding events, sharing stories and traditions.

Strauss also persevered in its activities for the advancement of gender equality and women in leadership hubs. To support women's management and diversity, a new program was launched, Sales Talk, a mentoring program for women from the Arab community working in the shelf-stocking unit to strengthen their Hebrew language skills, in which they talked once a week for 3 months with a woman mentor from the Sales Division. The external program, Womentoring, was also held, led by the CEO of Strauss Water together with senior women managers from the Arab community representing different sectors countrywide.

⁹ Abdel-Rahman, N., & Laron, M. (2023). *Obesity and Diabetes among the Arab Population in Israel: Prevalence, Lifestyle and Usage of Healthcare Services*. RR-295-23. Myers-JDC-Brookdate Institute. (Hebrew)

¹⁰ BDO (2023) *Food Loss and Food Rescue in Israel: Economic, Social, Environmental and Health Aspects*. Leket Israel, Ministry of Environmental Protection, Ministry of Health.

On International Women's Day, the Company held a cross-organizational get-together in Israel, and another for all global units at which the Company's perspective was presented and reinforced, accompanied by data and inspirational stories. Interactive activities were also held at all Company sites, in which employees of all genders undertook a commitment to the advancement of gender equality. Strauss is proud of its strong partnership with the nonprofit Shavot, whose goal is to promote young female leadership. Activities included leadership groups with the participation of teenage girls in Nahariya and Acre, accompanied by female Company employees. In addition, in conversations and meetings throughout the year, 150 women managers from Strauss met with 2,300 teenagers to raise awareness of the topic. On International Women's Day, young girls accompanied managers, including the Group CEO and Chairperson, on a day at work. Strauss also maintained its long-standing partnership with Unistream to promote innovative entrepreneurial thinking among youth from Israel's periphery, and Company employees volunteered at Unistream's Youth Centers in three cities – Acre, Or Yehuda and Eilat.

In addition to the activities described above, Strauss promotes social issues through its brands. The Achla culinary center, in collaboration with the Yozmot Atid organization, held four cycles of a course to encourage women in Israel's periphery to open culinary businesses. The Strauss Plus consumer app enabled customers to donate points, which were converted into cash donations, for disadvantaged families and lone soldiers. Café Elite launched a new social purpose, Feel Less Lonely, and held activities with lone soldiers as well as shared cooking sessions with the elderly. The Pesek Z'man chocolate bar was launched in a pink wrapper with a QR code in a project to raise awareness and get screened for breast cancer. On International Women's Day, a special edition of Café Elite capsules was launched containing coffee from Strauss Coffee's More Than a Cup project, which aims to strengthen women coffee farmer in communities around the world. The proceeds from the sale of the capsules were used to promote women's entrepreneurship in collaboration with the Jasmine organization. To increase awareness of the disappearance of bees, the Yad Mordechai brand launched the children's book "Salt & Water" to acquaint children with the importance of bees. Further information on other projects and local activities by the units is available in Strauss's Sustainability Report, in the section "Social Impact".

Activities in a state of emergency and support of the war effort in Israel

The third focus area of Strauss's activity this year is assistance in emergencies. 2023 was an especially complex year. In Operation Shield and Arrow in May 2023, Strauss supported the civilian rescue forces and families in the war zones by donating products. Strauss also sent aid to the victims of the earthquake in Turkey, including its suppliers, and contributed to the purchase of hygiene kits and product donations.

When the war broke out with the attack on the Gaza Envelope communities on October 7, Strauss Management allocated a dedicated budget to support the residents, the security forces and rescue services.

Within the Company, placing emphasis on people and business continuity, the Company focused on strengthening and supporting its people, as well as on maintaining social cohesion within diverse teams. Strauss managed a tight database of exceptional cases and employee needs, including employees who were evacuated, those whose homes were destroyed, and those whose relatives were missing, injured or murdered. These employees were offered support and assistance in finding accommodations, and 70 residential units were made available. The Company also helped essential employees with rent. Dedicated events were organized, including an event for 150 families who were evacuated to Eilat, and

financial assistance was provided. A manual was issued for managers, numerous workshops were held for unit management teams to discuss the complexities of diverse teams and the right way to behave, and a meeting was held with the Arab community forum to hear their feelings and needs. In parallel, a plan was built for frontline employees for their encouragement and return to work, and assistance and emotional support were offered by the professional call centers operated by Matan Meitar EAP (Employee Assistance Programs) and the nonprofit, A.S.H.R Diagnosis and Rehabilitation. The Group also provided various forms of assistance to retirees, including, in certain cases, food donations.

When the fighting began, two key target population groups were mapped for immediate assistance – the evacuated families and the security forces and rescue services. After defining needs and aided by social organizations, Strauss made donations to dozens of communities and military units to provide a foundation for initial organization efforts. Over the next few weeks, with the help of hundreds of Company volunteers, a packing and distribution network was established, sending some 23,000 “comfort parcels” of Strauss products to the hundreds of thousands of evacuees all over the country. Additionally, more than 200 water bars and 4,000 reusable bottles were donated. To benefit the nutrition and boost the morale of volunteer reservists, Strauss donated more than 800 generous parcels to different reserve units, reaching some 250,000 soldiers. Furthermore, in support of Company employees on reserves or those whose spouses had volunteered or been called up to reserves, Strauss sent 600 gift packs to their homes. The Company also gave cash vouchers to those reservists who, as this report is being written, are still on active duty or whose service was especially long. As the war continued, reservists who were discharged and returned to work were given leave days at the Company’s expense to allow them to rest before getting back into routine.

In addition, Strauss initiated activity in the field, with dedicated mobile units working to encourage and hearten people. The units reached 60 locations, bringing joy to 25,000 evacuees and soldiers countrywide with performances, activities, Strauss products and more.

To support restoration efforts and rebuild economic and social robustness in the Western Negev, Strauss initiated a project, including an aid fund, with Leket Israel to support the return of farmers to their fields and help them replant and operate one of the key economic sectors in the region. A steering committee was established, headed by former Minister of Agriculture Ms. Orit Noked, and criteria for assistance were defined. A public appeal is presently being planned with the goal of mapping farmer needs in spheres where government budgets are unable to provide a response, the intention being to provide support in the course of 2024. As part of the fund’s activities, the Company distributed vouchers for the purchase of Strauss products to 530 farmers in the Western Negev, and grants of thousands of shekels were awarded to farmers who are Strauss suppliers and were harmed by the October 7 attack and the war.

In addition to the above, Company employees donated 1,000 volunteer hours, working in the fields and helping farmers. Further information is available in the Company’s Sustainability Report.

Below is an itemization of donations by the Company, 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 donation in NIS	Nature of the relationship between the recipient and the Company, a director, general manager, controlling shareholder or a controlling shareholder's relative
Friends of Zahal (IDF) Disabled Veterans Organization (ZDVO)	101,263	Adi Strauss, member of the Board of Directors (since 2020, chairman of the organization)

ASPECTS OF CORPORATE GOVERNANCE

26. The Board of Directors and Its Committees

On January 4, 2023, the Company announced the termination of office of three directors: Meir Shanie, Ronit Haimovitch and Prof. Joshua (Shuki) Shemer.

On the publication date of the report, the Board of Directors comprises eight members who possess different backgrounds and areas of expertise, including three external directors. The Company has not adopted a provision in its Articles of Association regarding the percentage of independent directors.

Apart from Ms. Ofra Strauss, who is the active Chairperson of the Board, the directors do not fill other positions in the Company and are not employed by the Company.

The Board has six standing committees which are active on a regular basis: the Audit Committee, the Financial Statements Review Committee, the Remuneration Committee, the Finance and Investment Committee, the Human Resources, Nominating and Corporate Governance Committee, and the Risk Management Committee.

26.1 Directors with accounting and financial skills

In the opinion of Board of Directors, the directors Galia Maor, Dalia Narkys, Dorit Salinger, Dalia Lev and Tzipi Ozer-Armon possess accounting and financial skills.

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 satisfy its obligations according to 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 information by reason of which they are considered directors with accounting and financial skills are set forth in Regulation 26 in the chapter Additional Information on the Company as of December 31, 2023.

27. Risk Management

The Group's risk management policy is based on the Enterprise Risk Management (ERM) methodology. The risk management process is an integral part of corporate governance, aligned with the Group's strategy and core values. Responsibility for risk management is based on the Three Lines of Defense model, which defines the business units and HQ units as the first line of defense, the compliance and risk management function as the second line of defense, and the internal audit as the third line of defense.

Strauss Group's risk management routines include the mapping and assessment of risk scenarios, monitoring risk metrics, and mitigation plans (performed on an ongoing basis). Mitigation plans are built in line with the Group's risk appetite. Each year, the Group executes a risk scenario mapping process, in which the risks in the various units are identified. The mapping process is based on an analysis of internal

and external factors. Each risk is assigned a Key Risk Indicator (KRI) that serves for continuous monitoring to alert to changes in trends or deviations from expected performance. After the mapping phase, the Company assesses the risk level and defines the manner in which the risk will be handled. The risk level is determined taking into consideration the degree of impact and the degree of probability that the risk will materialize. A mitigation plan is formulated for each risk identified in the risk management process, according to the risk appetite defined by Group Management.

As part of the risk management process, the business units and HQ units (the first line) analyze and assess the risks and determine actions for their mitigation. The unit management teams are responsible for these actions, with the assurance of the compliance and risk management team (the second line). Group Management is responsible for defining the risk appetite, for performing risk assessment, and for approving the mitigation plans on the overall Group level. Management is also responsible for managing and strengthening the Group's risk management culture, and for assuring that the compliance and risk management function has the necessary resources to perform its duties.

The Group's routine reports, including reports on the development of risks and actions for their mitigation, are discussed quarterly by Group Management and are furnished to the Risk Management Committee, and to the Board of Directors on a yearly basis. The Audit Committee also receives periodic reports for purposes of oversight and assessment of subjects associated with risk management in the Group.

For further information, see section 16 in the Description of the Company's Business as of December 31, 2023.

28. Information on the Internal Auditor of the Company

Internal Auditor of the Company: Mr. Gil Ber, CPA and Certified Internal Auditor (CIA, CRISC, QAR, CDPSE) (hereinafter: the "**Auditor**") is the Group's Chief Internal Auditor since November 1, 2023. Until said date, Ms. Linur Dloomy, CPA, CIA, served as the Group's Internal Auditor (hereinafter: the "**Outgoing Auditor**"). Mr. Ber is a full-time Company employee. For further information on the Outgoing Auditor, see section 29 in the Board of Directors' Report in the Periodic Report for 2022 (reference no. 2023-01-026566).

The audit team: The Outgoing Auditor and the Company Auditor perform the audits through a team of advisors from Deloitte Israel and other experts as needed. The audit team possesses experience and undergoes relevant training for the performance of the audit.

To the best of the Company's knowledge and as it was informed, the Auditor does not hold securities of the Company or of an entity related to the Company, and during her term of office, the Outgoing Auditor did not hold securities of the Company or of an entity related to the Company. Furthermore, to the best of the Company's knowledge and as it was informed, the Auditor and the Outgoing Auditor, and the team from her firm that performed the audit in the Reporting Year and continues to work with the Auditor, have no material business relations or other material relations with the Group or with an entity related to the Group. Notwithstanding the foregoing, it is noted that Deloitte Israel provides consulting services to the Group in various spheres, which in Deloitte's opinion did compromise the objectivity of the audit. To the best of the Group's knowledge and as it was informed, the Auditor – and the Outgoing Auditor

during her term of office – satisfy the conditions set forth in sections 3(a) and 8 of the Internal Audit Law, 1992 (the “**Internal Audit Law**”) and the provisions of section 146(b) of the Companies Law.

Manner of appointment: The Auditor was appointed by the Board of Directors on August 18, 2023, further to the recommendation of the Audit Committee received on August 13, 2023, noting the Auditor’s professional qualifications, his considerable experience in internal auditing and his knowledge of Strauss Group’s business field.

Completion of the Outgoing Auditor’s tenure: The Outgoing Auditor completed her tenure on the date on which the Auditor assumed office, according to the resolution of the Audit Committee and the Board of Directors to appoint an internal auditor as a full-time Company employee.

The Auditor’s supervisor in the Company: The Chairperson of the Board of Directors.

The work plan: The internal audit’s work plan is an annual plan that is risk-focused and aligned with changes in the Group’s business activity, and includes the activity of Group Headquarters and the subsidiaries operating in Israel and abroad. The work plan is based on an assessment of the risks in the Group’s business and is defined, *inter alia*, according to the following considerations: analysis of the organizational structure and coverage of the major businesses, risk areas that were identified and their risk level, emerging risks, global audit trends, as well as audit cyclicity and performance of a follow-up of the implementation of recommendations. The work plan is crafted and implemented in consultation with the Chairperson of the Board of Directors, the members of the Audit Committee, the Group CEO, the members of Management and the Company Auditor, and is forwarded for inspection and approval by the Audit Committee and the Board of Directors.

The internal audit work plan includes an examination of the processes of approving material transactions, giving overall consideration to the risks.

Audits abroad or audits of investee companies: The audit plan encompasses all companies in Strauss Group. In Três Corações (JV), which is active in Brazil, most of the internal audit work is performed by a local internal auditor directly employed by the company. In Haier Strauss Water, which is active in China, the audit is performed by Haier’s internal auditor. In companies where the internal audit is not performed by the Auditor, the Auditor reviews the fairness of the internal audit. In Sabra, which is active in the US, the internal audit is performed alternately each year by the Auditor and by PepsiCo’s internal auditor.

Scope of engagement: Following is an itemization of work hours devoted to the internal audit in 2023:

	Number of hours in 2023
The Group (business in Israel)	9,559
Três Corações (JV) (business outside Israel)	15,000
Sabra and Haier Strauss Water (business outside Israel)	600

Performing the audit: The internal audit is performed according to the accepted professional standards for internal audits in Israel and globally, professional guidelines and briefings, as approved and published by the International Institute of Internal Auditors (IIA). Based on the notice furnished by the Outgoing Auditor and the Auditor, the Board of Directors and the Audit Committee, which approve the audit work plan and its actual performance, are of the opinion that the internal audit satisfies the requirements defined in the professional standards.

Access to information: The Auditor and the Outgoing Auditor are granted free, continuous and direct access to the information systems of the corporation, including financial and other information, both in Israel and abroad.

Auditor's report: The Auditor's reports are submitted in writing on a regular basis throughout the year. The reports are submitted to the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the members of the Audit Committee, the Group CEO, the CEOs of the investees and the managers of the audited businesses, and are discussed at meetings of the Audit Committee. In 2023, seven meetings of the Audit Committee were held (not including the audit committees of Três Corações (JV) and of Sabra). The meetings take place on a regular basis throughout the year. Furthermore, the Auditor holds regular 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 work: In the opinion of the Board of Directors, the scope of the internal audit, the continuity of its performance and the internal audit work plan are adequate and able to accomplish the purposes of internal audits in the Group. The Audit Committee, in conjunction with Group Management and the Auditor, examines the adequacy of the scope of the Group's internal audit on an annual basis.

Compensation: The total cost of internal audit services paid to the Outgoing Auditor and the audit team from Deloitte for 2023 amounted to NIS 2,600 thousand. The cost of the new Auditor's employment, who, as mentioned, assumed office in November 2023, is NIS 228 thousand.

29. Auditors' Fees

Following is information on the fees paid to the auditors of the Company and the material companies in the Group:

Auditors' Fees - 2023				
For the Year Ended December 31, 2023				
Company	Auditor	Audit-related services and tax services	Other services	Total
		NIS '000	NIS '000	NIS '000
Strauss Group and investee companies	KPMG (Israel)	3,325	557	3,882
Sabra Dipping Company LLC (100%)	Mazars	959	-	959
Três Corações Alimentos S.A. (100%)	KPMG Brazil	542	84	626
Strauss Coffee B.V.	KPMG (Israel; Meijburg, Netherlands)	2,752	-	2,752
Strauss Russia LLC	KEPT	439	-	439

Auditors' Fees - 2022

For the Year Ended December 31, 2022				
Company	Auditor	Audit-related services and tax services	Other services	Total
		NIS '000	NIS '000	NIS '000
Strauss Group and investee companies	KPMG (Israel)	2,986	696	3,682
Sabra Dipping Company LLC (100%)	KPMG USA	1,041	-	1,041
Três Corações Alimentos S.A. (100%)	KPMG Brazil	471	73	544
Strauss Coffee B.V.	KPMG (Israel; Meijburg, Netherlands)	2,890	-	2,890
Strauss Russia LLC	KEPT	467	-	467

The Company receives audit services together with other investees, the main ones being Yad Mordechai Strauss Apiary Ltd., Strauss Frito-Lay Ltd. (100%) and Strauss Water Israel Ltd., as well as the Strauss Health & Wellness Group, including Yotvata Dairies.

The mechanism for determining the Company Auditor's fees is defined according to the nature of the services rendered: fees for auditing and review services are determined as a fixed comprehensive 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 those companies.

30. Effectiveness of Internal Control

See the attached report for information on the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 9b.

31. Events After the Reporting Period

For a review of events occurring after the date of the statement of financial position, see Note 36 to the Consolidated Financial Statements as of December 31, 2023.

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

Ofra Strauss
Chairperson of the Board

Shai Babad
Chief Executive Officer

March 25, 2024



Strauss Group Ltd.

Financial Statements as of December 31, 2023



Unofficial Translation from Hebrew

Strauss Group Ltd.



Consolidated Financial Statements as of December 31, 2023

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Unofficial translation of the Hebrew version, the Hebrew version is the binding version

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, 2023 and 2022, 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, 2023. 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 have not audited the financial statements of consolidated companies, whose assets as included in the consolidation constitute 4.3% and 3.1% of total consolidated assets as of December 31, 2023 and 2022, respectively, and whose income as included in the consolidation constitutes 7.8% and 9.6% of total consolidated income for the years ended December 31, 2023 and 2022, respectively. The financial statements of those companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it pertains to the amounts which were 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, 2023 and 2022, 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, 2023, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

Key Audit Matters ("KAM")

Key audit matters are matters that were communicated, or were required to be communicated, to the board of directors of the Company and which, according to our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters include, inter alia, any matter that (1) relates, or may relate, to material sections or disclosures in the financial statements, and that (2) our judgment in their respect was challenging, subjective or particularly complex. These matters were addressed in our audit and in the formulation of our opinion of the overall consolidated financial statements. The communication of these matters below does not alter our opinion on the overall consolidated financial statements, and we do not render thereby a separate opinion on those matters or on the sections or disclosures to which they refer.



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Uncertain Tax Positions

Why this was defined a KAM

The Company and its subsidiaries (hereinafter: the "Group") are a global group whose business is conducted through companies that operate in a variety of geographical regions and are assessed for tax purposes in a large number of jurisdictions. The tax laws and regulations in each jurisdiction are open to different interpretations by the assesseees and the tax authorities and require significant judgment in their interpretation.

The Group has transactions and tax positions, where determining the final tax assessment in their respect is uncertain in the ordinary course of business as described in Note 4, Critical Accounting Policies and Management's Judgments, and in Note 33.6 in the financial statements. A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the Group will be required to use its resources to settle the liability.

Accordingly, a review of the assessment of Group management's interpretations of the tax laws, the assessment of the potential outcomes of the tax audits and the need for the recording and measurement of the liability for uncertain tax positions, was identified as a key audit matter.

The Response Provided to the KAM in the Audit

Following are the main procedures that were implemented:

1. We obtained an understanding of the process of determining tax consequences in respect of uncertain positions, evaluated the design and implementation of controls related to recording tax liabilities in respect of uncertain tax positions in the financial statements of the Group, and tested their effectiveness.
2. We conducted a retrospective review of uncertain tax positions adopted by the Group in the past in relation to tax assessment procedures, and a quantification of the differences in tax expenses.
3. We examined the validity and significance of the main assumptions with respect to the provisions made, we availed ourselves of tax experts engaged on our behalf who examined the significant judgments and the key assumptions applied by the Company.
4. Part of the audit procedures with respect to this KAM were conducted by other auditors.

Impairment of Goodwill or Intangible Assets with an Indefinite Life

Why this was defined a KAM

In accordance with the guidelines of IAS 36, Impairment of Assets, and as described in Note 4, Critical Accounting Policies and Management's Judgments, the Group assesses the recoverable amount of each cash-generating unit that contains goodwill or indefinite-lived intangible assets once a year on a fixed date, or more frequently if there are indications of impairment of these assets.

As stated in Note 14.3 to the financial statements, the Group has a goodwill balance of NIS 487 million and indefinite-lived intangible assets of NIS 230 million, which constitute approximately 9% of total assets and 24% of equity attributable to shareholders.



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Impairment tests themselves are essentially subjective and require the use of significant estimates and assumptions that involve uncertainty or are based on observable and unobservable inputs. Any change in those estimates or assumptions is likely to have a material impact on the financial statements of the Group.

The Group is assisted by independent valuation analysts in determining the recoverable amount of the abovementioned cash-generating units. Accordingly, testing for goodwill or indefinite-lived intangible asset impairment was identified as a KAM in the audit.

The Response Provided to the KAM in the Audit

Following are the main procedures that were implemented:

1. We obtained an understanding of the process of testing for impairment of intangible assets, particularly goodwill and indefinite-lived intangible assets, evaluated the design and implementation of controls related to the matter in the Group's financial statements and tested their effectiveness. We interviewed the key people in the Group who are responsible for the matter to gain an understanding of changes in the macroeconomic environment in which the cash-generating unit operates.
2. We conducted a retrospective review of the cash flow forecasts in the impairment testing work that was done in the past in relation to actual outcomes and examined the deviations in their respect.
3. We examined the integrity of the data and facts included in the valuation model, as well as their reasonableness.
4. We availed ourselves of valuation specialists engaged on our behalf, who assisted us in testing the calculation methodology, the reasonableness of the discount rate and long-term growth rate that were applied, and we tested the reasonableness of the significant assumptions that served the Company in the projected cash flow.
5. We performed a sensitivity analysis on the results of the model with respect to the main assumptions, such as long-term growth rate, energy costs and WACC.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2023, and our report dated March 25, 2024 included an unqualified opinion on the effective maintenance of those components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 25, 2024


Consolidated Statements of Financial Position

	Note	December 31	
		2023	2022
		NIS millions	
Current assets			
Cash and cash equivalents	7	517	517
Trade receivables	8	1,003	949
Income tax	33	14	18
Other receivables and debit balances	9	173	169
Inventory	10	830	814
Assets held for sale	15	2	11
Total current assets		2,539	2,478
Investments and non-current assets			
Investment in equity-accounted investees	11	1,753	1,514
Other investments and long-term receivables	12	178	151
Fixed assets	13	2,159	1,960
Right-of-use assets	23	458	326
Intangible assets	14	1,034	948
Investment property	15	5	3
Deferred tax assets	33	44	32
Total investments and non-current assets		5,631	4,934
Total assets		8,170	7,412

Ofra Strauss
Chairperson of the Board of
Directors

Shai Babad
Chief Executive Officer

Ariel Chetrit
Chief Financial Officer

Date of approval of the financial statements: March 25, 2024

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


Consolidated Statements of Financial Position

	Note	December 31	
		2023	2022
		NIS millions	
Current liabilities			
Current maturities of debentures	19	174	30
Short-term credit and current maturities of long-term loans and other long-term liabilities	19	215	759
Current maturities of lease liabilities	19	103	85
Trade payables	16	1,238	1,186
Income tax	33	126	107
Other payables and credit balances	17	608	608
Provisions	18	33	31
Total current liabilities		2,497	2,806
Non-current liabilities			
Debentures	19	1,320	1,174
Long-term loans and other long-term liabilities	19	451	314
Lease liabilities	19	367	252
Long-term payables and credit balances		37	11
Employee benefits, net	20	28	36
Deferred tax liabilities	33	155	130
Total non-current liabilities		2,358	1,917
Equity and reserves	24		
Share capital		253	253
Share premium		1,051	1,051
Reserves		(2,051)	(2,090)
Retained earnings		3,784	3,269
Total equity attributable to shareholders of the Company		3,037	2,483
Non-controlling interests		278	206
Total equity		3,315	2,689
Total liabilities and equity		8,170	7,412

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

**Consolidated Statements of Income**

		For the year ended December 31		
		2023	2022	2021
		NIS millions		
	Note			
Sales	27	6,795	6,105	6,074
Cost of sales	28	4,352	4,129	3,652
Gross profit		2,443	1,976	2,422
Selling and marketing expenses	29	1,390	1,359	1,344
General and administrative expenses	30	471	425	420
		1,861	1,784	1,764
Share of profit of equity-accounted investees	11	197	80	192
Share of profit (loss) of equity-accounted incubator investees		(34)	(26)	71
Operating profit before other income (expenses)		745	246	921
Other income		103	4	6
Other expenses		(33)	(58)	(11)
Other income (expenses), net	31	70	(54)	(5)
Operating profit		815	192	916
Finance income		48	46	4
Finance expenses		(142)	(87)	(84)
Finance expenses, net	32	(94)	(41)	(80)
Income before income tax		721	151	836
Income tax expense	33	(167)	(34)	(156)
Income for the year		554	117	680
Attributable to:				
Shareholders of the Company		488	64	609
Non-controlling interests		66	53	71
Income for the year		554	117	680
Earnings per share	34			
Basic earnings per share (in NIS)		4.19	0.55	5.25
Diluted earnings per share (in NIS)		4.19	0.54	5.21

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


Consolidated Statements of Comprehensive Income

	Note	For the year ended December 31		
		2023	2022	2021
		NIS millions		
Income for the year		554	117	680
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:				
Foreign currency translation differences	24.4	(14)	52	(65)
Other comprehensive income (loss) from equity-accounted investees	24.4	91	146	(73)
Total other comprehensive income (loss) items for the year that will be reclassified to profit or loss in subsequent periods, net		77	198	(138)
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods, net:				
Changes in employee benefits, net		1	7	4
Total other comprehensive income items that will not be reclassified to profit or loss in subsequent periods, net		1	7	4
Comprehensive income for the year		632	322	546
Attributable to:				
Shareholders of the Company		565	271	474
Non-controlling interests		67	51	72
Comprehensive income for the year		632	322	546

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



Consolidated Statements of Changes in Equity

	Attributable to Shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve NIS millions	Retained earnings		
Balance as of January 1, 2023	253	1,051	(20)	(393)	(1,677)	3,269	206	2,689
Total comprehensive income (loss) for the year								
<i>Income for the year</i>	-	-	-	-	-	488	66	554
<i>Components of other comprehensive income (loss):</i>								
Foreign currency translation differences	-	-	-	-	(15)	-	1	(14)
Other comprehensive income from equity-accounted investees	-	-	-	-	91	-	-	91
Change in employee benefits, net	-	-	-	-	-	1	-	1
Total other comprehensive income for the year, net	-	-	-	-	76	1	1	78
Total comprehensive income for the year	-	-	-	-	76	489	67	632
Share-based payment	-	-	-	-	-	26	-	26
Transactions with non-controlling interests	-	-	-	(37)	-	-	43	6
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(38)	(38)
Balance as of December 31, 2023	253	1,051	(20)	(430)	(1,601)	3,784	278	3,315

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



Consolidated Statements of Changes in Equity (cont'd)

	Attributable to Shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as of January 1, 2022	253	1,051	(20)	(393)	(1,877)	3,469	2,483	192	2,675
Total comprehensive income (loss) for the year									
Income for the year	-	-	-	-	-	64	64	53	117
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	54	-	54	(2)	52
Other comprehensive income from equity-accounted investees	-	-	-	-	146	-	146	-	146
Change in employee benefits, net	-	-	-	-	-	7	7	-	7
Total other comprehensive income (loss) for the year, net	-	-	-	-	200	7	207	(2)	205
Total comprehensive income for the year	-	-	-	-	200	71	271	51	322
Share-based payment	-	-	-	-	-	19	19	-	19
Dividend paid	-	-	-	-	-	(290)	(290)	-	(290)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(37)	(37)
Balance as of December 31, 2022	253	1,051	(20)	(393)	(1,677)	3,269	2,483	206	2,689

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



Consolidated Statements of Changes in Equity (cont'd)

	Attributable to Shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings		
	NIS millions							
Balance as of January 1, 2021	253	1,051	(20)	(393)	(1,738)	3,107	172	2,432
Total comprehensive income (loss) for the year								
<i>Income for the year</i>	-	-	-	-	-	609	71	680
<i>Components of other comprehensive income (loss):</i>								
Foreign currency translation differences	-	-	-	-	(66)	-	1	(65)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(73)	-	-	(73)
Change in employee benefits, net	-	-	-	-	-	4	-	4
Total other comprehensive income (loss) for the year, net	-	-	-	-	(139)	4	1	(134)
Total comprehensive income (loss) for the year	-	-	-	-	(139)	613	72	546
Share-based payment	-	-	-	-	-	19	-	19
Dividend paid	-	-	-	-	-	(270)	-	(270)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(52)	(52)
Balance as of December 31, 2021	253	1,051	(20)	(393)	(1,877)	3,469	192	2,675

The accompanying notes are an integral part of these consolidated financial statement

Strauss Group Ltd.**Consolidated Statements of Cash Flows**

		For the year ended December 31		
		2023	2022	2021
	Note	NIS millions		
Cash flows from operating activities				
Income for the year		554	117	680
Adjustments:				
Depreciation	13.1, 23.2	278	262	238
Amortization of intangible assets and deferred expenses	14.1	54	45	41
Impairment of intangible assets and assets held for sale		2	26	-
Capital loss (gain), net, on sale of fixed assets, intangible assets and other assets		(92)	9	(4)
Expenses of share-based payment		26	19	19
Finance expenses, net	32	94	41	80
Income tax expense		167	34	156
Share of profit of equity-accounted investees		(163)	(54)	(263)
Change in inventory		(25)	(124)	(128)
Change in trade and other receivables		(50)	(40)	11
Change in long-term receivables		1	(4)	1
Change in trade and other payables		63	149	225
Change in employee benefits		(6)	(3)	3
Interest paid		(129)	(65)	(62)
Interest received		19	6	2
Income tax paid, net		(107)	(111)	(145)
Net cash provided by operating activities		686	307	854
Cash flows from investing activities				
Proceeds from sale of fixed assets, intangible assets and investment property		87	25	11
Investment in fixed assets and investment property		(361)	(303)	(216)
Investment in intangible assets		(133)	(77)	(52)
Proceeds from sale of business by subsidiary		10	-	-
Repayment of deposits and loans granted		24	30	22
Long-term loans granted		(56)	(54)	(24)
Income from sublease		-	2	8
Dividends from investees	11.4	96	70	106
Investment in investees		(87)	(43)	(39)
Net cash used in investing activities		(420)	(350)	(184)

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

Strauss Group Ltd.

Consolidated Statements of Cash Flows (cont'd)

	Note	For the year ended December 31		
		2023	2022	2021
		NIS millions		
Cash flows from financing activities				
Sale of shares in subsidiaries to non-controlling interests		7	-	-
Acquisition of shares in subsidiaries from non-controlling interests		(3)	-	-
Short-term bank credit, net		(212)	191	(22)
Proceeds from issuance of debentures, net of issuance costs		314	-	-
Receipt of long-term loans		208	299	-
Redemption of debentures and repayment of long-term loans		(434)	(104)	(120)
Receipt of capital notes from non-controlling interests		6	-	-
Change in liabilities in respect of credit card factoring		(16)	17	24
Principal payments of lease liability		(103)	(97)	(85)
Dividends paid	24.3	-	(290)	(340)
Dividend paid to non-controlling interests in a subsidiary		(38)	(37)	(52)
Net cash used in financing activities		(271)	(21)	(595)
Increase (decrease) in cash and cash equivalents				
Cash and cash equivalents at beginning of year		517	554	491
Effect of exchange rate volatility on cash balances		5	27	(12)
Cash and cash equivalents at end of year		517	517	554

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

Strauss Group Ltd.

Notes to the Consolidated Financial Statements

Note 1 - General

The reporting entity, Strauss Group Ltd (the “**Company**” or “**Strauss Group**”) is an Israeli resident company. The address of the Company’s registered office is 49 Hasivim St. Petach Tikva.

The Company and its investee companies (the “**Group**”) are a group of industrial and commercial companies operating in Israel and abroad and engaged mainly 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, carbonation and purification products for the home and office.

Strauss Holdings Ltd. (“**Strauss Holdings**”) is the direct controlling shareholder of the Company (approximately 57.00% of equity and voting rights in the Company). The controlling shareholder of Strauss Holdings is Michael Strauss Assets Ltd. (which holds 100% of equity and voting rights in Strauss Holdings) (“**Michael’s Assets**”).

The Company was informed that following the distribution of the shares of Michael’s Assets that were part of the estate of the late Mr. Michael Strauss, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss hold the shares of Michael’s Assets (jointly, approximately 94.6% of the right to dividends and 100% of voting rights in Michael’s Assets), granting them control of Michael’s Assets and, indirectly, control of the Company. The above three members of the Strauss family have an agreement concerning cooperation in Michael’s Assets, by virtue of which they are deemed to jointly hold Michael’s Assets.

In light of the foregoing, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss are the controlling shareholders of the Company.

The consolidated financial statements of the Group as of December 31, 2023 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 25, 2024.

1.1 Events in the reporting period

1.1.1 Swords of Iron War

On October 7, 2023, the Hamas terrorist organization attacked the State of Israel. Following the attack, the government of Israel declared the Swords of Iron War (the “**War**”). The War led to a massive call-up of military reserves, the evacuation of communities, the temporary or partial closure of businesses, the imposition of various restrictions on civilian activities in extensive areas, a slowdown in economic activity, a slump in share prices on the Tel Aviv Stock Exchange, the devaluation of the Shekel against foreign currencies and a rise in corporate bond yields due to the increase in risk levels and uncertainty, and also to a downgrade from stable to negative in Israel’s credit outlook by S&P Global Ratings. Furthermore, in October 2023, ratings agencies Moody’s and Fitch announced that Israel’s credit rating had been put on review for downgrade. All of the foregoing disrupted economic activity and consumer spending in the country.

Note 1 - General (cont'd)

1.1 Events in the reporting period (cont'd)

1.1.1 Swords of Iron War (cont'd)

Since then and through to proximate to the approval of the financial statements, the shekel rallied, as did the nominal effective exchange rate (published by the Bank of Israel), which is now lower than before the War, and Israel's risk premium has declined somewhat. In February, Moody's announced the downgrade of Israel's credit rating from A1 to A2 with negative outlook. In January through March, reserve soldiers began to be gradually discharged and there has been a certain decline in fighting intensity.

As of the date of approval of the financial statements, the effects of the War, described below, have had no material impact on the Group's business and on its financial results.

Since the War broke out, in its business in Israel the Group has focused on three major goals: To maintain full business continuity to the greatest extent possible and ensure regular food supply to all customers, subject to the restrictions and the directives of the Home Front Guard; to keep its people safe and tend to the needs of employees and their families in a state of war; to support the community, provide help to soldiers and the families who were evacuated in southern and northern Israel, and to support the farmers who suffered damage in the Western Negev.

As of the date of this report, the effects of the War were largely reflected in the full or partial closure, for a limited period, of the Group's three production plants in the Western Negev (the salty snack factory in Sderot, the Yad Mordechai plant and the fresh and refrigerated vegetables site on Kibbutz Bror Hayil), which reopened gradually over the first three weeks after the War broke out. Following the discontinuation of manufacturing operations and closure of retail stores in southern and northern Israel, sales volumes of these products declined in the fourth quarter. There was also a decline in demand in the salty snack category. In addition to the loss of sales revenue, other costs were created as a result of the fighting in the south, *inter alia*, wage costs and frontline employee incentives. As of date of approval of the financial statements, all plants have resumed normal manufacturing operations and are working in a reduced staff format due to the absence of some employees who were evacuated from their homes as well as those who are on reserves. With regard to the costs of the War that were incurred and are still being incurred, the Group is taking action to be indemnified by the government in accordance with the official compensation outline crafted for the Swords of Iron War. Operations at the rest of the Group's production plants and sites has continued as usual. Shipping of raw materials from Asia and Africa has been affected as a result of tensions with the Houthis, but the Group took action to find solutions for importing raw materials to Israel.

Furthermore, the travel restrictions imposed on employees in some parts of Israel, the call-up of employees of the Group who serve in the reserves and the adverse impact on the Group's headcount for an indefinite period following the evacuation of communities and inaccessibility of regions that have been declared closed military zones by the Home Front Command have been detrimental to supply chains, the distribution system and the stocking and picking array in Israel. The supply of agricultural raw materials from the Western Negev has also been adversely affected.

Note 1 - General (cont'd)

1.1 Events in the reporting period (cont'd)

1.1.1 Swords of Iron War (cont'd)

To provide for maximum flexibility and financial stability, in the fourth quarter of 2023 the Group entered into agreements with banking institutions for secured lines of credit for the purpose of its regular operations, at a total of NIS 200 million for a one-year period.

The Group is monitoring developments and preparing for various scenarios that could evolve, particularly in the context of supply chain risks, which include finding alternative sources for the procurement of raw materials, production outsourcing, making adjustments to the logistics array, and monitoring the increase in cybersecurity risks and food quality and safety risks.

As of the date of approval of the financial statements, the development of the War, its scale, impacts and duration are uncertain. Consequently, it is not possible at the present time to assess the scope of the future consequences on the Group's business in Israel.

As of the date of approval of the financial statements, there has been no effect on the Company's businesses outside Israel.

1.1.2 The Russia-Ukraine war

The fighting between Russia and Ukraine continues, including the economic sanctions imposed on Russia by the West, but as of the publication date of the financial statements, they have not had a material effect on the Group's business results. Since the war broke out, the Company has taken steps to ensure that its business in Russia will be managed as a stand-alone business to the greatest extent possible. In Russia, business activity in the coffee market has stabilized, after a period in 2022 in which the Group experienced strong growth in the volume of its coffee business after some of the players in the local coffee market abandoned their activity or were temporarily unable to operate. In Ukraine, the Group's business has operated continuously given the circumstances, and despite the decline in the number of citizens residing in the country, sales volumes in the full year of 2023 rose compared to sales volumes in 2022. The Group continues to be exposed to possible global consequences of the war, which are likely to include, *inter alia*, increases in commodity, raw material and energy costs. Since these are unfolding events that involve a high degree of uncertainty, there are several possible geopolitical scenarios that could lead to further negative economic and financial consequences. The Group continuously monitors events in Ukraine, Russia and the markets. Until the date of approval of the financial statements, the actual impact of these events has been immaterial. However, in view of the high degree of uncertainty they involve and regarding their duration, the Group is unable to assess their future impact on its business results.

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
- Inventory, measured at the lower of cost or net realizable value
- 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, below.

2.3 Functional currency 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 matters in which management's judgment is applied when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating cycle

The Group's operating cycle is one year. As a result, current assets and current liabilities include items designated and expected to be realized within one year.

Note 2 - Basis of Preparation (cont'd)

2.6 First-time adoption of new standards, amendments to standards and interpretations

2.6.1 Amendment to IAS 1, *Presentation of Financial Statements*: Disclosure of Accounting Policies

The amendment requires entities to disclose their material accounting policy information rather than their significant accounting policies. According to the amendment, accounting policy information is material if, when considered together with other information included in the financial statements, it can reasonably be expected to influence decisions made by users of the financial statements, based on those financial statements.

The amendment to IAS 1 further clarifies that accounting policy information may be material if users of an entity's financial statements would need it to understand other material information in the financial statements. The amendment also clarifies that disclosure of immaterial accounting policy information is not required.

The amendment is effective for annual reporting periods beginning on January 1, 2023. As a result of the application of the amendment, the scope of the financial information disclosed in the FY 2023 financial statements is narrower and was adapted to the specific circumstances of the Company.

2.6.2 Amendment to IAS 12, *Income Taxes*: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

The amendment narrows the scope of the recognition exemption for deferred taxes due to temporary differences arising on initial recognition of assets and/or liabilities, in such manner that the exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. As a result, entities will be required to recognize a deferred tax asset or a deferred tax liability for these temporary differences on initial recognition of transactions giving rise to equal amounts of deductible and taxable temporary differences, such as leases and provisions for decommissioning and restoration. The amendment was applied for annual periods beginning on January 1, 2023. Application of the amendment had no material impact on the financial statements.

2.6.3 *Income Taxes*: International Tax Reform – Pillar Two Model Rules

The amendment introduces a temporary mandatory relief from recognizing and disclosing deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two Model Rules published by the OECD. Under the amendment, an entity is effectively exempt from providing for and disclosing those deferred taxes, but will recognize its current tax expense (if any) related to the Pillar Two income tax. The disclosure will be made separately. Furthermore, the amendment contains new disclosure requirements, such as quantitative and qualitative information, to help users of the financial statements better understand the entity's exposure to Pillar Two income taxes arising from the legislation in the period between the legislation being enacted or substantively enacted and the legislation becoming effective.

Note 2 - Basis of Preparation (cont'd)

2.6 First-time adoption of new standards, amendments to standards and interpretations (cont'd)

2.6.3 Income Taxes: International Tax Reform – Pillar Two Model Rules (cont'd)

The guidance of the amendment regarding the temporary mandatory relief from recognizing and disclosing deferred taxes is required to be applied immediately and retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. Commencing on initial application, the entity will disclose the fact that the exception has been applied. The new disclosure requirements of the amendment to IAS 12 will apply to annual reporting periods beginning on or after January 2023.

The Group is part of a large multinational group of enterprises that have consolidated revenues of more than €750 million. For further information, see Note 33.7 below.

Note 3 - Significant Accounting Policies

The accounting policy described below was consistently applied in all periods presented in these consolidated financial statements, other than as stated in Note 2.6 above. The accounting policy was consistently applied by all entities in the Group.

3.1 Basis of consolidation and 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.

Upon the loss of control, the Group derecognizes the assets (including goodwill) 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 Group's level of influence 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.

Note 3 - Significant Accounting Policies (cont'd)

3.2 Investment in associates and joint ventures

The Group has rights in two material joint ventures, Três Corações Alimentos S.A. and Sabra Dipping Company, LLC. A joint venture is a joint arrangement whereby the Group has rights to the net assets of the joint arrangement.

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.

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 income statement.

If there is a decrease in the ownership percentage of an equity-accounted investee while retaining significant influence or joint control, the Group detracts a relative portion from its investment and recognizes the effect in profit or loss under other income and expenses.

The Group provides long-term loans to equity-accounted entities, where repayment is unplanned and is not likely to occur in the foreseeable future, which are accounted for as long-term rights and essentially form part of the investment. These rights are first accounted for according to the guidance of IFRS 9, and subsequently treated in the equity method according to the guidance of IAS 28.

Losses recognized according to the equity method that exceed the Group's investment in ordinary shares are classified to the Group's remaining rights in the investee in reverse order to their incurrence. If the investee subsequently reports profits, the Group resumes recognition of its share of those profits only after its share of the profits equals the share of losses not recognized.

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.

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.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount; an impairment loss is not allocated to any asset and is recognized in profit or loss as other expenses.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Foreign currency transactions and foreign operations

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. From time to time, the Group purchases raw materials, commodities and packaging materials from suppliers abroad. These purchases are made in foreign currency, such as the US dollar and the euro.

Exchange differences arising on the defrayal of monetary items or on reporting monetary items at exchange rates that differ from those at which they were initially recorded during the period or reported in past financial statements are charged to specific income or expense items according to the nature of the monetary item.

The Group's business in the coffee, international dips and spreads and water operating segments is carried out under a number of brands. The Group's brands are marketed, *inter alia*, through subsidiaries and joint ventures that operate abroad and constitute foreign operations.

Exchange differences arising from translation are recognized directly in other comprehensive income within equity as part of the translation reserve.

When a foreign operation is disposed of such that control, significant influence or joint control, is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal. In addition, when there is a change in the Group's interest in a subsidiary that includes a foreign operation 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 differences in respect of loans received or provided to a foreign operation, including foreign operations which are subsidiaries, are recognized in profit or loss in the consolidated financial statements. When the repayment of loans received or provided to a foreign operation is unplanned and is not expected in the foreseeable future, gains and losses from exchange differences arising from those monetary items are included as part of the net investment in the foreign operation, recognized in other comprehensive income and presented within equity as part of the translation reserve.

Repayment of loans received or provided to a foreign operation does not constitute disposal of the foreign operation.

Note 3 - Significant Accounting Policies (cont'd)

3.4 Financial instruments

3.4.1 Nonderivative financial assets

Most of the Group's financial assets are short-term trade receivables. The Group initially recognizes trade receivables when originated. Other financial assets are initially recognized on the date when the Group becomes a party to the contractual terms of the instrument.

Financial assets are initially recognized at fair value plus any transaction costs that are directly attributable to the purchase or issue of the financial instrument. The Group's receivables do not include a significant financing component and are initially measured at the transaction price.

It is the Group's practice to contract in factoring arrangements with financial institutions for part of its outstanding receivables. In these transactions, the Company assesses if and to what extent derecognition of outstanding receivables is appropriate. The Group recognizes financial assets (including trade receivables) when its contractual rights to the cash flows arising from the financial asset expire, or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction in which all risks and rewards arising from ownership of the financial asset have been substantially transferred. If the Group substantially retains all risks and rewards arising from ownership of the financial asset, the Group continues to recognize the financial asset.

The Group's debt instruments that are held within the "hold to collect" business model under IFRS 9:

- Outstanding trade receivables arising from the Group's core business.
- Long-term receivables that mostly consist of loans to associates.
- Short-term receivables and deposits.

The contractual cash flows of these financial assets are solely payments of principal and interest (SPPI), which represent compensation for the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent to initial recognition, these assets are measured at amortized cost using the effective interest method, less impairment losses. Interest income, foreign exchange gains or losses, impairment and derecognition are recognized in profit or loss. For receivables, the Group assesses expected credit losses (ECL) (or their reversal) over the life of the instrument. The Group has created a provision matrix based, *inter alia*, on the aging of customer debts to measure credit losses. Credit losses on receivables (doubtful debts) are recognized in profit or loss as selling and marketing expenses.

Note 3 - Significant Accounting Policies (cont'd)

3.4 Financial instruments (cont'd)

3.4.2 Derivative financial instruments

The Group uses economic hedging to mitigate exposure to risk arising from volatility in raw material and commodity prices, notably green coffee, cocoa and sugar, and also to mitigate exposure to exchange rate volatility. To this end, the Group holds derivative financial instruments, which mainly comprise currency forwards and options 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 reporting date, with changes in fair value recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred. Gains and losses on commodity forwards are accounted for within the cost of sales, whereas other gains and losses on currency derivatives are accounted for within finance income (expenses).

3.5 Fixed assets (PP&E)

The Group measures fixed asset items at cost (including advance payments to suppliers) less accumulated depreciation and accumulated impairment losses. 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. Spare parts, standby equipment and servicing equipment are recognized as property, plant and equipment when they meet the definition of PP&E in IAS 16 and are otherwise classified as inventory.

The Group's machinery includes significant parts (involving significant periodic inspections) with different useful lives, which are accounted for separately as significant components of the machines and are depreciated over their respective useful lives.

The Group derecognizes items of property, plant and equipment on disposal or when no future economic benefits are expected from their use. Gains or losses on the disposal of an item of PP&E are determined by comparing the net proceeds from its disposal to its carrying amount, and are recognized net within "other income" or "other expenses", as relevant, in the income statement.

Replacement costs of a part of an item of property, plant and equipment and other subsequent costs are recognized within the carrying amount of fixed assets if it is expected that the future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably. The carrying amount of those parts that are replaced is derecognized. Costs of day-to-day maintenance of items of PP&E are recognized in the income statement as incurred.

Depreciation is recognized in profit or loss 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.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Fixed assets (PP&E) (cont'd)

The principal depreciation rates for the years 2021-2023 are as follows:

	%	
Leased buildings and lands	1-5	(mainly 2.5)
Machinery and 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.

3.6 Intangible assets

3.6.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented within intangible assets. In subsequent periods goodwill is measured at cost less accumulated impairment losses.

3.6.2 Research and development

Research costs are recognized in profit or loss as incurred. The Group develops software for its own use, as well as innovative products in several of its operating segments. Costs that are directly related to the development of unique identified products and software products that are controlled by the Group and satisfy the conditions for recognition as intangible assets 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.

Assimilation costs of cloud computing arrangements are capitalized as an asset if the asset satisfies the definition of an intangible asset, particularly when the Group controls the asset. If the Company does not recognize an intangible asset, it reviews whether the services received are distinct from the cloud computing services. If the services received by the Company are distinct from the cloud computing services or are provided by a third-party vendor that is not the cloud computing vendor, the Group recognizes an expense when the assimilation services are supplied. If the services are not distinct, assimilation costs are expensed at the rate of consumption of the cloud computing services.

3.6.3 Amortization

Amortization of intangible assets is recognized in profit or loss using the straight-line method over their estimated useful lives, from the date when they are available for use.

The annual rates of amortization for the years 2021-2023 are as follows:

Note 3 - Significant Accounting Policies (cont'd)

3.6.3 Amortization (cont'd)

	<u>%</u>	
Brands	10-20	
Computer software	10-33	(Mainly 25)
Other	10-20	

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.

3.7 Leased assets

At inception of a contract, the Group determines whether the contract is, or contains, a lease, by reviewing whether the contract conveys the right to control the use of an identified asset, and whether, throughout the period of use, it has both of the following rights:

- (a) The right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) The right to direct the use of the identified asset.

The Group accounts for lease contracts that include non-lease components associated with the lease component as a single lease component, without separating the components.

In the Group's leases the interest rate included in the lease cannot be easily determined, and therefore, the Group's incremental borrowing rate is used. Subsequent to initial recognition, the right-of-asset is accounted for using the cost model and depreciated to the earlier of the end of the lease term or the useful life of the asset.

The Group applies the practical expedient in which short-term leases of up to one year and/or leases in which the underlying asset is of low value are accounted for by recognizing the lease payments in profit or loss using the straight-line method over the lease term, without recognizing an asset and/or liability in the statement of financial position.

The lease term is determined as the period in which the lease is non-cancellable, plus periods covered by options to extend that the Group is reasonably certain to exercise and options to terminate that the Group is reasonably certain not to exercise, respectively. In most of the lease agreements in which the Group has an option to extend, the Group assumed that it is reasonably certain to exercise the option and includes it in the lease period, after having taken into account all relevant facts and circumstances creating an economic incentive to exercise the option.

The Group has variable lease payments that depend on the known Consumer Price Index (CPI). These payments are initially measured using the CPI at the commencement date of the lease and are included in the measurement of the lease liability. When there is a change in contractual cash flows resulting from a change in the CPI, the remaining liability is adjusted against the right-of-use asset.

Note 3 - Significant Accounting Policies (cont'd)

3.7 Leased assets (cont'd)

After the commencement date of the lease, a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for remeasurements of the lease liability. Depreciation is calculated using the straight-line method to the earlier of the useful life of the asset or the end of the lease term.

The principal depreciation rates for the years 2021-2023 are as follows:

	%
Buildings	4-40
Vehicles	14-35
Coffee stands	9-60

Upon the occurrence of either a significant event or a significant change in circumstances that is within the Group's control and affects the decision whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term, the Group remeasures the lease liability according to the adjusted lease payments using a revised discount rate that reflects changes in the interest rate. The change in the carrying amount of the liability is recognized against a right-of-use asset or recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3.8 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.

3.9 Impairment of nonfinancial assets

For impairment testing purposes, the Group allocates goodwill acquired in a business combination to cash-generating units, including those existing in the Group prior to the business combination that 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).

Note 3 - Significant Accounting Policies (cont'd)

3.9 Impairment of nonfinancial assets (cont'd)

Once a year, on a fixed date, or more often when there are indications of impairment, the Group estimates the recoverable amount of cash-generating units that include goodwill and/or indefinite-lived intangible assets such as brands and certain trademarks, and/or intangible assets not yet available for use. Other nonfinancial assets covered by IAS 36 are tested for impairment if there have been any occurrences or changes in circumstances indicating that their carrying amount will not be recoverable. Impaired nonfinancial 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.

Impairment losses for goodwill and other indefinite-lived intangible assets are classified as other expenses in the income statement.

3.10 Employee benefits

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 has defined contribution plans for the majority of employees in which respect section 14 of the Severance Pay Law, 1963, applies, and they are fully covered by regular contributions to pension funds and insurance companies. The Group's obligations to make contributions to defined contribution plans in respect of post-retirement benefits are recognized as an expense in profit or loss in the periods in which the employees rendered related services.

3.11 Share-based payment transactions

The Group grants warrants to senior employees, entitling them to purchase shares of the Company. The fair value of the warrants on the grant date is calculated using the Black-Scholes model. As a rule, the benefit contains a service condition only, and is spread over the vesting period of the warrants according to the Company's estimates regarding the number of warrants that are expected to vest. The Group charges the compensation cost to retained earnings over the vesting period.

3.12 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Provisions (cont'd)

3.12.1 Legal actions

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 or a situation in which the chances of the claim being accepted have fallen below 50%. The timing of the expected cash flows in respect of these legal proceedings is uncertain, as it depends on their outcome. Therefore, the provisions are not presented at their current value (the impact of the discount is immaterial).

3.12.2 Contingent liabilities

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.

3.12.3 Restructuring

From time to time, the Group implements restructuring plans, in which respect it recognizes a provision for restructuring that includes direct expenditures caused by and essential for the restructuring process that are not associated with the continuing operations of the Group. The Group charges the restructuring costs to profit or loss within other expenses.

3.12.4 Warranties

The Group provides a warranty for general repairs of faults that existed at the time of sale, as required by law. Provisions associated with these assurance type warranties are recognized on the delivery of water bars to customers. Initial recognition is based on historical information. The estimated costs associated with the warranty are adjusted in each period.

3.13 Revenue

The Group is engaged in the sale of food and beverages and in the sale of water filtration appliances, including installation and warranty. Revenue from customer contracts is recognized when control of the goods or services is transferred to the customer, in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. In all revenue arrangements the Group concludes that it is the principal supplier, since it has control of the goods or services before they are transferred to the customer.

Note 3 - Significant Accounting Policies (cont'd)

3.13 Revenue (cont'd)

Revenue from the sale of products

In the food and beverage business, the Company's sales are made to customers of different types, some of which are subject to trade agreements. To identify contracts with customers, the Group takes collectability into account, based on a review of the customer's credit rating and any collateral or security provided by the customer.

Revenue from sales of the divisions' products is recognized at the point in time when control of the goods is transferred to the customer, generally on delivery of the products to the customer.

Variable consideration

In contracts for the sale of products, the transaction price includes amounts that are likely to vary. When measuring the transaction price, the Group includes the amount of all or part of the variable consideration only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future in the amount of cumulative revenue recognized. At the end of each reporting period, if necessary, the Group adjusts the estimated amount of the variable consideration that was included in the transaction price.

- **Right of return**

In some contracts for the sale of products, customers have the right to return the products within a certain period. The Group applies the expected value method to estimate the variable consideration in light of the large number of contracts with similar characteristics. The Group then applies the requirements for constraining estimates of variable consideration to determine the amount of the variable consideration that may be included in the transaction price and to recognize revenue. In such cases, a liability for returns is recognized with a corresponding adjustment to the income item, and an asset is recognized in respect of the right to accept the returns with a corresponding adjustment to the cost of sales.

- **Discounts**

The Group grants certain customers regular discounts based on the customer's total annual purchases. The Group applies the expected value method to estimate the variable consideration in the contract, and then applies the requirements for constraining estimates.

Consideration payable to the customer

In certain cases, the Group pays, or is expected to pay, a consideration to its customers (for example, in-store product placement commissions). Consideration payable to the customer also includes credit or other items (e.g., coupons and vouchers). These are accounted for as a reduction of the transaction price, unless the payment to the customer is in exchange for a distinct good or service, in which case the consideration payable to the customer is accounted for as a separate transaction in the same way that the Group accounts for other purchases from suppliers.

Note 3 - Significant Accounting Policies (cont'd)

3.13 Revenue (cont'd)

Revenue from the sale of water bars, installation services and related services

The Group is active in the water filtration business, in which the Group contracts with customers in package deals. The package includes a warranty for general repairs of faults in the water bar that existed at the time of sale, as required by law. Warranties of this kind are accounted for as a provision for warranty (see accounting policy in Note 3.12 above). The Group also provides a warranty in addition to the assurance that the product complies with agreed-upon specifications (i.e., repair of faults that existed at the time of sale). This is a service-type warranty that is sold separately.

The Group has determined that there are several performance obligations in the service package, as follows:

- Supply of water bars and installation services
- Supply of consumable parts
- Warranty services and technical support services

The Group allocates the transaction price to the performance obligations according to the relative stand-alone selling price of each performance obligation. For this purpose, the Group estimates the stand-alone selling price of each performance obligation, maximizing the use of observable inputs.

For technical support and warranty services, the Group recognizes revenue over time since the customer simultaneously receives and consumes the benefits provided by the Company's performance, as the Company performs them. For installation services, the Group recognizes revenue on the date when the water bar is installed at the customer's premises. For the supply of water bars and consumable parts, the Group recognizes revenue at a point in time, on delivery of the products to the customer, and at that point in time, the Group satisfies its performance obligation and the customer obtains control and benefits from the products.

The Group pays a sales commission to agents on the sale of the water filtration package to a new customer. Cost capitalized as an asset are amortized on a systematic basis that is consistent with the transfer to the customer of the goods and services. The Group applies the practical expedient and immediately expenses the incremental costs of obtaining a contract when the amortization period of the asset is one year or less.

3.14 Classification of cash flows from interest and dividends

In the statements of cash flows, the Group presents interest received and interest paid within cash flows from operating activities. Dividends paid are presented under financing activities and dividends received are presented under investing activities.

Note 3 - Significant Accounting Policies (cont'd)

3.15 Income tax expense

Income tax comprises current and deferred tax. Current and deferred taxes are recognized in profit or loss. If the tax relates to items recognized directly in equity or in other comprehensive income, the income tax expense is accounted for directly in equity or in other comprehensive income.

The Group operates in different jurisdictions and offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities, 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.

Uncertain tax positions

The Group operates in different countries that are assessed in different jurisdictions. A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the Group will be required to use its economic resources to discharge the obligation.

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 tax purposes.

The Group does not recognize deferred taxes on temporary differences related to investments in subsidiaries and joint ventures, if the Group controls the timing of the reversal of the differences and if it is not probable that the reversal will occur in the foreseeable future.

The Group reviews its deferred tax assets at the end of each reporting period, and to the extent that it is no longer probable that the related tax benefits will be realized, reduces them. Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

3.16 New standards and interpretations not yet adopted

3.16.1 Amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures* – Supplier Finance Arrangements

The amendments introduce new disclosure requirements for a company to provide information about its supplier finance arrangements that will enable users of the financial statements to assess the effect of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk. For example, payment terms and limitations arising from these arrangements, quantitative information as of the beginning and end of the reporting period regarding carrying amounts associated with the arrangements, non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement, and how these arrangements affect the way the company manages the resulting liquidity risk and its exposure to concentrations of liquidity risk.

Note 3 - Significant Accounting Policies (cont'd)

3.16 New standards and interpretations not yet adopted (cont'd)

3.16.1 Amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures* – Supplier Finance Arrangements (cont'd)

The amendments are effective for reporting periods beginning on or after January 1, 2024, with early application permitted. In the first annual reporting period in which the amendments are applied, entities are exempt from the disclosure requirements in the amendment to IAS 7 in interim periods in that year, and from providing comparative information for the period. Entities will also be exempt from certain disclosures regarding the carrying amounts of financial liabilities as of the beginning of the annual reporting period in which the entity first applies the amendments.

The Group is reviewing the implications of the amendments on its disclosures. Early application is not expected.

3.16.2 Amendment to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current*, and subsequent amendment: *Non-Current Liabilities with Covenants*

The amendment, together with the subsequent amendment to IAS 1 (see below), replaces certain classification requirements for liabilities as current or non-current. According to the amendment, a liability will be classified as non-current when the entity has a right to defer settlement by at least twelve months after the reporting period, which is “substantial” and exists at the end of the reporting period. The subsequent amendment, as published in October 2022, determines that financial covenants that the entity is required to comply with after the reporting date will not affect the classification of a liability as current or non-current. Furthermore, the subsequent amendment introduced additional disclosure requirements for liabilities with covenants that must be settled in the 12 months after the reporting date, such as disclosure regarding the nature of the covenants, when the entity is required to comply with them, and facts and circumstances that indicate that an entity may have difficulty complying with the covenants. In addition, the amendment clarifies that the right to convert a liability will affect its classification as current or non-current, unless the conversion feature is classified as equity.

The amendment and subsequent amendment are effective for reporting periods beginning on January 1, 2024, with early application permitted. The amendment and subsequent amendment will be applied retrospectively, including a revision of comparative information.

The Group is reviewing the implications of the amendment on its financial statements. Early application is not expected.

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. For further information, see Note 14.3 below regarding assumptions and risk factors relating to goodwill impairment.

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 22 to the financial statements if the claim is significant. When acceptance of the claim is probable, the Company estimates the amount of the exposure based on the assessment of its legal counsel, the experience accumulated by the Company and the specific circumstances of the case and recognizes a provision in the financial statements on the basis of this assessment. The legal proceedings will ultimately be decided by the courts and consequently, their outcomes may differ from these estimates. As part of the process of approval of the Company's annual financial statements, the board of directors' financial statements review committee also reviews claims pending against the Company and is presented with the details of the claims, including their amounts, Company counsel's assessment of the extent of exposure to the claims and their chances of success, as well as the amount of the provisions made in their respect in the financial statements.

Note 4 - Critical Accounting Policies and Management's Judgments (cont'd)

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 Note 33.6 below with respect to income tax.

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 15.3 regarding assets held for sale;
- Note 19.2 regarding and other long-term liabilities;
- Note 21 regarding share-based payments;
- Note 26 regarding financial instruments.

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).

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 6 - Subsidiaries****6.1 Information on primary subsidiaries**

	The Group's ownership rights (%) December 31			Country of incorporation and main location of the company's business
	2023	2022	2021	
Strauss Health Ltd.	80	80	80	Israel
Uri Horazo Yotvata Dairies Ltd. ⁽¹⁾	40	40	40	Israel
Strauss Water Ltd.	100	100	100	Israel
Strauss Coffee B.V.	100	100	100	Holland
Strauss Russia LLC ⁽²⁾	100	100	100	Russia

⁽¹⁾ Held by Strauss Health Ltd. The Group holds 50% of the voting rights, but the Company has a deciding vote.

⁽²⁾ Held by Strauss Coffee B.V.

6.2 Additional information on subsidiaries

On May 23, 2023, Strauss Coffee B.V. (“**Strauss Coffee**”), a Dutch company wholly owned by the Group, signed an agreement for the sale of 100% of its ownership in Strauss Adriatic d.o.o. to Atlantic Grupa d.d. (the “**Coffee Company in Serbia**” and the “**Transaction**”), respectively. For further information on the progress of the Transaction after the date of the statement of financial position, see Note 36.5 below.

Note 7 - Cash and Cash Equivalents

	December 31	
	2023	2022
	NIS millions	
Cash and balances in banks	234	283
Deposits	283	234
	<u>517</u>	<u>517</u>

Note 8 - Trade Receivables**8.1 Composition**

	December 31	
	2023	2022
	NIS millions	
Open debts	1,034	984
Less provision for doubtful debts	(31)	(35)
	<u>1,003</u>	<u>949</u>

Strauss Group Ltd.

Notes to the Consolidated Financial Statements

Note 8 - Trade Receivables (cont'd)

8.2 Analysis of customer aging:

	December 31, 2023		December 31, 2022	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	974	(5)	921	(5)
1-30 days past due	24	-*	19	-*
31-60 days past due	5	-*	4	-*
61-90 days past due	2	-*	3	(1)
91-120 days past due	3	-*	2	-*
120+ days past due	26	(26)	35	(29)
	<u>1,034</u>	<u>(31)</u>	<u>984</u>	<u>(35)</u>

* Less than NIS 1 million

8.3 Changes in the provision for doubtful debts during the period:

	2023	2022
	NIS millions	
Balance on January 1	35	32
Impairment loss (reversal of impairment loss) recognized in the period	(1)	4
Doubtful debts becoming bad debts	(5)	(1)
Foreign currency effects	2	-*
Balance on December 31	<u>31</u>	<u>35</u>

* Less than NIS 1 million

8.4 Maximum exposure to credit risk in respect of trade receivables on the reporting date by customer type:

	December 31	
	2023	2022
	NIS millions	
Large customer market	517	464
Private market	213	199
Away-from-home	200	180
Other customers ⁽¹⁾	73	106
Total	<u>1,003</u>	<u>949</u>

⁽¹⁾ Primarily customers for the provision of services for water purifiers.

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 8 - Trade Receivables (cont'd)****8.5 Debt factoring of trade receivables – subsidiaries**

From time to time, the Group companies' contract in factoring agreements for accounts receivable arising from sales of different products. The receivables are factored without recourse.

On December 31, 2023, trade receivables derecognized as part of said agreements according to the guidance in IFRS 9 amounted to approximately NIS 450 million (December 31, 2022: NIS 453 million).

Note 9 - Receivables and Debit Balances

	December 31	
	2023	2022
	NIS millions	
Advance payments to suppliers	11	13
Institutions	13	19
Current maturities of long-term loans	12	10
Accrued income	11	12
Derivatives ⁽¹⁾	68	70
Prepaid expenses	41	32
Miscellaneous receivables	17	13
	<u>173</u>	<u>169</u>

(1) Including deposits under a charge to secure derivatives, amounting to approximately NIS 11 million and NIS 42 million on December 31, 2023 and 2022, respectively.

Note 10 - Inventory

	December 31	
	2023	2022
	NIS millions	
Raw materials	328	352
Packaging materials	68	73
Unfinished goods	24	22
Finished goods (including purchased products)	371	330
Spare parts and auxiliary equipment in respect of inventory for sale	39	37
	<u>830</u>	<u>814</u>

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 11 – Investments in Equity-Accounted Investees****11.1 Material equity-accounted investees**

	Percentage of equity and control as of December 31			Country of incorporation and main location of the company's operations
	2023	2022	2021	
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 and coffee machines, 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.

11.2 Concise information on material equity-accounted investees

	Sabra Dipping Company		Três Corações Alimentos S.A.	
	December 31		December 31	
	2023	2022	2023	2022
	NIS millions			
Current assets	286	216	2,199	2,054
Of which:				
Cash and cash equivalents	106	56	652	691
Non-current assets	461	488	1,318	1,007
Total assets	747	704	3,517	3,061
Current liabilities	153	226	1,633	1,527
Of which:				
Financial liabilities excluding trade payables, other payables and provisions	-	68	698	715
Non-current liabilities	250	159	487	417
Of which:				
Financial liabilities excluding trade payables, other payables and provisions	242	99	390	330
Total liabilities	403	385	2,120	1,944
Total net assets (100%)	344	319	1,397	1,117
Company's share of net assets	172	160	699	559
Other adjustments	102	99	154	145
Carrying amount of investment	274	259	853	704

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 11 – Investments in Equity-Accounted Investees (cont'd)****11.2 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		
	2023	2022	2021	2023	2022	2021
	NIS millions					
Income	863	655	1,189	5,839	5,338	3,405
Profit (loss) for the year	15	(171)	47	237	294	182
Other comprehensive income (loss)	6	54	(20)	149	161	(97)
Total comprehensive income (loss) (100%)	21	(117)	27	386	455	85
Of which:						
Depreciation and amortization	51	58	44	92	81	63
Interest income	1	-	-	69	30	16
Interest expenses	16	5	2	131	67	27
Income tax received (paid)	*(5)	*63	*(19)	74	(27)	6
Other adjustments	3	12	(3)	19	21	(6)
Share of comprehensive income (loss) presented on the books	14	(46)	10	212	249	36

* Mainly reflects statutory income tax in respect of Sabra Dipping Company, which is assessed in the holding company, S.E. USA, Inc.

11.3 Concise aggregate information on equity-accounted investees that are not inherently material

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Carrying amount of investments	626	551	509
Group's share of profit	34	23	139
Group's share of other comprehensive income (loss)	(9)	9	(5)
Group's share of total comprehensive income	25	32	134

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 11 – Investment in Equity-Accounted Investees (cont'd)****11.4 Information on dividends received from equity-accounted investees**

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Três Corações Alimentos S.A. ⁽¹⁾⁽²⁾	63	40	35
Sabra Dipping Company	-	-	35
Qingdao HSW Health Water Appliance Co. Ltd. ⁽¹⁾	-	-	5
Strauss Frito-Lay Ltd.	38	33	35
	<u>101</u>	<u>73</u>	<u>110</u>

⁽¹⁾ Figures represent gross amounts before withholding tax.

⁽²⁾ The Company's share of the retained earnings of Três Corações Alimentos S.A. as of December 31, 2023, December 31, 2022 and December 31, 2021 is approximately NIS 668 million, NIS 535 million and NIS 382 million, respectively, of which approximately NIS 21 million, NIS 18 million and NIS 15 million, respectively, are held as a legal reserve that may serve only for purposes of a capital increase or to absorb legal losses, and approximately NIS 297 million, NIS 220 million and NIS 143 million, respectively, are included in a tax incentive reserve, which, according to a decision by the management of Três Corações Alimentos S.A., shall be not distributed as a dividend. Should Três Corações Alimentos S.A. distribute the tax incentive reserve in the future, additional tax will be paid to the tax authorities in respect of the amount distributed.

11.5 Attachment of financial statements

The Group has attached 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:

	Brazilian Real to Shekel Exchange Rate		
	Closing exchange rate for the period	Average exchange rate for the period	% change based on closing exchange rate
For the year ended:			
December 31, 2023	0.75	0.74	12.4
December 31, 2022	<u>0.67</u>	<u>0.65</u>	<u>19.3</u>

From January 1, 2023 through to the date of approval of the financial statements, the Shekel strengthened against the Brazilian Real by approximately 3%.

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 11 – Investment in Equity-Accounted Investees (cont'd)****11.6 Additional information on the Group's equity-accounted investees**

11.6.1 In the first quarter of 2023, the Group terminated the business of Obela (an equity-accounted investee) in Western Europe. Consequently, the Company recognized an impairment loss, according to its ownership interest, of approximately NIS 23 million, of which NIS 20 million were recognized in the 2022 annual financial statements. The loss was included within the share of profit of equity-accounted investees in the income statement.

11.6.2 In March 2023, Sabra's insurer filed a motion for declaratory relief with the US court concerning the argument that the insurance company had overpaid Sabra. Sabra rejected this argument outright, holding the opinion that the insurance company was required to pay it further amounts. However, in view of the insurance company's position, in its financial statements for 2022 the Company recognized income in respect of the insurance payout at an amount of only NIS 30 million (the Company's share), which is the sum in which respect the insurance company did not argue overpayment. As stated, in Sabra's opinion, the amounts received in cash were owed to it in accordance with the insurance policy. Moreover, the coverage amounts in the policy are significantly higher than the amounts received in cash, and accordingly, Sabra took action to receive the full amount owing to it under the insurance policy according to legal advice received. In September 2023, a settlement agreement was signed between Sabra and the insurer, following which the Company recognized income of NIS 48 million (the Company's share) from insurance compensation in 2023, in the "Share of profit of equity-accounted investees" line item on the income statement.

11.6.3 Further to the decision by the Group on an investment of NIS 200 million in an associate for the construction of an additional manufacturing site in China, which is expected to become operational in 2026, in November 2023 the Company made an initial investment of NIS 77 million. For further information, see Notes 22.4.7 below.

Note 12 - Other Investments and Long-Term Debt Balances**12.1 Segmentation according to classification of the investment:**

	December 31	
	2023	2022
	NIS millions	
Deposits and other long-term receivables	8	7
Non-current commercial receivables	2	4
Less current maturities	(1)	(1)
	1	3
Non-current loans to others (see 12.2 and 12.3 below)	181	152
Less current maturities	(12)	(11)
	169	141
	178	151

Strauss Group Ltd.

Notes to the Consolidated Financial Statements

Note 12 - Other Investments and Long-Term Debt Balances (cont'd)

12.2 Information on non-current loans to others and their terms:

	December 31		Nominal interest rate as of December 31, 2023	Linkage base
	2023	2022		
	NIS millions			
Loans to employees	6	5	According to section 3(i) of the Income Tax Ordinance	NIS linked
Loans to suppliers and others	30	35	0%-8.15%	NIS unlinked
Loans to equity-accounted investees	145	112	0%-4.75%	Dollar, Yuan
	181	152		

12.3 Repayment schedule of non-current loans to others:

	December 31	
	2023	2022
	NIS millions	
First year	12	11
Second year	8	8
Third year	3	4
Fourth year	4	5
Fifth year and thereafter	154	124
	<u>181</u>	<u>152</u>

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 13 - Fixed Assets****13.1 Changes in fixed assets**

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as of January 1, 2023	1,378	2,654	34	276	127	4,469
Additions	50	230	5	23	43	351
Disposals	(28)	(22)	(2)	(3)	(2)	(57)
Foreign currency effects	2	26	-	1	-	29
Balance as of December 31, 2023	1,402	2,888	37	297	168	4,792
Depreciation and impairment losses						
Balance as of January 1, 2023	565	1,671	24	230	84	2,574
Depreciation for the year	28	115	3	14	7	167
Disposals	(28)	(19)	(2)	(3)	(1)	(53)
Foreign currency effects	2	12	-	1	-	15
Balance as of December 31, 2023	567	1,779	25	242	90	2,703
Spare parts						70
Balance as of December 31, 2023	835	1,109	12	55	78	2,159
	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as of January 1, 2022	1,282	2,552	37	316	155	4,342
Additions	92	196	3	21	4	316
Disposals	(3)	(86)	(7)	(62)	(32)	(190)
Classification as assets held for sale	-	(36)	-	-	-	(36)
Foreign currency effects	7	28	1	1	-	37
Balance as of December 31, 2022	1,378	2,654	34	276	127	4,469
Depreciation and impairment losses						
Balance as of January 1, 2022	536	1,647	28	280	108	2,599
Depreciation for the year	28	114	3	11	7	163
Disposals	(3)	(83)	(7)	(62)	(31)	(186)
Impairment loss	-	1	-	-	-	1
Classification as assets held for sale	-	(25)	-	-	-	(25)
Foreign currency effects	4	17	-	1	-	22
Balance as of December 31, 2022	565	1,671	24	230	84	2,574
Spare parts						65
Balance as of December 31, 2022	813	983	10	46	43	1,960

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 13 - Fixed Assets (cont'd)****13.2 Fixed assets purchased on credit**

As of December 31, 2023, fixed assets purchased on credit amounted to NIS 64 million (2022: NIS 58 million, 2021: NIS 40 million).

13.3 For information on charges, see Note 22.2 below.**13.4** For information on the acquisition of the lease rights held by Strauss Holdings Ltd., the controlling shareholder of the Company, in real property in Bar Lev Industrial Park, see Note 35.3.1 below.**Note 14 - Intangible Assets****14.1 Changes in intangible assets**

	Brands	Computer software	Goodwill	Research and development	Other	Total
	NIS millions					
Cost						
Balance as of January 1, 2023	293	504	630	166	115	1,708
Acquisitions	-	65	-	-	1	66
Additions – inhouse development	-	34	-	34	-	68
Disposals	-	(2)	-	(2)	(6)	(10)
Foreign currency effects	(2)	3	6	-	3	10
Balance as of December 31, 2023	291	604	636	198	113	1,842
Amortization and impairment losses						
Balance as of January 1, 2023	56	387	150	63	104	760
Amortization for the year	1	37	-	10	1	49
Disposals	-	-	-	-	(5)	(5)
Foreign currency effects	4	1	(1)	-	-	4
Balance as of December 31, 2023	61	425	149	73	100	808
Balance as of December 31, 2023	230	179	487	125	13	1,034
	Brands	Computer software	Goodwill	Research and development	Other	Total
	NIS millions					
Cost						
Balance as of January 1, 2022	274	461	600	145	112	1,592
Acquisitions	1	36	-	-	1	38
Additions – inhouse development	-	24	-	21	-	45
Disposals	-	(19)	-	-	-	(19)
Foreign currency effects	18	2	30	-	2	52
Balance as of December 31, 2022	293	504	630	166	115	1,708
Accrued amortization						
Balance as of January 1, 2022	52	376	112	55	100	695
Amortization for the year	-	28	-	8	3	39
Disposals	-	(18)	-	-	-	(18)
Impairment loss	-	-	25	-	-	25
Foreign currency effects	4	1	13	-	1	19
Balance as of December 31, 2022	56	387	150	63	104	760
Balance as of December 31, 2022	237	117	480	103	11	948

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 14 - Intangible Assets (cont'd)****14.2 Intangible assets with indefinite useful lives**

As of December 31, 2023, intangible assets include an amount of NIS 230 million attributable to brands and trademarks having an indefinite useful life (2022: NIS 235 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 Group operates.

14.3 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	
	2023	2022	2023	2022
	NIS millions		NIS millions	
Israel	76	76	-	-
Water	158	158	102	102
Poland	59	51	58	50
Russia	44	54	56	70
Romania	60	57	14	13
Germany	90	84	-	-
	487	480	230	235

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 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.

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 14 - Intangible Assets (cont'd)****14.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives (cont'd)**

The main assumptions by operating segment are as follows:

	December 31, 2023		December 31, 2022	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
<u>Israel</u>				
Fun & Indulgence	2.0%	13.5%	2.0%	12.4%
Health & Wellness	2.0%	13.62%-15.52%	2.0%	12.37%-14.1%
International Coffee ^{(1) (2)}	0%-1%	8.59%-24.45%	0%-1%	7.75%-26.75%
Water	2.0%	13.7%	2.0%	12.0%

⁽¹⁾ An annual test for goodwill impairment as of September 30, 2023 was performed in the Strauss Coffee Germany cash-generating unit. The recoverable amount of the cash-generating unit, which is based on its value in use, was calculated by discounting future cash flows at a real pre-tax discount rate of 9.2%, assuming a long-term growth rate of 0%. No impairment loss was recognized following the test. An increase of 0.6% in the discount rate while simultaneously maintaining an assumed long-term growth rate of 0% would lead to the carrying amount being approximately equal to the recoverable amount.

⁽²⁾ An annual test for goodwill impairment as of December 31, 2023 was performed in the cash-generating unit in Russia. In 2023, a long-term growth rate of 1% was assumed (in 2022: 1%), and a real pre-tax discount rate ranging from 24.45% in 2023 to 14.45% in the terminal year (in 2022: 14.25%). Based on these assumptions, as of December 31, 2023 the recoverable amount of the cash-generating unit in Russia was found to be higher than its carrying amount. An increase of 0.33% in the discount rate combined with a decrease of 0.3% in the long-term growth rate would lead to the carrying amount being approximately equal to the recoverable amount. In 2022, the Company recognized an impairment loss in respect of intangible assets attributable to the business in Russia at an amount of NIS 25 million, which was included under other expenses on the income statement.

In the rest of the cash-generating units in the Group, the sensitivity of those units to impairment is very low due to a significant difference between their recoverable amount and their carrying amount.

Note 15 - Investment Property and Assets Held for Sale**15.1 Changes in investment property**

	2023	2022
	NIS millions	
Balance as of January 1	3	4
Annual depreciation	-*	(1)
Disposals	(1)	-
Change of classification from assets held for sale to investment property	5	-
Change of classification from investment property to assets held for sale	(2)	-*
Balance as of December 31	5	3

* Less than NIS 1 million

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 15 - Investment Property and Assets Held for Sale (cont'd)****15.2 Property rights**

As of December 31, 2023, investment properties include commercial space in Petach Tikva valued at approximately NIS 3 million, and commercial space in Givatayim owned by a subsidiary, valued at approximately NIS 2 million. As of December 31, 2022, investment properties included a production plant in Beit Shemesh valued at approximately NIS 2 million, and land abroad owned by subsidiaries, valued at approximately NIS 1 million.

15.3 Assets held for sale

As of December 31, 2023, assets held for sale include machinery and equipment. In 2023, the plant in Beit Shemesh was classified as assets held for sale and sold during the year.

As of December 31, 2022, assets held for sale included commercial space in Petach Tikva and Givatayim, land rights in Safed, and machinery and equipment. On October 2022, the Company entered into an agreement with an unrelated third party for the sale of all its rights in a property located within the city limits of Safed, in consideration for a total of NIS 88 million plus VAT. In January 2023, the transaction was closed and the entire consideration received. In 2023, the Company recognized a net profit of approximately NIS 53 million. It is further noted that there is no charge on the property and no credit was granted it its respect.

15.4 Fair value

As of the reporting date, the fair value of total assets held for sale was estimated at approximately NIS 2 million. As of the reporting date, the fair value of investment property was estimated at approximately NIS 12 million. The fair value of real estate assets was estimated at Level 3, and the valuation was largely based on the price per square meter, as reflected, *inter alia*, in similar sales transactions.

15.5 For information on liens, see Note 22.2 below.

Note 16 - Trade Payables**16.1 Composition**

	December 31	
	2023	2022
	NIS millions	
Open debts	1,237	1,185
Notes payable	1	1
	<u>1,238</u>	<u>1,186</u>

For information regarding suppliers who are related parties and interested parties, see Note 35 below.

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 16 - Trade Payables (cont'd)****16.2 Supplier finance arrangements**

In 2023, certain suppliers of the Group contracted in a reverse factoring arrangement with a factor, under which the Group's suppliers may sell the Group's obligations to the factor.

According to the arrangement, the factor will purchase the Group's obligations from suppliers who choose to sell said obligations. Since according to the terms of the arrangement the Group's legal obligation to its suppliers has not been extinguished and remains materially unchanged when the arrangement is applied, the Group did not derecognize the liability to its suppliers in the statement of financial position, and trade payables that are part of a reverse factoring arrangement are presented as part of the Company's overall trade and other payables.

On December 31, 2023, payables included in the reverse factoring arrangement are NIS 339 million (2022: NIS 310 million).

Note 17 - Other Payables and Credit Balances

	December 31	
	2023	2022
	NIS millions	
Employees and other payroll related liabilities	211	189
Institutions	14	10
Derivatives	46	31
Accrued expenses	136	198
Deposits and guarantees from customers and distributors	119	112
Advances from customers	23	26
Advance payments for real property	-	22
Other payables	59	20
	<u>608</u>	<u>608</u>

Note 18 - Provisions**Changes in the period**

	Restructuring	Legal claims	Warranty	Total
	NIS millions			
Balance as of January 1, 2023	4	4	23	31
Provisions created during the period	-	8	31	39
Provisions used during the period	(4)	(1)	(30)	(35)
Provisions derecognized during the period	-	(2)	-	(2)
Balance as of December 31, 2023	<u>-</u>	<u>9</u>	<u>24</u>	<u>33</u>

For information on provisions see Note 3.12 above, for information on restructuring see Note 36.4 below, for information on legal claims see Note 22.1 below.

Notes to the Consolidated Financial Statements

Note 19 - Loans, Credit and Debentures

19.1 Short-term credit and current maturities of loans, debentures and other long-term liabilities:

	December 31	
	2023	2022
	NIS millions	
Current maturities of debentures	174	30
Short-term credit and current maturities of long-term loans and other long-term liabilities:		
Short-term loans from banks	-	211
Liability in respect of credit card factoring	148	160
Current maturities of long-term loans	67	388
	215	759
Current maturities of lease liabilities	103	85
	492	874

19.2 Composition of non-current liabilities:

	December 31	
	2023	2022
	NIS millions	
Debentures, less current maturities	1,320	1,174
Long-term loans and other long-term liabilities, less current maturities:		
Liability in respect of credit card factoring	109	112
Loans from others ⁽¹⁾	234	202
Loans from banks ⁽¹⁾	108	-
	451	314
Lease liabilities	367	252
	2,138	1,740

⁽¹⁾ As of December 31, 2023, the fair value of the loans was lower than their carrying amount by approximately NIS 4 million (2022: fair value was approximately NIS 12 million lower than the carrying amount). The fair value of the loans is measured based on 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 the lending company's risk premium and the discount for lack of marketability as of the date of the financial statements (Level 2).



Notes to the Consolidated Financial Statements

Note 19 - Loans, Credit and Debentures (cont'd)

19.3 Information on material loans:

								December 31, 2023	
Borrower's identity	Type	Loan date	Original loan amount	Currency	Linkage base	Nominal interest (%)	Redemption years	Face value	Carrying amount
			NIS millions					NIS millions	
The Company	Series E debentures (see 19.4)	July 2017/ November 2018	603	NIS	Unlinked	2.61	2020-2027	482	481
The Company	Series F debentures (see 19.4)	July 2020/January 2023	1,075	NIS	Unlinked	1.9	2024-2037	1,075	1,013
Subsidiary	Loans from others	June 2023	100	NIS	Unlinked	5.25	2024-2029	100	100
Subsidiary	Loans from others	June 2022	100	NIS	Unlinked	4.02	2023-2028	83	83
Subsidiary	Loans from others	April 2019	50	NIS	Unlinked	1.9	2019-2024	8	8
Subsidiary	Loans from others	April and July 2017	312	NIS	Unlinked	2-3.5	2018-2027	110	110
Subsidiary	Loans from banks	June 2023	25	EUR	Unlinked	5	2025	100	100
Subsidiary	Liability in respect of credit card factoring ⁽¹⁾	January 2020 – December 2023	-	NIS	Unlinked	1.34-5.4	2020-2027	256	256

⁽¹⁾ The Group has factoring arrangements with third parties for part of these payments and non-recourse factoring arrangements for the sale of water bars. For further information, see Note 8.5 below.



Notes to the Consolidated Financial Statements

Note 19 - Loans, Credit and Debentures (cont'd)

19.3 Information on material loans (cont'd):

								December 31, 2022	
Borrower's identity	Type	Loan date	Original loan amount	Currency	Linkage base	Nominal interest (%)	Redemption years	Face value	Carrying amount
			NIS millions					NIS millions	
The Company	Series E debentures (see 19.4)	July 2017/ November 2018	603	NIS	Unlinked	2.61	2020-2027	513	511
The Company	Series F debentures (see 19.4)	July 2020	700	NIS	Unlinked	1.9	2024-2037	700	693
The Company	Loans from banks	June 2022	100	NIS	Unlinked	3.25	2023	100	100
The Company	Loans from banks	June 2022	98	EUR	Unlinked	1.3-2.5	2023	101	101
Subsidiary	Loans from others	June 2022	100	NIS	Unlinked	4.02	2023-2028	100	100
Subsidiary	Loans from others	April 2019	50	NIS	Unlinked	1.9	2019-2024	17	17
Subsidiary	Loans from others	April and July 2017	312	NIS	Unlinked	2-3.5	2018-2027	159	159
Subsidiary	Loans from banks	August 2017	125	EUR	Unlinked	1.5-2.5	2023	113	113
Subsidiary	Liability in respect of credit card factoring ⁽¹⁾	January 2019 – December 2022	-	NIS	Unlinked	1.06-4.12	2019-2026	272	272

⁽¹⁾ The Group has factoring arrangements with third parties for part of these payments and non-recourse factoring arrangements for the sale of water bars.



Notes to the Consolidated Financial Statements

Note 19 - Loans, Credit and Debentures (cont'd)

19.4 Information on debenture series issued by the Company and debentures in circulation:

	<u>Series E</u>	<u>Series E Expansion</u>
Date issued	July 4, 2017	November 1, 2018
Listed for trading	July 5, 2017	November 4, 2018
Type of interest	Fixed	Fixed
Annual interest rate	2.61%	2.61%
Effective interest rate on listing date, taking issuance costs into account	2.78%	2.75%
Face value on issuance date	NIS 403 million	NIS 200 million
Nominal face value as of December 31, 2023	NIS 322 million	NIS 160 million
Carrying value of debentures as of December 31, 2023	NIS 321 million	NIS 160 million
Carrying value of interest payable as of December 31, 2023	-	-
Market value as of December 31, 2023		NIS 470 million
Linkage conditions	Principal and interest are not linked to any index	
Payment dates of principal	8 yearly payments on June 30 of each year from 2020 through 2027. 4 first payments of 5% each and 4 additional payments of 20% each.	
Payment dates of interest	Half-yearly interest on December 31 and June 30, from December 31, 2017 through to June 30, 2027	
Collateral or liens	None	
Name of rating company	Midroog, Maalot	Midroog, Maalot
Rating on issuance date	ilAA+; Aa2il	ilAA+; Aa2il
Rating on reporting date	ilAA+; Aa1il	ilAA+; Aa1il
Trustee	Reznik Paz Nevo Trusts Ltd., of 14 Yad Harutzim St., Tel Aviv – Jaffa	



Notes to the Consolidated Financial Statements

Note 19 - Loans, Credit and Debentures (cont'd)

19.4 Information on debenture series issued by the Company and debentures in circulation (cont'd):

	<u>Series F</u>	<u>Series F Expansion</u>
Date issued	July 7, 2020	January 12, 2023
Listed for trading	July 8, 2020	January 12, 2023
Type of interest	Fixed	Fixed
Annual interest rate	1.9%	1.9%
Effective interest rate on listing date, taking issuance costs into account	2.04%	4.3%
Face value on issuance date	NIS 700 million	NIS 375 million
Nominal face value as of December 31, 2023	NIS 700 million	NIS 375 million
Carrying value of debentures as of December 31, 2023	NIS 694 million	NIS 319 million
Carrying value of interest payable as of December 31, 2023	-	-
Market value as of December 31, 2023	NIS 898 million	
Linkage conditions	Principal and interest are not linked to any index	
Payment dates of principal	14 yearly payments on June 30 of each year from 2024 through 2037. 4 first payments of 5% each, and 10 additional payments of 8% each.	
Payment dates of interest	Half-yearly interest on December 31 and June 30, from December 31, 2020 until June 30, 2037	Half-yearly interest on December 31 and June 30, from June 30, 2023 until June 30, 2037
Collateral or liens	None	
Name of rating company	Midroog, Maalot	Midroog, Maalot
Rating on issuance date	ilAA+; Aa1il	ilAA+; Aa1il
Rating on reporting date	ilAA+; Aa1il	ilAA+; Aa1il
Trustee	Reznik Paz Nevo Trusts Ltd., of 14 Yad Harutzim St., Tel Aviv – Jaffa	

The terms and conditions of the Company's Series E and Series F debentures include customary causes for calling for immediate redemption, including the following: a transfer of control of the Company, as a result of which the debenture rating is downgraded 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 rating revision such that the new rating falls below ilBBB- (or corresponding rating), and said downgrade is not the result of a change in the methodology and/or rating scales of the rating companies; a call for immediate repayment of a different debenture series publicly issued by the Company and listed for trading on TASE, 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. In addition, violation of the covenants as described in Note 19.5 below.

For information on covenants pertaining to the Series E and Series F debentures, see Note 19.5 below.

For information on liens and guarantees, see Notes 22.2 and 22.3 below.

Note 19 - Loans, Credit and Debentures (cont'd)

19.5 Covenants

Debentures

In the abovementioned agreements, the Company has committed that for as long as the Series E and Series F 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 four or more consecutive calendar quarters. 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 E and Series F debenture holders will be credited for additional interest, as stated in the debenture certificate.

The Company has committed that for as long as the Series E and Series F 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 E and Series F debenture holders for additional interest, as stated in the debenture certificate.

The Company has committed that for as long as the Series E and Series F 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 each of the debenture series, will not fall below NIS 500 million for the Series E debentures and below NIS 600 million for the Series F debentures. 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 E and Series F 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 of March 31, 2017 were prepared for the Series E debentures, and as of March 31, 2020 for the Series F debentures, without applying IFRS 11.

On December 31, 2023 and throughout 2023, the Company was in compliance with all terms and conditions and covenants under the Series E and Series F debenture trust deeds. In addition, on December 31, 2023 and throughout 2023, the conditions establishing cause for immediate redemption of the debentures or for the exercise of sureties given to secure payment to the debenture holders were not satisfied.

Banks and financial institutions

Two subsidiaries are required to meet covenants in favor of banks in Israel and other countries and non-banking corporations. The covenants of the subsidiaries test the annual net debt-to-EBITDA ratio and the equity-to-total-assets ratio. The amount of the loans of the two subsidiaries is immaterial in terms of the Group's consolidated financial statements and as of December 31, 2023, the subsidiaries are compliant with these covenants.



Notes to the Consolidated Financial Statements

Note 19 - Loans, Credit and Debentures (cont'd)

19.6 Secured lines of credit

As of December 31, 2023, the Company has agreements with banks and financial institutions for secured lines of credit to serve its operating activities, at a total of NIS 600 million (2022: NIS 400 million), of which NIS 400 million are expected to end in 2024, and NIS 200 million in 2025. As of December 31, 2023, the Company has not utilized the lines of credit.

Note 20 - Employee Benefits

- 20.1** 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 based on 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 largely 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.

- 20.2** In international operations, employee benefits are accounted for in accordance with the requirements of the law in each country in which the Group operates. The Group 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 local laws. These benefits were accounted for as a defined benefit plan.

20.3 Composition

	December 31	
	2023	2022
	NIS millions	
Defined benefit plans		
Present value of funded obligation	89	109
Fair value of plan assets	(61)	(73)
Total employee benefits, net	<u>28</u>	<u>36</u>



Notes to the Consolidated Financial Statements

Note 20 - Employee Benefits (cont'd)

20.4 Defined benefit plans

20.4.1 Changes in the liability for defined benefit plans

	2023	2022
	NIS millions	
Liability in respect of defined benefit plans on January 1	109	123
Benefits paid under the plans	(27)	(10)
Current service costs	3	7
Interest expenses	5	2
Actuarial losses (gains)	(3)	(9)
Other adjustments	2	(4)
Liability in respect of defined benefit plans on December 31	89	109

20.4.2 Composition of defined benefit plan assets

	December 31	
	2023	2022
	NIS millions	
Cash and cash equivalents	8	9
Government bonds	4	5
Corporate bonds	17	20
Equity instruments	32	39
Total plan assets	61	73

20.4.3 Changes in defined benefit plan assets

	2023	2022
	NIS millions	
Fair value of plan assets on January 1	73	76
Contributions paid into the plans	3	3
Benefits paid under the plans	(17)	(8)
Interest income	3	2
Actual yield less interest income	(1)	(1)
Other adjustments	-	1
Fair value of plan assets on December 31	61	73

Notes to the Consolidated Financial Statements

Note 20 - Employee Benefits (cont'd)

20.4.4 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions on the reporting date in nominal terms:

	2023	2022
Discount rate on December 31 ⁽¹⁾	4.17%-5.77%	2.33%-5.40%
Future salary increases	3.00%-6.00%	3.00%-6.00%
Demographic assumptions ⁽²⁾		

⁽¹⁾ The discount rate is based on high yield corporate bonds. The weighted discount rate for 2023 is 5.43% (2022: 5.16%).

⁽²⁾ Calculations are based on demographic assumptions, as follows:

- (a) Mortality and loss of work capacity rates are based on pension circular 2022-9-18 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 turnover rate for employees and senior employees is 10.36% and 13.51%, respectively, for each year of seniority.

Reasonably possible changes on the reporting date in one of the actuarial assumptions, presuming that the remaining assumptions remain unchanged, would have the following effect on the defined benefit obligation:

		Increase (decrease) in defined benefit obligation as of December 31, 2023	Increase (decrease) in defined benefit obligation as of December 31, 2022
Discount rate	1% increase	(2)	(2)
Discount rate	1% decrease	2	3
Future salary costs	1% increase	2	3
Future salary costs	1% decrease	(2)	(2)
Departure rate	Multiplied by 1.2	*-	*-
Departure rate	Multiplied by 0.8	(1)	-*

* Less than NIS 1 million

20.4.5 Impact of the plan on the Group's future cash flows

The Group's estimate of expected contributions in 2024 to a funded defined benefit plan is NIS 3 million.

The Group's estimate of the plan's life (according to a weighted average) at the end of the reporting period is 4.75-6.42 years (2022: 4.00-6.67 years).

20.5 Defined contribution plans

In the year ended December 31, 2023, the Group recognized an expense of NIS 57 million (2022: NIS 54 million, 2021: NIS 51 million) in respect of defined contribution plans.

20.6 Actual yield

The actual yield on the plan assets in 2023 is approximately 2.1% (2022: 3.2%, 2021: 11.9%).

Notes to the Consolidated Financial Statements

Note 21 - Share-Based Payment

21.1 Description of the plan

21.1.1 Employee stock ownership plan (ESOP)

In accordance with the employee stock ownership plan of May 2003, which was updated from time to time and most recently in May 2023 (hereinafter: "ESOP") and approved by the board of directors of the Company and/or its committees, the Company granted Group employees 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	
Warrants granted between September 9, 2013 and March 20, 2016	Will be exercisable in three equal tranches, two, three and four years from the record date. The Record Date for purposes of determining the grantees' entitlement to exercise the warrants (hereinafter: the "Record Date") shall be determined by the board of directors and/or the committee, and unless determined otherwise, the Record Date will be the date of approval of the allotment of the warrants to the grantee by the board of directors or the committee.
Warrants granted commencing on March 20, 2016	50% will be exercisable commencing two years from the Record Date, and the remaining 50%, commencing three years from the Record Date.
Exercise price	
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, provided that 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.
Warrants granted commencing on September 12, 2016	Determined 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; (3) the average closing price of the Company's share in the 30 trading days preceding the grant date (with no premium and without the exercise price being linked to the CPI).
Manner of exercise	
The warrants will be exercised without payment of the exercise price, such that the grantee will be allotted underlying shares of a number that reflects the intrinsic value of the warrants, which is equal to the amount arising from the difference between the minimum exercise price set by the employee (if set) 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 set, and the exercise price, multiplied by the number of warrants exercised. Since upon exercising the warrants, the grantee will be required to pay the par value of all underlying shares he/she is allotted, the grantee will be allotted additional underlying shares of a number that, in addition to the intrinsic value, also reflects payment of the par value he/she is required to pay for the shares allotted to him/her.	

Note 21 - Share-Based Payments (cont'd)

21.1 Description of the plan (cont'd)

21.1.1 Employee stock ownership plan (ESOP) (cont'd)

The exercise price or conversion ratio of each warrant into underlying shares will be adjusted pro rata according to the rate of the benefit for the allotment of bonus shares (or any other increase or decrease in the number of ordinary shares, in which respect no consideration was received by the Company), consolidation and subdivision 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 reserves the right to make amendments to the Plan with respect to all grantees or to a particular grantee.

In the event of termination, other than due to dismissal for cause as defined in the Plan and employment agreement, of an employee with over two years' seniority in the Group, the Company may, with the approval of the board of directors and/or the committee, extend the exercise period of the warrants for a further 180 days (in addition to the 180-day period commencing on the termination date), such that the grantee shall be entitled to exercise the warrants during a period of 360 days after the termination date; and may further determine that the employee shall be entitled to early vesting of warrants that are due to vest within 6 months from the termination date.

In a case of termination due to the employee's incapacitation or death or legal incompetence, the employee or his heirs shall be entitled to exercise all warrants allotted to the employee, according to the vesting and expiration dates determined on the original grant date.

21.1.2 Taxation

For employees in Israel, the plan described above was approved under section 102 of the Income Tax Ordinance (New Version), 1961 and accordingly, the warrants were deposited with a trustee. According to the plan, the employees shall bear any taxes applying thereto.

21.2 Grants in the reporting period

The fair value of the employee warrants is measured using the Black-Scholes model. Assumptions include the share price on the measurement date, the exercise price of the instrument, forecast volatility (based on the historical volatility of the Company's shares over the expected term of the warrants), the expected life of the warrants (based on past experience and the general conduct of the option holders) and the risk-free interest rate (based on government bonds); service conditions and performance conditions that are not market conditions are not taken into account in determining fair value.

Notes to the Consolidated Financial Statements

Note 21 - Share-Based Payments (cont'd)

21.2 Grants in the reporting period (cont'd)

Following is information on the fair value of warrants granted in the reporting period:

Grant date	Number of warrants and entitled employees	Fair value NIS M	Share price NIS	Exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %
January 18, 2023	487,096 to 1 manager	10.4	91.54	89.93	3.46-4.46	20.73-21.89	3.22-3.28
February 28, 2023	214,000 to 26 managers	3.7	83.2	91.12	3.65-4.65	20.72-21.90	4.15-4.23
March 22, 2023	1,544,400 to 26 managers	27	84.92	92	3.65-4.65	20.83-21.89	3.99-4.02
August 8, 2023	35,540 to 1 manager	0.7	85.75	88.63	3.65-4.65	22.07-23.34	3.83-3.91

The warrants will vest in two equal tranches in the years 2024-2026. The benefit arising from these grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

21.3 Changes in the warrants:

	Number of warrants (thousands)		
	2023	2022	2021
Balance on January 1	6,545	6,001	5,138
Additional allotment	2,280	1,244	1,373
Exercise of warrants ⁽¹⁾	(483)	(515)	(347)
Forfeiture of warrants	(847)	(185)	(163)
Balance on December 31 ⁽²⁾	7,495	6,545	6,001

(1) The weighted average share price on the exercise date of the warrants exercised in 2023 was NIS 85.49 (2022: NIS 91.21, 2021: NIS 92.72).

(2) As of December 31, 2023, 3,849 thousand (2022: 3,439 thousand) of the outstanding warrants had vested.

(*) The weighted average exercise price of the warrants in 2023: NIS 92.84 (2022: NIS 92.65, 2021: NIS 85.87).

21.4 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Total expense classified to salary expenses	26	19	19

21.5 On November 6, 2022, the board of directors of the Group approved the grant of 487,096 warrants to the incoming Group CEO. The exercise price was set at the average closing price of the Company's share in the 30 trading days preceding the grant date, plus a 5% premium. On January 18, 2023, the general meeting approved the grant to the CEO. The value of the grant is approximately NIS 10 million.



Notes to the Consolidated Financial Statements

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements

22.1 Contingent liabilities

22.1.1 Following is information on material claims filed with the courts against the Company and its subsidiaries for class certification (excluding claims related to the recall, which are enumerated in Note 22.1.3). Based on the estimates of the Company's legal counsel, at this stage, management is of the opinion 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)
August 2021	Lod District Court	The subsidiary Strauss Water Ltd.	Abuse of the company's monopoly status in the market for filtered water bars with a carbonation feature.	*73
September 2023	Tel Aviv District Court	The Company	Misleading regarding the pack weight of Reva L'Sheva products	**53

* Alternatively, the remedy sought is compensation for damages caused by the collection of excessive prices for the purchase and filling of CO₂ canisters, estimated at NIS 66 million.

** The claim amount is NIS 53 million in pecuniary damages, and NIS 5 in non-pecuniary damages for every consumer who bought products from among the product range that is the subject of the claim.

Strauss Group Ltd.**Notes to the Consolidated Financial Statements****Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)****22.1 Contingent liabilities (cont'd)**

22.1.2 Following is information on material claims filed with the courts against the Company for class certification, in which legal proceedings were concluded 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)
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. (On December 27, 2016 the court directed a joinder of this claim with the claim of May 2016 pertaining to alleged excessive pricing by a monopoly holder of the Milky pudding).	57 (the Group's share)
May 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing by a monopoly of the Milky dairy dessert. On April 21, 2023, the court approved a notice of withdrawal of monetary claims and motions for their class certification submitted by the claimants.	100
December 2018	Central District Court	The subsidiary Strauss Water Ltd.	Alleged unlawful collection of a cancellation fee following cancellation of service agreements by the customer. On May 9, 2023, a judgment was given in which the court approved the settlement agreement submitted by the parties, in which Strauss Water undertook, <i>inter alia</i> , to amend the service agreement, and the c was paid a sum that is immaterial to the Company.	20
September 2020	Central District Court	The Company and the subsidiary Strauss Health Ltd.	Misleading in stating the amount of sugar in products in the Gamadim series on the label. On March 6, 2024, a judgment was given in which the court approved the settlement agreement submitted by the parties, in which the Company undertook, <i>inter alia</i> , to perform a process of inquiry regarding the quantity of sugars and their source and to pay the plaintiff a sum that is immaterial to the Company.	45
November 2022	Tel Aviv District Court	The Company and the subsidiary Yad Mordechai Apiary Ltd.	Abuse of the Company's monopoly status in the honey product market. On October 22, 2023, the Tel Aviv District Court approved a notice of withdrawal of a monetary claim and a motion for its class certification submitted by the claimant.	122

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

22.1 Contingent liabilities (cont'd)

22.1.3 Following is information on the motions for class certification filed against the Company in respect of harm allegedly caused to the consumer public, associated with findings that tested positive for salmonella on some of the production lines in the Company's plant in Nof Hagalil and in some of the products in the plant (the "**Recall**"):

On April 25 and 26, 2022, five motions for class certification were filed with the district courts in Jerusalem and Tel Aviv. The total amount sought by the plaintiffs is approximately NIS 521 million. One of the motions contained a request to revise the claim amount after class certification had been granted. Two of the motions for certification was also filed against companies that are not part of the Group.

On April 27, 2022, two additional motions for class certification were filed with the district courts in Jerusalem and Tel Aviv. The claim amount sought in one motion is NIS 50 million and it was also brought against another company that is not part of the Group, whereas the second motion for certification cites a total amount of NIS 23 billion. Both motions contained a request to revise the claim amount after class certification had been granted.

On April 28, 2022, another motion for class certification was filed with the Central District Court, seeking NIS 12 million (by way of an estimate), including a request to revise the claim amount after class certification had been granted. On June 19, 2022, the motion was struck out on the grounds, *inter alia*, of failure to pay court fees.

In a decision of September 3, 2023, the Jerusalem District Court ruled that four of the seven motions for class certification would be struck out, and the discussion of the three other motions combined in such manner that they would be heard jointly, on the basis of one pleading that had already been filed (the "**Joint Motion**"). The claimants in one of the motions that was struck out (the "**Claimants**") filed an appeal with the Supreme Court under the argument that the District Court had erred in deciding to select the above three motions. On February 11, 2024, the Supreme Court awarded a judgment determining that the attorneys of the claimants in the motions that were selected in the decision of September 3, 2023 would file a new joint amended motion for class certification together with the Claimants. The new joint motion will be submitted by April 13, 2024.

The Group proposed to the Claimants' attorneys that a mediation process would be held with respect to the joint motion, and the proposal was accepted. Mediation will begin after the Group submits a response to the motion for certification, and the Claimants submit a response to the Company's response. The mediation process is expected to begin in October 2024 after the pleadings have been filed. The Group's legal counsel will be able to assess the chances of the joint motion for certification being accepted only after it has been filed.

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

22.1 Contingent liabilities (cont'd)

22.1.4 On May 1, 2, 4 and 9, 2022, six motions filed with the Tel Aviv District Court – Economic Division by various petitioners were accepted. The motions seek discovery and inspection of documents under section 198A of the Companies Law, 1999, for the purpose of reviewing the possibility of filing a motion for certification of a derivative action against officers and senior parties in the Company. The petitioners argue, *inter alia*, breach of the duty of care, the duty of loyalty and alleged negligence by officers and functionaries in the Company with respect to alleged damage caused to the Company following the Recall.

On June 29, 2022, the Economic Division in the Tel Aviv – Jaffa District Court handed down a decision that the first motion filed for the discovery of documents would be the motion heard by the court, whereas the other five motions filed on the matter would be struck out.

On September 13, 2022, a motion for leave to appeal the decision to strike out the motions was filed, which was rejected in a judgment of November 3, 2022.

On October 23, 2022, a second motion for leave to appeal the decision to strike out was filed, which has not yet been heard by the court. As of the date of approval of the financial statements, the Company is unable to assess the chances of the motion's acceptance.

On August 2, 2022, the board of directors of the Company passed a resolution to establish an independent committee (the "**Committee**") to investigate the Recall, discuss the courses of action open to the Company, and make recommendations to the board on the subject. On September 1, 2022, the Company and the petitioner in the proceeding prior to a derivative action (the "**Petitioner**") filed an "Update Notice and Joint Motion for Approval of a Procedural Arrangement on Behalf of the Petitioner and Strauss". In this context, the court was asked to direct a stay of proceedings until the Committee had completed its work and the board of directors of the Company had discussed and reached decisions regarding its recommendations. The Committee held its first meeting on December 21, 2022, at which the Company's legal counsel appeared before it. In the period since its establishment through to proximate to the date of approval of the financial statements, the Committee held over 30 meetings. The Committee is expected to complete its work by no later than May 15, 2024, and an update notice will be furnished by no later than said date.

22.1.5 On June 21, 2023, the Company received a summons to a hearing prior to a decision by the Competition Commissioner with respect to the violation of the provisions of section 19 of the Economic Competition Law, 1988 (the "**Economic Competition Law**"), and the intent to impose a financial sanction on the Company at a total amount of NIS 111 million and to impose financial sanctions on each of the former officers and on an officer presently serving in the Company. For clarity, the Company disputes the Commissioner's position and is of the opinion that its actions, as far as the body of arguments made against it are concerned, were compliant with the law. The Company and the officers submitted their written arguments for a hearing on February 19, 2024, and on March 3 and March 11, 2024, an oral hearing was held before the representatives of the Competition Authority. In the opinion of outside counsel, the Company has strong arguments countering the body of arguments and against each argument individually, as well as against the alleged violation of section 19.

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

22.1 Contingent liabilities (cont'd)

22.1.5 (cont'd)

Even if the Company's arguments with respect to the alleged violation are not accepted, the Company has solid arguments regarding the amount of the sanction and the method of its calculation, which point to the calculation of a sanction of a significantly lower amount than the sanction calculated by the authority. External counsel is of the opinion that the chances of the above financial sanction being imposed are less than 50%, but the Company is presently unable to assess whether a sanction of a different amount will be imposed. The Company will present its position in any additional legal proceeding insofar as necessary.

22.1.6 In November 2021, representatives of the Competition Authority conducted a search and seized materials at the offices of the Company on suspicion of violations of the Economic Competition Law, and Company employees, including senior officers, were questioned. On June 5, 2023, the officers and employees who were questioned in the Competition Authority's investigation received initial letters of notice, informing them that the case had been forwarded for review by the Prosecution Department, which serves as the Competition Authority's legal department. On August 21, 2023, the Company received a second letter of notice under section 60A of the Criminal Procedure Law [Consolidated Version], 1982, according to which the Competition Authority was considering the filing of an indictment in respect of the suspicions enumerated in the statement attached to the letter, subject to a hearing. On January 23, 2024, an oral hearing was held jointly for the Company and the officers. The Company submitted its arguments in writing on February 11, 2024. According to the estimates of Company counsel, at the present stage it is not yet possible to assess the chances of the hearing's success, the chances of the indictment being filed and the chances of a conviction if an indictment is indeed filed.

22.1.7 On the date of approval of the financial statements, claims in the civil courts, other claims and demands that are not mentioned in the preceding notes amounted to approximately NIS 95 million. Of said claims, those whose chances cannot be estimated account for NIS 62 million. The Company has not included provisions for claims that are pending on the date of approval of the financial statements, which, in the opinion of its legal counsel, are not expected to be accepted or whose chances cannot be estimated. Based on the opinion of its legal counsel, Company management is of the view that the Company and its subsidiaries are not expected to incur losses due to the above claims, in excess of the amount of the provision made in the financial statements.

22.1.8 There are lawsuits in the civil courts and other claims underway against an equity-accounted investee in Brazil. On December 31, 2023, these claims (the Group's share) totaled approximately NIS 378 million (of which NIS 185 million are claims by the tax authorities, NIS 175 million are labor-related and NIS 18 million, 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 156 million of the claims are slight and has made provisions at an amount of NIS 27 million (the Group's share), which is considered sufficient to cover the expected losses as a result of the above claims.



Notes to the Consolidated Financial Statements

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

22.2 Liens

- 22.2.1** As of December 31, 2023, a lien of NIS 7 million in favor of others was granted to secure a liability of a subsidiary.
- 22.2.2** There are fixed and floating charges on several real estate properties in the Group in favor of others to secure credit.
- 22.2.3** With respect to its debts, the Company has undertaken to banks, other funding entities and the 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.

22.3 Guarantees

- 22.3.1** Guarantees were given to banks and others with respect to the business operations of the Group, as follows:

	December 31	
	2023	2022
	NIS millions	
In favor of a bank for an equity-accounted investee	145	63
In favor of others in Israel and abroad	59	20

22.4 Material commitments

- 22.4.1** In the engagement for the investment by PepsiCo Foods International (“**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 interest in Strauss Frito-Lay Ltd. at the market price determined as specified in the agreement, on condition that PepsiCo had attempted in good faith to cooperate with the new controlling shareholder in the said 12 months and shall reasonably determine that the attempt was unsuccessful.
- 22.4.2** 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 of the actual date of the indemnity payment (“**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.

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

22.4 Material commitments (cont'd)

22.4.2 (cont'd)

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 all or part of their liability 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 any officer of the Company had a personal interest. As of the date of this report, the Company is a party to a policy for the insurance of directors and officers serving in the Company and its subsidiaries with liability limits of approximately USD 100 million and an annual premium of USD 577 thousand.

22.4.3 Strauss Health and Yotvata are parties to yearly agreements with dairy farmers to purchase the entire quotas of their milk produce in accordance with the Milk Sector Planning Law, 2011. In 2023, said transactions amounted to approximately NIS 695 million (2022: NIS 617 million).

22.4.4 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.

According to the shareholders agreement, in the case of a "change of control" that terminates the Strauss family's/Lima family's control of one of the companies that is a party to the agreement (or their parent companies), the other party shall have a put option to sell all of its shares in the jointly-held company to the counterparty or a call option to acquire all of the counterparty's shares in the jointly-held company in consideration for the fair market value of the jointly-held company as agreed by the parties.

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

22.4.4 (cont'd)

In the absence of agreement, the market price of the shares will be determined by an external valuator; however, if the parties fail to reach an agreement on the identity of the valuator, or if a party objects to the market value determined by the valuator, each of the parties shall have the right to appoint another valuator. The final fair market price will be the arithmetic average of the valuations.

On November 9, 2022, an update to the shareholders agreement in the joint venture in the coffee business in Brazil was signed. The updated agreement governs the conduct of the joint venture and the relationship between the shareholders and contains certain revisions, the heads of which are as follows:

1. The updated agreement determines that three years after the date on which it was signed, each of the shareholders will have the right to demand that the joint venture will launch an IPO, subject to the offering price reflecting a minimum market cap that will be calculated according to parameters contained in the agreement.
2. The updated agreement will be in force until December 29, 2042 and will be automatically renewed for further periods of twenty years each, provided that neither shareholder has informed the other, five years before the end of each such period, that it does not wish to automatically extend the updated agreement.
3. The remaining terms and conditions of the shareholders agreement (as amended from time to time) are included in the updated agreement, *mutatis mutandis* and/or with immaterial changes.

22.4.5 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**”). Each of the holders of “participation rights” in Sabra will have a put option to sell its “participation rights” to the other holders of “participation rights” in Sabra at such time, based on 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” based on 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”. 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. The bylaws further determine that should a party holding “participation rights” cease to be a wholly owned subsidiary of the Company or PepsiCo, as the case may be, or should any corporation among the corporations specified in the bylaws acquire a stake of more than 20% in the Company or PepsiCo, as the case may be, the counterparty shall be entitled to acquire, on a pro rata basis, all “participation rights” in Sabra held by that party, according to Sabra’s market value.

Note 22 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

- 22.4.6** In July 2011, the Company contracted with the US food concern PepsiCo through PRB Luxembourg (“**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 (the “**Venture**” or “**Obela**”). The agreement is for a term of twenty years and will be automatically renewed for additional terms of twenty years each, provided that neither of the shareholders has informed the other, five years before the end of the twenty-year period, that it does not wish to renew the agreement. Each of the shareholders in Obela has 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%, as set forth in the agreement.
- 22.4.7** In July 2023, a joint venture agreement was signed between the subsidiary Strauss Water and Haier Group of China (“**Haier Group**”) and a legal entity was established, Qingdao HaiShi IoT Technology Co., Ltd. (“**Sino German**”), in which Strauss Water holds 49% of the shares and Haier Group holds 51%. For further information, see Note 11.6.3 above.
- 22.4.8** For engagements with interested parties and related parties, see Note 35 below.

Notes to the Consolidated Financial Statements

Note 23 - Leases

Leases in which the Group is the lessee

The Group leases the following major items under lease agreements:

1. Buildings
2. Coffee stands
3. Vehicles

The Company also leases land from the Israel Lands Administration, which are classified under fixed assets (see Note 13).

23.1 Information on major lease agreement in which the Group is the lessee

23.1.1 Property and coffee stand agreements

Leased property	Remaining lease term
Logistics center in Kfar Masaryk	Until December 2037, with options to renew until November 2047.
Coffee stand at Ben-Gurion Airport	Until October 2027, with options to renew until October 2029.
Israel Railways coffee stands	Until December 2027, with an option to renew until December 2031.

Notes to the Consolidated Financial Statements

Note 23 – Leases (cont'd)

23.1 Information on major lease agreement in which the Group is the lessee (cont'd)

23.1.2 The Group leases vehicles for an average period of three years, and from time to time alters the number of vehicles according to its current needs. The leased vehicles serve the employees of Group headquarters, marketing and sales and other employees, whose employment agreements include an obligation by the Group to place vehicles at their disposal. The Group has accounted for the arrangement between it and the leasing companies as a leasing arrangement governed by IFRS 16, and the arrangement between the Group and its employees as an arrangement governed by IAS 19. The Group has no extension and/or cancellation options in its agreements with leasing companies which are reasonably certain to be exercised.

23.2 Right-of-use assets

	Buildings and coffee stands	Vehicles	Total
Balance as of January 1, 2023	236	90	326
Additions	*124	120	244
Disposals	(3)	(14)	(17)
Depreciation	(46)	(65)	(111)
Foreign currency effects	1	-	1
Indexation	12	3	15
Balance as of December 31, 2023	324	134	458
Balance as of January 1, 2022	111	94	205
Additions	158	52	210
Disposals	(2)	(3)	(5)
Depreciation	(42)	(57)	(99)
Foreign currency effects	1	-	1
Indexation	10	4	14
Balance as of December 31, 2022	236	90	326

* In 2023, including an increase of NIS 105 million following entry into a lease agreement for a logistics center in Kfar Masaryk until December 2037, including options to renew until November 2047.

23.3 Additional information on leases

(a) Amounts recognized in profit or loss

	For the Year Ended December 31		
	2023	2022	2021
	NIS millions		
Expenses associated with variable lease payments that were not included in the measurement of the lease liability	6	5	4
Expenses associated with short-term leases	9	14	15

For information on interest expenses in respect of leases recognized in profit or loss in 2023, see Note 32 below.



Notes to the Consolidated Financial Statements

Note 23 – Leases (cont'd)

23.3 Additional information on leases (cont'd)

(b) Options to terminate or extend a lease

In most of the lease agreements the Group assumed that it is reasonably certain that the options to renew contained in the agreements will be exercised, and accordingly, there are no material commitments associated with leases, which were not presented in the financial statements.

(c) Amounts recognized in the statement of cash flows

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Total cash flow paid for leases (principal and interest)	115	105	90

In Israel, most lease payments are linked to the CPI.

For information on an analysis of the payment dates of lease liabilities, see Note 26.6 below.

Note 24 - 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.

24.1 Share capital

24.1.1 Composition

	December 31	
	2023	2022
	Number of shares (in thousands) of NIS 1 par value	
Authorized	150,000	150,000
Issued and paid-up (see also Note 24.1.2 below)	117,405	117,271
Treasury shares (see also Note 24.2 below)	(868)	(868)
	<u>116,537</u>	<u>116,403</u>

24.1.2 The holders of ordinary shares are entitled to dividends declared from time to time and to one vote per share at shareholders' meetings of the Company. Treasury shares (see below) do not grant such rights.



Notes to the Consolidated Financial Statements

Note 24 - Capital and Reserves (cont'd)

24.2 Treasury shares

The treasury share reserve includes the cost of Company shares held by the Company. On December 31, 2023 and 2022 the Company held 868 thousand Company shares, constituting approximately 0.7% of the shares of the Company. These shares are suspended until reissued.

24.3 Dividend distribution

In 2023, the Company did not declare or distribute a dividend to shareholders.

Declaration date	Payment date	Total dividend paid NIS millions	Dividend per share NIS
March 21, 2022 (ex-date: March 30, 2022)	April 13, 2022	290	2.494
March 21, 2021 (ex-date: March 30, 2021)	April 13, 2021	270	2.325

The dividend distribution led to the adjustment of the exercise price of warrants granted to employees. For further information, see Note 21.1.1 above.

24.4 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.

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		
	2023	2022	2021
	NIS millions		
International Coffee ⁽¹⁾	77	153	(125)
International Dips and Spreads	3	38	(16)
Water	(3)	14	-
Other	-	(7)	3
Total	77	198	(138)

⁽¹⁾ For changes in the exchange rate of the Brazilian Real, see Note 11.5 above.

Note 24 - Capital and Reserves (cont'd)

24.5 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 25 - Segment Reporting

25.1 General

Segment information is presented in respect of the operating segments of the Group based on the Group's management (non-GAAP) and internal reports (the "**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 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.
 - International Coffee – includes the manufacture, marketing and sale of coffee products outside Israel.
- The International Dips and Spreads operating segment – includes the manufacture, marketing and sale of refrigerated dips and spreads outside Israel.
- The Strauss Water operating segment – includes the development, assembly, marketing, sale and servicing of point-of-use (POU) water filtration, purification and carbonation systems.
- Other Operations – includes the activity of the FoodTech incubator (The Kitchen), which is carried out as part of the Group's innovation arm, and the activities of Group HQ.

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. According to these reports, the Group presents the operating segments by presenting the Group's relative share of the income and expenses of jointly controlled companies (50%), and not as equity income. These evaluations are based on operating profit, which includes the allocation of selling expenses and general and administrative expenses, which were burdened according to the allocation indices of the relevant cost generators, less certain items, as follows:

Note 25 - Segment Reporting (cont'd)

25.1 General (cont'd)

- 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 based on 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 mainly comprise finance income and expenses.



Notes to the Consolidated Financial Statements

Note 25 - Segment Reporting (cont'd)

25.2 Information according to operating segments and reconciliation of segment operating data to the consolidated financial statements

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Income			
Sales to external customers:			
Health & Wellness	3,066	2,784	2,688
Fun & Indulgence	1,008	712	1,149
Total Israel	4,074	3,496	3,837
Israel Coffee	513	778	728
International Coffee	4,361	4,026	2,771
Total Coffee	5,154	4,804	3,499
International Dips and Spreads	513	415	680
Water	805	785	736
Other	3	1	-
Sales to other segments:			
Health & Wellness	8	5	6
Fun & Indulgence	6	5	8
Total Israel	14	10	14
Israel Coffee	2	2	2
International Coffee	1	1	2
Total Coffee	3	3	4
Total segment income	10,566	9,514	8,770
Elimination of intersegment sales	(17)	(13)	(18)
Total segment income excluding intersegment sales	10,549	9,501	8,752
Adjustment to the equity method	(3,754)	(3,396)	(2,678)
Total consolidated income	6,795	6,105	6,074



Notes to the Consolidated Financial Statements

Note 25 - Segment Reporting (cont'd)

25.2 Information according to operating segments and reconciliation of segment operating data to the consolidated financial statements (cont'd)

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Profit (loss)			
Health & Wellness	355	280	341
Fun & Indulgence	27	(302)	110
Total Israel	382	(22)	451
Israel Coffee	107	97	155
International Coffee	248	363	197
Total Coffee	355	460	352
International Dips and Spreads	14	(111)	29
Water	90	97	92
Other	(69)	(45)	56
Total segment profit	772	379	980
Unallocated income (expenses):			
Adjustments for commodity hedges ⁽¹⁾	23	(26)	(11)
Other expenses, net	61	(87)	(4)
Share-based payment	(26)	(19)	(19)
Total operating profit	830	247	946
Adjustment to the equity method	(15)	(55)	(30)
Total operating profit in the consolidated financial statements	815	192	916
Finance expenses, net	(94)	(41)	(80)
Income before taxes	721	151	836

⁽¹⁾ Reflects mark-to-market as of period end of open positions in the Group in respect of financial derivatives used to economically hedge commodity prices, and all adjustments necessary to delay recognition of most of the gains or losses arising from commodity derivatives until the date when the inventory is sold to outside parties.



Notes to the Consolidated Financial Statements

Note 25 - Segment Reporting (cont'd)

25.3 Additional information on operating segments and reconciliation to the consolidated financial statements

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Depreciation and amortization			
Health & Wellness	99	95	96
Fun & Indulgence	73	68	64
Total Israel	172	163	160
Israel Coffee	44	44	28
International Coffee	89	84	73
Total Coffee	133	128	101
International Dips and Spreads	28	33	26
Water	52	48	39
Other	-	1	1
	385	373	327
Adjustments:			
Depreciation of unallocated non-financial assets	35	21	22
Adjustment to the equity method	(88)	(87)	(70)
Total depreciation and amortization in the consolidated financial statements	332	307	279

25.4 Information on geographical segments

The Group's income from sales to external customers, as reported in the income statement, based on their geographical location, is as follows:

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Israel	5,303	4,707	4,972
Europe and RoW	1,492	1,398	1,102
Total consolidated income	6,795	6,105	6,074
Adjustment to income of operating segments for jointly controlled entities	3,754	3,396	2,678
Total income of operating segments	10,549	9,501	8,752



Notes to the Consolidated Financial Statements

Note 25 - Segment Reporting (cont'd)

25.4 Information on geographical segments (cont'd)

The non-current assets of the Group, as reported in the statement of financial position, based on their geographical location, are as follows:

	December 31	
	2023	2022
	NIS millions	
Israel	3,005	2,596
Europe and RoW	651	641
Total consolidated assets	3,656	3,237
Adjustment to operating segment assets	1,049	976
Total operating segment assets	4,705	4,213

These assets mainly include fixed assets, right-of-use assets and intangible assets, and do not include financial assets, investments in equity-accounted investees and deferred tax assets.

25.5 Information regarding products and services

The Group's income from sales to external customers, as reported in the income statement, according to groups of similar products and services, is as follows:

	Year ended December 31		
	2023	2022	2021
	NIS millions		
Income			
Dairy products	2,158	1,930	1,879
Salads	463	421	388
Other Health & Wellness products	464	434	421
Confectionery and bakery	662	391	848
Coffee	2,243	2,144	1,802
Water purification appliances and related services	805	785	736
Total consolidated income	6,795	6,105	6,074
Adjustment to operating segment income	3,754	3,396	2,678
Total operating segment income	10,549	9,501	8,752

25.6 Major customers

The Group's income from a customer attributed to the Health & Wellness segment, the Fun & Indulgence segment and the Israel Coffee segment amounted to NIS 584 million (in 2022 and 2021: NIS 527 million and NIS 587 million, respectively).

Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments

The Group is exposed to the following risks arising from the use of financial instruments:

- Credit risk;
- Market risks including: 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 price on the Tel Aviv Stock Exchange.

26.1 Credit risk

Other than as stated in Note 25.6 above with respect to the Group's income from a major customer, the accounts receivable balance is spread, and the Group is not exposed to a material risk arising from the concentration of credit with a single customer or group of customers.

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 component) 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. Most of the credit granted to large customers is secured and is concentrated among a small number of customers to which the scope of the Group's sales is large, and therefore non-repayment of credit which is not secured by any of the large customers may to a certain extent impair the Group's cash flows and business results. Most of the credit to customers outside Israel 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 where collection is doubtful.

26.1.1 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 8 above. Additionally, for a segmentation of financial assets with varying credit risks, see Note 12 above regarding loans granted.

Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.1 Credit risk (cont'd)

26.1.2 Sureties and other credit enhancements

As of December 31, 2023, customer credit at an amount of NIS 1,031 million (2022: NIS 992 million) is covered by credit insurance as described above. In addition, the Company has deposits and collateral from customers to secure their debts, amounting to NIS 119 million as of December 31, 2023 (2022: NIS 112 million).

26.2 Interest rate risk

The Company's interest rate risk primarily arises from bank loans at floating interest rates, and customer deposits at floating interest rates. In parallel, from time to time the Company invests in short-term deposits bearing floating interest.

As of December 31, 2023, short-term loans and credit amounting to NIS 8 million (2022: NIS 123 million) bear floating interest, and the remainder of the debt (including lease liabilities), NIS 2,622 million (2022: NIS 2,491 million), bears fixed interest. Accordingly, any change in interest rates on the reporting date applying to the Company's financial debt is not expected to have a material impact on equity and profit and loss in the relevant periods.

26.3 Commodity risk

The Group companies use derivative financial instruments to reduce exposure to risks arising from unusual changes in the prices of raw materials required for production (green coffee, cocoa and crude oil) or materials and cost influenced by commodity prices (crude oil, seeds and grains).

26.3.1 Following is an itemization of the Group's material derivative financial instruments (exchange traded derivatives):

			December 31, 2023	
			Nominal value	Carrying amount and fair value
			NIS millions	
			Exercise/expiration date	
Green coffee	Contracts purchased, net	January 2024 – September 2024	(2)	16
			December 31, 2022	
			Nominal value	Carrying amount and fair value
			NIS millions	
			Exercise/expiration date	
Green coffee	Contracts purchased, net	March 2023 – November 2023	265	(21)



Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.3 Commodity risk (cont'd)

26.3.2 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, 2023					
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	1	-	5	-	(1)
Robusta	(1)	-	11	-	1
Total	-	-	16	-	-

December 31, 2022					
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
	NIS millions				
Arabica	11	6	(8)	(6)	(11)
Robusta	15	7	(13)	(7)	(15)
Total	26	13	(21)	(13)	(26)

26.4 Foreign currency risk

26.4.1 The Group uses derivatives (OTC) to hedge part of its foreign currency risk. On December 31, 2023, the carrying amount and fair value of the Group's derivative financial instruments (foreign currency), net amounted to net liabilities of NIS 2 million (December 31, 2022: net assets of NIS 16 million).



Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.4 Foreign currency risk (cont'd)

26.4.2 Sensitivity analysis relating to financial assets (liabilities)

Following is a sensitivity analysis relating to the Group's material derivative instruments (foreign currency – OTC) on December 31, 2023 and December 31, 2022. Any change in the exchange rates of the major currencies on 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, 2023				
		10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/USD exchange rate		3.989	3.808	3.627	3.446	3.264
Total NIS/USD derivatives		29	15	(1)	(16)	(32)
		December 31, 2023				
		10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/EUR exchange rate		4.413	4.212	4.012	3.811	3.610
Total NIS/EUR derivatives		5	3	-	(2)	(5)
		December 31, 2023				
		10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/GBP exchange rate		5.083	4.852	4.621	4.390	4.159
Total NIS/GBP derivatives		2	1	1	(1)	(2)
		December 31, 2022				
		10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/USD exchange rate		3.871	3.695	3.519	3.343	3.167
Total NIS/USD derivatives		12	6	7	(6)	(13)
		December 31, 2022				
		10% Increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/EUR exchange rate		4.128	3.941	3.753	3.565	3.378
Total NIS/EUR derivatives ⁽¹⁾		7	4	6	(4)	(7)

⁽¹⁾ Not including an NIS/EUR hedge against an EUR denominated loan.



Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.4 Foreign currency risk (cont'd)

26.4.2 Sensitivity analysis relating to financial assets (liabilities) (cont'd)

	December 31, 2022				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/GBP exchange rate	4.661	4.450	4.238	4.026	3.814
Total NIS/GBP derivatives	6	3	3	(3)	(5)

26.4.3 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, 2023						
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non- monetary
	NIS millions						
Cash and cash equivalents	-	127	265	20	6	99	-
Trade receivables	-	780	24	4	65	130	-
Other receivables and debit balances ⁽¹⁾	-	37	13	1	6	8	51
Other investments and long-term debt balances	6	19	98	-	-	48	7
Current maturities of debentures	-	(174)	-	-	-	-	-
Short-term loans and credit	-	(215)	-	-	(1)	1	-
Current maturities of lease liabilities	(92)	(2)	-	-	(1)	(8)	-
Trade payables	-	(696)	(455)	(30)	(2)	(55)	-
Other payables and credit balances ⁽²⁾	-	(443)	(5)	(17)	(37)	(35)	(25)
Debentures	-	(1,320)	-	-	-	-	-
Long-term loans and credit	-	(343)	(8)	(100)	-	-	-
Lease liabilities	(352)	(1)	-	-	-	(14)	-
Other long-term payables and credit balances	-	(21)	-	-	-	(5)	(11)
Total	(438)	(2,252)	(68)	(122)	36	169	22

⁽¹⁾ Excluding derivative financial instruments at an amount of NIS 57 million.

⁽²⁾ Excluding derivative financial instruments at an amount of NIS 46 million.



Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.4 Foreign currency risk (cont'd)

26.4.3 Statement of financial position according to linkage bases (cont'd)

	December 31, 2022						
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non- monetary
	NIS millions						
Cash and cash equivalents	-	198	226	23	5	65	-
Trade receivables	-	740	17	5	76	111	-
Other receivables and debit balances ⁽¹⁾	-	39	47	1	6	3	45
Other investments and long-term debt balances	6	26	67	-	-	46	6
Current maturities of debentures	-	(30)	-	-	-	-	-
Short-term loans and credit	-	(523)	-	(214)	(15)	(7)	-
Current maturities of lease liabilities	(75)	(2)	-	-	(1)	(7)	-
Trade payables	-	(696)	(392)	(46)	(3)	(49)	-
Other payables and credit balances ⁽²⁾	-	(427)	(10)	(12)	(40)	(38)	(50)
Debentures	-	(1,174)	-	-	-	-	-
Long-term loans and credit	-	(314)	-	-	-	-	-
Lease liabilities	(234)	(2)	-	-	(1)	(15)	-
Other long-term payables and credit balances	-	(10)	-	-	-	(1)	-
Total	(303)	(2,175)	(45)	(243)	27	108	1

⁽¹⁾ Excluding derivative financial instruments at an amount of NIS 28 million.

⁽²⁾ Excluding derivative financial instruments at an amount of NIS 31 million.

26.4.4 Any change in the exchange rates of the major currencies on 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, would increase (decrease) equity (equity attributable to all shareholders of the Company) by the amounts presented below.

	December 31, 2023				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	3.989	3.808	3.627	3.446	3.264
Effect (NIS millions)	29	15	(1)	(16)	(32)

	December 31, 2022				
	10% increase	5% increase	Exchange rate/ carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	3.871	3.695	3.519	3.343	3.167
Effect (NIS millions)	4	2	37	(2)	(4)



Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.5 CPI risk

The Company has CPI-linked lease liabilities (see Note 26.4.3 above). As of December 31, 2023 and December 31, 2022, the Company has no CPI futures contracts.

26.6 Liquidity risk

The Company's liabilities mainly arise from credit that was raised by issuing debentures (Series E and Series F) and loans from banks and others. In addition to these liabilities, the Company has secured and 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 credit lines available to it (see Note 19.6 above). 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 data known on the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

		December 31, 2023							
	Note	Carrying amount	Contractual cash flow	2024	2025	2026	2027	2028	2029 and thereafter
NIS millions									
Trade payables	16	1,238	1,238	1,238	-	-	-	-	-
Derivatives	17	46	46	46	-	-	-	-	-
Other payables ⁽¹⁾	17	536	535	535	-	-	-	-	-
Series E debentures	19	481	508	132	128	126	122	-	-
Series F debentures	19	1,013	1,230	74	73	72	71	102	838
Shekel loans from others	19	301	335	78	69	66	62	39	21
Foreign currency bank loans and credit	19	108	117	5	112	-	-	-	-
Liability in respect of credit card factoring	19		256	147	82	24	3	-	-
Lease liability	19	470	566	118	98	63	43	37	207
Long-term payables and credit balances		5	5	-	1	-	-	-	4
		4,454	4,836	2,373	563	351	301	178	1,070

⁽¹⁾ The carrying amount includes accrued interest expenses.



Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.6 Liquidity risk (cont'd)

				December 31, 2022					
Note	Carrying amount	Contractual cash flow	2023	2024	2025	2026	2027	2028 and thereafter	
NIS millions									
Trade payables	16	1,186	1,186	1,186	-	-	-	-	
Derivatives	17	31	31	31	-	-	-	-	
Other payables ⁽¹⁾	17	527	511	511	-	-	-	-	
Series E debentures	19	511	558	50	132	128	126	122	
Series F debentures	19	693	822	20	48	47	47	46	
Shekel bank loans	19	289	292	292	-	-	-	-	
Shekel loans from others	19	276	301	83	58	50	48	45	
Foreign currency bank loans and credit	19	236	243	243	-	-	-	-	
Liability in respect of credit card factoring	19	272	272	160	87	23	2	-	
Lease liability	19	337	366	93	72	50	32	28	
Long-term payables and credit balances		2	2	-	1	-	-	-	
		4,360	4,584	2,669	398	298	255	241	

⁽¹⁾ The carrying amount includes accrued interest expenses.

26.7 Fair value of financial instruments

26.7.1 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, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS millions			
Series E debentures ⁽¹⁾	481	470	517	494
Series F debentures ⁽¹⁾	1,013	898	700	577

⁽¹⁾ For further information on Series E and Series F debentures, see Note 19.4 above.

Notes to the Consolidated Financial Statements

Note 26 - Financial Instruments (cont'd)

26.7 Fair value of financial instruments (cont'd)

26.7.2 Fair value hierarchy

26.7.2.1 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.

26.7.2.2 Fair value hierarchy of financial instruments measured at fair value

	December 31, 2023		December 31, 2022	
	Level 1	Level 2	Level 1	Level 2
	NIS millions			
Financial assets (liabilities)				
Derivative receivables	52	5	9	19
Derivative payables	(39)	(7)	(28)	(3)
	<u>13</u>	<u>(2)</u>	<u>(19)</u>	<u>16</u>

As of December 31, 2023 and 2022, the Group has no material financial instruments measured at Level 3.

Note 27 – Sales

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Sales of manufactured products	5,135	4,550	4,743
Sales of other products	1,081	1,023	828
Other income ⁽¹⁾	579	532	503
	<u>6,795</u>	<u>6,105</u>	<u>6,074</u>

⁽¹⁾ Mainly income from services for water purification devices.

Notes to the Consolidated Financial Statements

Note 28 - Cost of Sales

28.1 By component

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Materials consumed ⁽¹⁾	3,379	3,162	2,760
Wages, salaries and related expenses	523	492	481
Depreciation and amortization	164	161	153
Other manufacturing expenses	311	297	248
Change in provision for warranty	2	(4)	(1)
	4,379	4,108	3,641
Valuation of balance of commodity hedging transactions at year end	(27)	21	11
	4,352	4,129	3,652

⁽¹⁾ In 2023, including a net loss of NIS 47 million (2022 and 2021: NIS 142 million and NIS 27 million, respectively) in respect of inventory impairment.

28.2 By source of income

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Manufactured products	3,495	3,315	3,007
Other products	670	608	467
Other income ⁽¹⁾	214	185	167
	4,379	4,108	3,641
Valuation of balance of commodity hedging transactions at year end	(27)	21	11
	4,352	4,129	3,652

⁽¹⁾ Costs in respect of other income mainly include costs of services provided for water purification devices.

Notes to the Consolidated Financial Statements

Note 29 - Selling and Marketing Expenses

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Salaries and related expenses	597	574	563
Advertising	214	217	278
Doubtful and bad debts	(1)	3	(4)
Distribution and shipping expenses	296	272	259
Maintenance expenses	120	113	89
Depreciation and amortization	117	108	93
Expense reimbursement by equity-accounted investees	(51)	(29)	(27)
Other	98	101	93
	<u>1,390</u>	<u>1,359</u>	<u>1,344</u>

Note 30 - General and Administrative Expenses

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Salaries and related expenses ⁽¹⁾	273	259	274
Depreciation and amortization	51	39	32
Contributions	15	8	14
Consulting and professional fees	62	78	76
Maintenance expenses	59	30	24
Expense reimbursement by equity-accounted investees	(6)	(4)	(2)
Other	17	15	2
	<u>471</u>	<u>425</u>	<u>420</u>
⁽¹⁾ Less:			
Salaries and related expenses capitalized to inhouse software	<u>33</u>	<u>17</u>	<u>7</u>

Notes to the Consolidated Financial Statements

Note 31 - Other Income (Expenses), Net

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Other income			
Gain on sale of fixed assets and investment property, net	92	1	5
Gain on sale of business	7	-	-
Other income	4	3	1
Total other income	<u>103</u>	<u>4</u>	<u>6</u>
Other expenses			
Restructuring expenses	(6)	(16)	(3)
Business establishment and acquisition costs	(6)	(6)	(5)
Loss on fixed assets and assets held for sale, net	(8)	(10)	(1)
Goodwill impairment	-	(25)	-
Other expenses	(13)	(1)	(2)
Total other expenses	<u>(33)</u>	<u>(58)</u>	<u>(11)</u>
Other expenses, net	<u>70</u>	<u>(54)</u>	<u>(5)</u>

Note 32 - Finance Expenses, Net

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Finance income:			
Interest income	25	8	4
Net gain on derivative financial instruments measured at fair value through profit or loss	23	29	-
Net foreign exchange gain	-	9	-
Total finance income	<u>48</u>	<u>46</u>	<u>4</u>
Finance expenses:			
Interest expenses	(114)	(79)	(67)
Interest expenses on lease liabilities	(14)	(8)	(5)
Net loss on derivative financial instruments measured at fair value through profit or loss	-	-	(6)
Net foreign exchange loss	(14)	-	(6)
Total finance expenses	<u>(142)</u>	<u>(87)</u>	<u>(84)</u>
Finance expenses, net	<u>(94)</u>	<u>(41)</u>	<u>(80)</u>

Note 33 - Income Tax

33.1 Information on the tax environment in which the Group companies in Israel operate

33.1.1 Corporate tax rates

Following are the tax rates applying to the Company in 2021-2023:

2021 – 23%

2022 – 23%

2023 – 23%

33.1.2 Benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company and part of the Group companies are “industrial companies” as defined in the Law for the Encouragement of Industry (Taxes), 1969, and accordingly, they are entitled to benefits, the principal ones being:

- 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.

33.2 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%; Holland – 25.8%; Switzerland – 12%; Ukraine – 18%; Russia – 20%; UK – 25%; USA – approximately 28%; China – up to 25%; Germany – 27%.

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. 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 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 a dividend distribution.

Note 33 - Income Tax (cont'd)

33.3 Final tax assessments

Most of the companies in Israel were issued with final tax assessments up to and including 2017 in the framework of assessment agreements signed in 2019 and 2020. The rest of the subsidiaries in Israel have self-assessments that are considered final (subject to the dates of submission of the tax returns and extension of the period of limitations according to the law) up to and including the 2017 tax year.

Final tax assessments were issued for the Group companies outside of Israel as follows: For Strauss Coffee in Holland up to and including the 2019 tax year; for Strauss Serbia up to and including the 2012 tax year; for Strauss Romania up to and including the 2019 tax year; for Strauss Poland and Ukraine up to and including the 2017 tax year; for Strauss Germany up to and including the 2014 tax year; for S.E. USA up to and including the 2019 tax year; for Strauss Russia up to and including the 2020 tax year; for Strauss Switzerland up to and including the 2021 tax year.

33.4 Carryforward tax losses

The Group has carryforward tax losses of NIS 897 million (2022: NIS 882 million). Deferred taxes were not recorded in respect of losses of NIS 295 million (2022: NIS 338 million).

33.5 Transfer prices

In November 2006 a general provision of law and regulations were published in Israel, 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.

33.6 Assessment proceedings

An assessment audit of some of the Group companies operating in and outside of Israel is underway (including VAT assessments and deductions) for years in which respect the statute of limitations has not yet expired. In the opinion of Group management, at this preliminary stage and based on the information available to the Group, the provision recorded is adequate. Additionally, some of the Group companies have been issued non-final tax assessments. Company management estimates, in reliance on its legal counsel, that in cases where the Company's position is not expected to be accepted, the provision made is sufficient.

Notes to the Consolidated Financial Statements

Note 33 - Income Tax (cont'd)

33.7 International directives

The OECD's Base Erosion and Profit Shifting (BEPS) initiative and other directives (such as the OECD's Pillar 2, which concerns the establishment of a minimum tax rate) may have implications on the Group's tax expenses.

In the reporting period, some of the countries in which the Group operates adopted new legislation concerning the implementation of global minimum tax ("Pillar Two GloBE Rules"). In most countries of operations, the legislation will take effect from January 1, 2024, and consequently, current taxes for the year ended December 31, 2023 are not affected. The Group expects that it will be subject to the GloBE Rules with respect to its business in some countries of operations, notably Brazil, where the investee is granted additional tax deductions that could lower the applicable effective tax rate to below 15%. The Group has applied the temporary mandatory exception to the requirements to recognize and disclose temporary differences arising from the implementation of the new law (see Note 2.6.3 above) and recognizes the global minimum tax as current tax when incurred. There is no effect on current tax expenses or on deferred taxes for the year ended December 31, 2023 (for the year ended December 31, 2022: 0).

In light of the complexity involved in implementing legislation that adopts the Pillar Two Rules, including Pillar Two GloBE income calculation, the quantitative impact of enacted or substantively enacted tax law that implements the Pillar Two Rules still cannot be reliably estimated. At the present stage, the Group has retained outside consultants for the purpose of implementing the legislation and solidifying the estimate.

33.8 Composition of income tax expenses

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Current taxes	162	163	157
Taxes – prior years	(4)	15	(9)
Deferred taxes	7	(137)	8
Deferred taxes – prior years	2	(7)	-
	<u>167</u>	<u>34</u>	<u>156</u>

Notes to the Consolidated Financial Statements

Note 33 - Income Tax (cont'd)

33.9 Reconciliation of the theoretical tax on pre-tax income and the tax expenses recorded on the Company's books

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Income before taxes	721	151	836
Principal tax rate	23%	23%	23%
Income tax at the principal tax rate	166	35	192
Deferred taxes at a different tax rate to the principal rate	17	8	2
Permanent differences, net	49	34	22
Temporary differences and utilization of losses in which respect deferred taxes were not recorded	(17)	(2)	6
Share of profit of equity-accounted investees, in which respect deferred taxes were not recorded	(25)	(30)	(45)
Net differences resulting from differences in tax rates abroad	(18)	(17)	(10)
Taxes in respect of prior years	(2)	8	(9)
Differences resulting from benefits and reduced tax rates	(3)	(2)	(2)
Income tax in the income statement	167	34	156
Effective tax rate	23.1%	22.7%	18.6%



Notes to the Consolidated Financial Statements

Note 33 - Income Tax (cont'd)

33.10 Composition of deferred taxes included in assets (liabilities)

	Balance as of January 1, 2022	Decrease (increase) in deferred tax expense on the income statement	Changes in deferred taxes classified to other comprehensive income	Balance as of December 31, 2022	Decrease (increase) in deferred tax expense on the income statement	Changes in deferred taxes classified to other comprehensive income	Balance as of December 31, 2023
Deferred taxes in respect of:							
Provision for doubtful debts	5	-	-	5	(1)	-	4
Provision for vacation and convalescence	13	(2)	-	11	-	-	11
Tax losses and deductions	4	135	-	139	16	-	155
Employee severance benefits	9	-	(1)	8	(2)	-	6
Inventory adjustments	3	1	-	4	-	-	4
Other temporary differences	17	5	-	22	2	-	24
Fixed assets, intangible assets and deferred expenses	(227)	9	(6)	(224)	-	(4)	(228)
Hedging transactions	-	4	-	4	(7)	-	(3)
Differences arising from investment in subsidiaries and equity-accounted investees	(59)	(8)	-	(67)	(17)	-	(84)
	(235)	144	(7)	(98)	(9)	(4)	(111)
Range of tax rates in the Group	12%-28%			12%-28%			12%-28%



Notes to the Consolidated Financial Statements

Note 34 - Basic and Diluted Earnings per Share

Basic earnings per share for the year 2023 were calculated by dividing the income attributable to ordinary shareholders, at an amount of NIS 488 million (2022 and 2021: NIS 64 and NIS 609 million, respectively), by the weighted average number of ordinary shares, as follows:

Weighted average number of ordinary shares:

	For the year ended December 31		
	2023	2022	2021
	Millions of shares of NIS 1 par value (each)		
Balance as of January 1	117.3	117.1	117.0
Plus warrants exercised for shares and shares issued (weighted) during the period	0.1	0.1	-
Less treasury shares	(0.9)	(0.9)	(0.9)
Weighted average number of ordinary shares used to calculate basic earnings per share for the year	116.5	116.3	116.1

Diluted EPS for the years 2023, 2022 and 2021 were calculated by dividing the income attributable to ordinary shareholders in the calculation of basic earnings per share by the weighted average number of ordinary shares outstanding, after adjusting for all potentially dilutive ordinary shares, as follows:

Weighted average number of ordinary shares (diluted):

	For the year ended December 31		
	2023	2022	2021
	Millions of shares of NIS 1 par value (each)		
Weighted average number of ordinary shares used to calculate basic earnings per share	116.5	116.3	116.1
Effect of warrants	0.1	0.5	0.7
Weighted average number of ordinary shares used to calculate diluted earnings per share	116.6	116.8	116.8

To calculate the dilutive effect of the warrants, the average market value of the Company's shares was based on quoted market prices during the period in which the warrants were outstanding.

In the calculation for 2023, 6,818 thousand warrants (in 2022 and 2021: 3,989 thousand warrants and 2,907 thousand warrants, respectively) were excluded from the calculation of the weighted average number of ordinary shares (diluted), as their effect would be anti-dilutive.



Notes to the Consolidated Financial Statements

Note 35 - Balances and Transactions with Interested and Related Parties

35.1 Identity of interested and related parties

The Company's interested and related parties are the parent company, related parties of the parent company, equity-accounted investees (see Note 11 above), and directors and members of senior management, who are the Company's senior officers.

35.2 Transactions with senior management members

35.2.1 In addition to salary, senior management members participate in the Company's ESOP. For information on the allotment of warrants to executives in 2023, see Note 21 above.

The benefits awarded to members of senior management are as follows:

	For the year ended December 31					
	2023		2022		2021	
	Number of persons	NIS millions	Number of persons	NIS millions	Number of persons	NIS millions
Short-term benefits	10	22	11	18	9	25
Post-employment benefits	10	1	11	2	9	2
Share-based payment	10	11	11	8	9	10
		<u>34</u>		<u>28</u>		<u>37</u>

35.2.1.1 On August 8, 2022, the Company reported that Mr. Giora Bardea, who served as Strauss Group's Chief Executive Officer since 2018, had informed the Company of his intention to step down. On October 28, 2022, the Company reported the decision to appoint Shai Babad to the position of Chief Executive Officer commencing on December 1, 2022, and that on November 30, 2022, Giora Bardea would cease to serve as CEO.

35.2.2 The benefits awarded to members of the board of directors are as follows:

	For the year ended December 31					
	2023		2022		2021	
	Number of persons	NIS millions	Number of persons	NIS millions	Number of persons	NIS millions
Directors who are not employed	9	2	11	5	11	3
Employed interested parties ⁽¹⁾	1	3	1	3	1	4
	<u>10</u>	<u>5</u>	<u>12</u>	<u>8</u>	<u>12</u>	<u>7</u>

⁽¹⁾ The interested party was employed by the Company under a personal contract until January 2021, and commencing in February 2021, has been employed by the Company under a management agreement.

**Note 35 - Balances and Transactions with Interested and Related Parties (cont'd)****35.2 Transactions with senior management members (cont'd)****35.2.2 (cont'd)**

Expenses related to directors' benefits were included within general and administrative expenses on the income statement. As of December 31, 2023, there is a credit balance of NIS 0.6 million in respect of directors' fees (December 31, 2022: NIS 1 million).

35.2.3 See Note 22.4.2 above regarding a letter of undertaking to indemnify officers and a directors and officers (D&O) insurance policy.

35.3 Balances and transactions with interested and related parties

	Parent company and its related parties	Equity- accounted investees	Total
	NIS millions		
As of December 31, 2023:			
Current assets presented under trade and other receivables	-	5	5
Long-term assets presented under investments and long-term receivables	-	145	145
Current liabilities presented under trade and other payables	(2)	(63)	(65)
As of December 31, 2022:			
Current assets presented under trade and other receivables	-	6	6
Long-term assets presented under investments and long-term receivables	-	112	112
Current liabilities presented under trade and other payables	-	(19)	(19)

**Note 35 - Balances and Transactions with Interested and Related Parties (cont'd)****35.3 Balances and transactions with interested and related parties (cont'd)**

	Parent company and its related parties ⁽¹⁾	Equity- accounted investees	Total
		NIS millions	
For the year ended December 31, 2023:			
Sales	-	3	3
Purchases	-	(1)	(1)
Selling, general and administrative income (expenses)	(15)	66	51
Finance income	-	3	3
For the year ended December 31, 2022:			
Sales	-	6	6
Purchases	-	(3)	(3)
Selling, general and administrative income (expenses)	(10)	37	27
Finance income	-	2	2
For the year ended December 31, 2021:			
Sales	2	6	8
Purchases	-	(1)	(1)
Selling, general and administrative income (expenses)	(21)	36	15
Finance income	-	2	2

⁽¹⁾ Prices and credit terms for transactions with interested parties are determined in accordance with customary commercial terms and conditions. In 2023, mainly includes the purchase of advertising services from Reshet Media Ltd. at an amount of NIS 9 million (2022: NIS 10 million, 2021: NIS 17 million).

35.3.1 Further to approval by the General Meeting of September 2022 of an engagement by Strauss Health Ltd., a subsidiary of the Company, in a transaction for the acquisition of the lease rights held by Strauss Holdings Ltd., the controlling shareholder of the Company, in real property in Bar Lev Industrial Park in consideration for their fair value, on September 28, 2023, all suspending conditions determined in the sales agreement were satisfied. The lease term for the property, granted by the Israel Land Authority (ILA), is until March 2046. Leases from the ILA are classified under fixed assets. As a result of the engagement, in 2023 the Company recognized fixed assets at an amount of NIS 27 million. The consideration for the acquisition of the lease rights was paid in full during the year.

35.3.2 In September 2023, the Company entered into a strategic consulting services agreement with a consultancy in which a relative of a director has a personal interest, after the engagement in this agreement was approved in May 2023 by the audit committee and board of directors of the Company as an extraordinary transaction under sections 270(1) and 272 of the Companies Law. The agreement is for the period from July 1, 2023 through to December 31, 2025, subject to a cancellation option exercisable at any time by either of the parties, in accordance with arrangements set forth in the agreement. The compensation payable to the consultancy is variable and is contingent on performance conditions related to various Company performance metrics, and in the estimate of the Company is in the ordinary course of business and was undertaken in market conditions for transactions of a similar scope.



Note 36 - Events After the Reporting Period

- 36.1** For information on developments in claims pending after the date of the statement of financial position, see Note 22.1 above.
- 36.2** On March 18, 2024, the Group's remuneration committee approved the grant of 2,225,000 warrants to 34 managers. The exercise price was set at the average closing price of the Company's share in the 30 trading days preceding the grant date, plus a 5% premium. Entitlement to exercise the warrants will vest in two equal tranches, on March 18 of each of the years 2026-2027. The value of the grant is NIS 35 million.
- 36.3** On March 25, 2024, the board of directors of the Company approved a dividend distribution to shareholders at an amount of NIS 270 million (NIS 2.32 per share), which shall be paid on April 11, 2024.
- 36.4** On January 14, 2024, the board of directors of the Company approved an organizational optimization plan (the "**Optimization Plan**"). The goal of the Optimization Plan is to achieve further efficiency enhancement and savings, while aligning the organizational structure of the business in Israel with the Group's strategy and the macroeconomic environment. The Company is reviewing the resulting costs of the Plan, and estimates that they are immaterial.
- 36.5** As described in section 6.2 above, on February 29, 2024, approval of the transaction for the sale of the coffee company in Serbia by the Serbian Commission for Protection of Competition was received, and subsequently, on March 1, 2024, the transaction was closed. In accordance with the adjustments to the consideration determined in the transaction, the consideration for the sale at an amount of EUR 38.8 million, gross, was paid to Strauss Coffee on the closing date. The Company is expected to record a net loss of NIS 25 million in respect of the closing of the transaction in its consolidated financial statements as of March 31, 2024, comprising a profit of NIS 65 million from the transaction less a loss of NIS 90 million arising from the realization of the translation differences reserve attributable to the Company in Serbia.



Strauss Group Ltd.

Separate Financial Information As of December 31, 2023





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Unofficial Translation from Hebrew

To the Shareholders of Strauss Group Ltd.
49 Hasivim Street
Kiryat Matalon, Petach Tikva

Dear Sirs,

Subject: Special Auditors' Report on Separate Financial Data According to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Strauss Group Ltd. (hereinafter – the “Company”) as of December 31, 2023 and 2022 and for each of the three years, the last of which ended on December 31, 2023. 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 data based on our audit.

We did not audit the financial statements of an equity-accounted investee, the investment in which amounted to approximately NIS 278 million and NIS 155 million as of December 31, 2023 and 2022, respectively, and the Group’s share of profit amounted to approximately NIS 29 million and NIS 96 million for the years ended December 31, 2023 and 2022, respectively. The financial statements of that company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for that company, 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 data is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes a review of the accounting principles used in preparing the separate financial data and the significant estimates made by the Board of Directors and Management, as well as evaluating the adequacy of preparation of the separate financial data. 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 data has been prepared, in all material respects, in accordance with the Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 25, 2024



Information Pertaining to Financial Position

	Additional information	December 31	
		2023	2022
		NIS millions	
Current assets			
Cash and cash equivalents	2	90	119
Trade receivables		157	60
Other receivables and debit balances		61	51
Investee receivables		162	124
Inventory		126	113
Assets held for sale		2	9
Total current assets		598	476
Investments and non-current assets			
Investments in investees		3,101	2,729
Other investments and long-term debt balances	3	615	547
Right-of-use assets		218	88
Fixed assets		1,047	1,023
Investment property		3	2
Intangible assets		143	80
Total investments and non-current assets		5,127	4,469
Total assets		5,725	4,945

Ofra Strauss
Chairperson of the Board of
Directors

Shai Babad
Chief Executive Officer

Ariel Chetrit
Chief Financial Officer

Date of approval of the separate financial information: March 25, 2024

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


Information Pertaining to Financial Position (cont'd)

		December 31	
		2023	2022
	Additional information	NIS millions	
Current liabilities			
Current maturities of debentures	4	174	30
Short-term credit and current maturities of long-term loans and other long-term liabilities	4	-	390
Current maturities of lease liabilities		48	38
Trade payables		236	281
Income tax		89	44
Other payables and credit balances		235	248
Investee payables		344	152
Provisions		2	5
Total current liabilities		1,128	1,188
Non-current liabilities			
Debentures	4	1,320	1,174
Lease liabilities		173	54
Long-term payables and credit balances		21	10
Employee benefits, net		15	17
Deferred tax liability	6	31	19
Total non-current liabilities		1,560	1,274
Equity attributable to shareholders of the Company		3,037	2,483
Total liabilities and equity		5,725	4,945

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


Information Pertaining to Statements of Income

	Additional information	For the year ended December 31		
		2023	2022	2021
		NIS millions		
Sales		816	487	1,026
Cost of sales		594	579	670
Gross profit (loss)		222	(92)	356
Selling and marketing expenses		158	200	223
General and administrative expenses		128	96	95
		286	296	318
Operating profit (loss) before other income (expenses)		(64)	(388)	38
Other income		91	1	1
Other expenses		(25)	(27)	(6)
Other income (expenses), net		66	(26)	(5)
Operating profit (loss)		2	(414)	33
Finance income		38	35	13
Finance expenses		(79)	(42)	(44)
Finance expenses, net		(41)	(7)	(31)
Profit (loss) before income tax		(39)	(421)	2
Tax income (expense)	6	(27)	83	(13)
Loss after income tax		(66)	(338)	(11)
Income from investees		554	402	620
Income for the period attributable to shareholders of the Company		488	64	609

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



Information Pertaining to Comprehensive Income

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Income for the year attributable to shareholders of the Company	<u>488</u>	<u>64</u>	<u>609</u>
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:			
Other comprehensive income (loss) from investees	<u>76</u>	<u>200</u>	<u>(139)</u>
Total other comprehensive income (loss) items that will be reclassified to profit or loss, net of tax	<u>76</u>	<u>200</u>	<u>(139)</u>
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:			
Changes in employee benefits, net	<u>1</u>	<u>7</u>	<u>4</u>
Total other comprehensive income items that will not be reclassified to profit or loss, net of tax	<u>1</u>	<u>7</u>	<u>4</u>
Comprehensive income for the year attributable to shareholders of the Company	<u>565</u>	<u>271</u>	<u>474</u>

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


Information Pertaining to Cash Flows

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Cash flows from operating activities			
Income for the period attributable to shareholders of the Company	488	64	609
Adjustments:			
Depreciation	120	107	99
Amortization of intangible assets	20	14	14
Capital loss (gain), net, on sale of fixed assets, intangible assets and other assets	(89)	7	-
Expenses in respect of share-based payment	18	12	13
Share of profit of investees	(554)	(402)	(620)
Finance expenses, net	41	7	31
Tax income (expense)	27	(83)	13
Change in inventory	(14)	14	8
Change in trade and other receivables	(127)	83	(8)
Change in investee receivables	(33)	(24)	1
Change in trade and other payables	(7)	16	21
Change in investee payables	195	(26)	51
Change in employee benefits	(3)	(4)	3
Interest paid	(61)	(20)	(31)
Interest received	13	3	8
Income tax received (paid), net	7	26	(1)
Net cash provided by (used in) operating activities	41	(206)	211
Cash flows from investing activities			
Proceeds from sale of fixed assets	82	23	1
Investment in fixed assets	(113)	(117)	(75)
Investment in intangible assets	(87)	(36)	(19)
Repayment of deposits and long-term loans	22	17	14
Long-term loans granted	(27)	(22)	(14)
Dividends from investees	291	310	230
Cash received in respect of investing activities with investees	39	48	33
Cash paid in respect of investing activities with investees	(111)	(57)	(33)
Income from sublease	-	2	2
Net cash provided by investing activities	96	168	139

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


Information Pertaining to Cash Flows (cont'd)

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Cash flows from financing activities			
Redemption of debentures and repayment of long-term loans	(239)	(30)	(30)
Repayment of principal of lease liability	(52)	(50)	(44)
Dividends paid	-	(290)	(340)
Short-term bank credit, net	(189)	189	-
Receipt of long-term loans	-	198	-
Proceeds from issuance of debentures, net of issuance costs	314	-	-
Net cash provided by (used in) financing activities	(166)	17	(414)
Net increase (decrease) in cash and cash equivalents	(29)	(21)	(64)
Cash and cash equivalents as of January 1	119	140	204
Cash and cash equivalents as of December 31	90	119	140

As of December 31, 2023, purchases of fixed assets on credit amounted to approximately NIS 32 million (2022: NIS 31 million, 2021: NIS 14 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 of December 31, 2023 (hereinafter: the “Consolidated Financial Statements” or “Consolidated Statements”), attributable to the Company itself (hereinafter: “Separate Financial Information”), which is 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.

1.1.1 Impacts of the Swords of Iron War on the Company’s business

For further information on the effects of the Swords of Iron War on the Group’s activity, see Note 1 to the Consolidated Financial Statements.

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*, due to 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 presents the net amount, based on the consolidated statements of financial position, attributable to the controlling shareholders of the Company, of total assets less total liabilities, which in the consolidated statements of financial position represent financial information relating to investees, including goodwill.

Additional Information

Note 1 – Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

1.2.1 Assets and liabilities included in the Consolidated Statements, attributable to the Company itself as parent company (cont'd)

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.

Additionally, this information presents the net amount, based on the Consolidated Financial Statements, attributable to the shareholders of the Company, of total income less total 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 gains and losses arising from intra-group transactions between the Company and its investees were presented as part of the balance in respect of investees and as part of 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.

Additional Information

Note 1 – Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

1.2.3 Cash flows included in the Consolidated Statements, attributable to the Company itself as parent company

This information presents cash flows included in the Consolidated Financial Statements attributable to the Company itself as parent company, which are taken from the consolidated statements of cash flows (i.e. the balances remaining after the elimination of intercompany cash flows in the Consolidated Statements), segmented between cash flows from operating activities, cash flows from investing activities and cash flows from financing activities, accompanied by an itemization of the components of each. Additionally, within each of these activities, intercompany cash flows are presented separately, on a net basis.

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.



Additional Information

Note 2 – Cash and Cash Equivalents

	As of December 31	
	2023	2022
	NIS millions	
Cash and bank balances	45	5
Deposits	45	114
	<u>90</u>	<u>119</u>

Note 3 – Other Investments and Long-Term Debt Balances

3.1 Composition of other investments and long-term debt balances

	As of December 31		
	2023	2022	
	NIS millions		
Preferred shares of an investee	289	289	
Loans to investees	100	63	Dollar-denominated and bearing 7.7%-9.2% interest
Capital notes to investees	84	84	Unlinked and interest-free
Capital notes to investees	50	49	Dollar-denominated and interest-free
Receivables – Group companies	82	60	Unlinked and interest-free
Loans to employees	4	4	According to section 3(I) of the Income Tax Ordinance
Other	14	16	Shekel-denominated and bearing 0%-8.15% interest
	623	565	
Less current maturities	8	18	
	615	547	



Additional Information

Note 4 – Loans and Other Liabilities

4.1 Information on material loans

							December 31, 2023	
		Original loan amount					Face value	Carrying value
Type	Loan date	NIS millions	Currency	Linkage base	Nominal interest (%)	Redemption years	NIS millions	
Series E Debentures	July 2017/November 2018	603	NIS	Unlinked	2.61	2020-2027	482	481
Series F Debentures	July 2020/ January 2023	1,075	NIS	Unlinked	1.9	2024-2037	1,075	1,013

							December 31, 2022	
		Original loan amount					Face value	Carrying value
Type	Loan date	NIS millions	Currency	Linkage base	Nominal interest (%)	Redemption years	NIS millions	
Series E Debentures	July 2017/November 2018	603	NIS	Unlinked	2.61	2020-2027	513	511
Series F Debentures	July 2020	700	NIS	Unlinked	1.9	2024-2037	700	693
Bank loans	June 2022	100	NIS	Unlinked	3.25	2023	100	100
Bank loans	June 2022	98	EUR	Unlinked	EURIBOR 3M+1.3	2023	98	101

- 4.2 As of December 31, 2023, the company has unutilized secured lines of credit at an amount of NIS 600 million. As of December 31, 2022, the Company has utilized secured lines of credit at an amount of NIS 189 million. For further information, see Note 19.6 and Note 26.6 to the Consolidated Financial Statements of the Group.

Additional Information

Note 5 – Financial Instruments

For a description of the risks to which the Company is exposed arising from the use of financial instruments and for information on the policy for managing the Company's risks, see Note 26 to the Consolidated Financial Statements.

5.1 CPI and foreign exchange risk

5.1.1 Statement of financial position according to linkage bases

The Company's foreign exchange risk, based on carrying values, is as follows:

December 31, 2023				
	NIS linked	NIS unlinked	EUR	Total
	NIS millions			
Current maturities of debentures	-	174	-	174
Current maturities of lease liabilities	46	2	-	48
Debentures	-	1,320	-	1,320
Lease liabilities	172	1	-	173
Total	218	1,497	-	1,715

December 31, 2022				
	NIS linked	NIS unlinked	EUR	Total
	NIS millions			
Current maturities of debentures	-	30	-	30
Loans and short-term credit	-	289	101	390
Current maturities of lease liabilities	37	1	-	38
Debentures	-	1,174	-	1,174
Lease liabilities	52	2	-	54
Total	89	1,496	101	1,686

5.1.2 Sensitivity analysis of financial assets (liabilities)

The Company uses OTC derivatives to partially hedge its foreign currency risk. For information see Note 26.4 to the Consolidated Financial Statements.

5.1.3 CPI risk

For information on the CPI risk, see Note 26.5 to the Consolidated Financial Statements.

5.2 Floating interest rate risk and cash flow sensitivity analysis of floating interest instruments

The Company has short-term deposits in banks with floating rate and as well as additional balances with floating interest consequently its financial results are exposed to changing interest rates.

Sensitivity analysis relating to possible changes in the interest rate is not presented since the impact is immaterial.



Additional Information

Note 5 – Financial Instruments (cont'd)

5.3 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 of the statement of financial position date, such as the CPI, foreign currency exchange rates and interest rates.

	December 31, 2023							
	Carrying value	Contractual cash flow	2024	2025	2026	2027	2028	2029 and thereafter
	NIS millions							
Trade payables	236	236	236	-	-	-	-	-
Derivatives	7	7	7	-	-	-	-	-
Other payables	228	228	228	-	-	-	-	-
Investee payables	344	344	344	-	-	-	-	-
Series E Debentures	481	508	132	128	126	122	-	-
Series F Debentures (1)	1,013	1,230	74	73	72	71	102	838
Lease liability	221	295	56	45	25	14	10	145
	2,530	2,848	1,077	246	223	207	112	983

(1) For details regarding the extension of F Debentures - see Note 26 to the Consolidated Financial Statements.



Additional Information

Note 5 – Financial Instruments (cont'd)

5.3 Liquidity risk (cont'd)

	December 31, 2022							
	Carrying value	Contractual cash flow	2023	2024	2025	2026	2027	2028 and thereafter
	NIS millions							
Trade payables	281	281	281	-	-	-	-	-
Derivatives	1	1	1	-	-	-	-	-
Other payables (2)	247	207	207	-	-	-	-	-
Investee payables	152	152	152	-	-	-	-	-
Series E Debentures	511	558	50	132	128	126	122	-
Series F Debentures	693	822	20	48	47	47	46	614
Bank loans	390	397	397	-	-	-	-	-
Lease liability	92	97	40	26	15	5	2	9
	2,367	2,515	1,148	206	190	178	170	623

(2) Carrying value includes accrued interest expenses.



Additional Information

Note 5 – Financial Instruments (cont'd)

5.4 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 26.7 to the Consolidated Financial Statements.

Note 6 - Income Tax

6.1 General

The Company's income is taxable at the ordinary tax rate. The tax rate for the years 2021-2023 is 23%. For the tax rates applying to the Company and various incentives and Laws for Encouragement, see Note 33.1 to the Consolidated Financial Statements.

6.2 Final tax assessments

The Company has been issued with final tax assessments up to and including 2017. As of the date of approval of the financial statements there are discussions on tax assessments for the years 2018-2021. In the opinion of Company management, at this preliminary stage, considering the information available to the Company, the provision that was recognized is adequate.

6.3 Composition of income tax expense

	For the year ended December 31		
	2023	2022	2021
	NIS millions		
Current tax expense	(15)	(12)	(9)
Income for previous years	-	2	-
Deferred income (expense), net	(12)	93	(4)
Tax expense, net	(27)	83	(13)

6.4 Composition of deferred taxes included in assets (liabilities)

	Balance as of January 1, 2022	Decrease (increase) in deferred tax expense in profit or loss	Change in deferred taxes classified to equity	Balance as of December 31, 2022	Decrease (increase) in deferred tax expense in profit or loss	Change in deferred taxes classified to equity	Balance as of December 31, 2023
Deferred taxes in respect of:							
Provision for doubtful debts	2	-	-	2	-	-	2
Provision for vacation and convalescence	6	(1)	-	5	-	-	5
Investment in investees	(60)	(8)	-	(68)	(17)	-	(85)
Fixed and intangible assets	(74)	3	-	(71)	(4)	-	(75)
Employee benefits	7	-	(1)	6	(2)	-	4
Carryforward tax losses	2	103	-	105	12	-	117
Other	4	(2)	-	2	(1)	-	1
	(113)	95	(1)	(19)	(12)	-	(31)
	23%			23%			23%

Note 7 – Information on Relationships, Commitments and Significant Transactions with Investees

7.1 Dividends from investees

In the reporting period investees declared dividends at an amount of approximately NIS 271 million, of which approximately NIS 291 were received in the reporting period.

7.2 During the month of November 2023, the company granted the Strauss Water subsidiary company Capital notes in the amount of NIS 39 million. The capital notes unlinked and interest-free and they will not be repaid before 5 years from the date of grant.

7.3 For further information on the Company's investments in investees, including guarantees extended to investees, see Notes 6, 11 and 22.3 to the Consolidated Financial Statements.

Note 8 – Claims and Contingent Liabilities

For information on claims filed against the Company and other contingent liabilities, see Note 22.1 to the Consolidated Financial Statements.

Note 9 – Charges and Guarantees

9.1 Charges

For information on charges, see Note 22.2 to the Consolidated Financial Statements.

9.2 Guarantees

9.2.1 The following guarantees to banks and others were given in connection with the Group's business activity:

	December 31	
	2023	2022
	NIS millions	
In favor of banks for subsidiaries and equity-accounted investees	152	69
In favor of others in Israel and abroad	4	4

9.2.2 There are mutual guarantees between the Company and its subsidiaries, both limited (see above) and unlimited in amount, to secure all obligations to banks.

Note 10 – Events after the Reporting Date

For information on events after the reporting date, see Note 36 to the Consolidated Financial Statements.

Additional Information on the Corporation



Regulation 10A: Condensed Quarterly Statements of Comprehensive Income According to the Financial Statements of the Company

	Q1	Q2	Q3	Q4	Total
	NIS millions				
Profit and loss:					
Sales	1,713	1,631	1,746	1,705	6,795
Cost of sales	1,053	1,044	1,167	1,088	4,352
Gross profit	660	587	579	617	2,443
Selling and marketing expenses	330	346	369	345	1,390
General and administrative expenses	121	120	118	112	471
Total operating expenses	451	466	487	457	1,861
Share of profit of equity-accounted investees	45	47	70	35	197
Share of profit (loss) of equity-accounted incubator investees	(8)	(9)	(6)	(11)	(34)
Operating profit before other income (expenses)	246	159	156	184	745
Other income	77	1	2	23	103
Other expenses	(7)	(10)	(5)	(11)	(33)
Other income (expenses), net	70	(9)	(3)	12	70
Operating profit	316	150	153	196	815
Finance income	19	15	17	4	48
Finance expenses	(30)	(34)	(37)	(48)	(142)
Finance income (expenses), net ¹	(11)	(19)	(20)	(44)	(94)
Income before taxes	305	131	133	152	721
Taxes on income	(59)	(45)	(33)	(30)	(167)
Income for the period	246	86	100	122	554
Attributable to:					
Shareholders of the Company	231	73	80	104	488
Non-controlling interests	15	13	20	18	66
Income for the period	246	86	100	122	554

¹ The total sum of finance income and finance expenses figures for each of the quarters is not equal to the total amount of finance income and finance expenses for the year as a result of the net presentation in each quarter of expenses/income from the valuation of certain financial items.

	Q1	Q2	Q3	Q4	Total
	NIS millions				
Income for the period	246	86	100	122	554
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:					
Foreign currency translation differences	3	(3)	(22)	8	(14)
Other comprehensive income (loss) from equity-accounted investees	66	50	19	(44)	91
Total other comprehensive income (loss) items for the year that will be reclassified to profit or loss, net of tax	69	47	(3)	(36)	77
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods:					
Changes in employee benefits	1	-	-	-	1
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	1	-	-	-	1
Comprehensive income for the period	316	133	97	86	632
Attributable to:					
Shareholders of the Company	300	120	77	68	565
Non-controlling interests	16	13	20	18	67
Comprehensive income for the period	316	133	97	86	632

Regulation 10C: Use of Proceeds from Securities

On January 12, 2023, the Company issued NIS 375 million face value of new debentures (Series F) in consideration for an amount of approximately NIS 318 million (gross), in accordance with a shelf offering report published on January 11, 2023 (reference no. 2023-01-005140), which is incorporated herein by reference and was published under a shelf prospectus of May 31, 2022 (reference no. 2022-01-054729).

The proceeds from the issue were designated and serve to fund the Company's current business operations and for debt refinancing.

Regulation 11: List of Investments in Subsidiaries and Associated Companies

Following is the list of investments in the Company's material subsidiaries and associates:

Company name	Share class	Number of shares	Total par value of issued and paid-up share capital	Par value of share capital held by the Company	% holding of security	% holding of capital	% holding of voting rights	% holding of power to appoint directors	Value of investment in the Company's separate financial statements as of Dec. 31, 2023	Value of loans to subsidiaries as of Dec. 31, 2023 (1)
									NIS millions	
Strauss Coffee B.V.	Ordinary EUR 735	191,228	EUR 140,552,580	EUR 105,273,882	100	100	100	100	1,826	-
Três Corações Alimentos S.A. (2)(3)	Ordinary R\$ 0.01	27,646,427,638	R\$ 276,464,276.38	R\$ 138,232,138.19	50	50	50	50	853	-
Sabra Dipping Company, LLC (4)	-	100	-	-	50	50	50	50	274	47
Strauss Health Ltd.	Ordinary NIS 1.00	6,500,000	NIS 6,500,000	NIS 5,200,000	80	80	80	80	469	-
Uri Horazo Yotvata Dairies Ltd. (5)	Ordinary NIS 1.00	34,342	NIS 34,342	NIS 17,171	50	50	50	50	151	-
	Casting NIS 1.00	1	NIS 1	NIS 1						
	Management NIS 1.00	5	NIS 5	NIS 2						
Strauss Water Ltd. (6)	Preferred A NIS 0.01	700,014	NIS 7,000	NIS 7,000	100	100	100	100	345	373
	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 loans to subsidiaries, see Note 3.2 to the financial statements.

(2) Held by Strauss Coffee B.V.

(3) 50% held by Strauss Group and 50% by the local holding company, São Miguel Fundo de Investimento em Participações Multiestratégia ("São Miguel") ("Três Corações (JV)").

(4) Company jointly controlled by the Group (50%) and PepsiCo (50%).

(5) Held by Strauss Health Ltd.

(6) For further information regarding an additional investment in Strauss Water through capital notes, see Regulation 12 below.



Regulation 12: Changes in Investments in Subsidiaries and Associated Companies (*)

a. Changes in investments made by Strauss Group

<u>Name of Company</u>	<u>Nature of the Change</u>	<u>Date of the Change</u>	<u>% Change</u>	<u>Cost (NIS Millions)</u>
Strauss Water Ltd.	Capital investment	November 2023	-	39

On November 22, 2023, four capital notes were signed at a total amount of NIS 39 million, between Strauss Group Ltd. and the subsidiary, Strauss Water Ltd. The capital notes are callable by Strauss Water only, and therefore, they do not form part of Strauss Group's investment in Strauss Water. The capital notes do not bear interest and are unlinked.

(*) This Regulation includes an increase in the Company's total investments in investees resulting from capital investments (that lead to an increase in the investee's equity) and does not include an increase arising due to growth in equity income or in the case of positive translation differences.

Regulation 13: Income of Subsidiaries and Associated Companies and Revenues Therefrom as of Balance Sheet Date (NIS Millions)

Following is information on the total comprehensive income and profit (loss) before and after tax of the Company's material subsidiaries and associated companies (profit (loss) figures are the consolidated data of those companies in the Company's consolidated financial statements), dividends, interest and management fees received by the Company or which it is entitled to receive, as of December 31, 2023 ⁽¹⁾:

Name of subsidiary/associate	Profit (loss) before tax	Profit (loss) after tax	Dividend	Reimbursement of management expenses ⁽¹⁾	Interest income (expenses)	Other comprehensive income (loss)	Comprehensive income (loss)
Strauss Coffee B.V.	377	318	145	43	(1)	77	395
Três Corações Alimentos S.A. ^{(2) (3)}	82	119	63	-	-	94	213
Sabra Dipping Company, LLC ⁽⁴⁾	10	10	-	-	-	6	16
Strauss Health Ltd.	301	229	88	48	(3)	-	229
Uri Horazo Yotvata Dairies Ltd. ⁽⁵⁾	73	55	15	20	(2)	-	55
Strauss Water Ltd.	58	59	-	44	(2)	(3)	57

(1) Including management fees.

(2) Held by Strauss Coffee B.V.

(3) Company jointly controlled by the Group (50%) and São Miguel Group (50%).

(4) Company jointly controlled by the Group (50%) and PepsiCo (50%).

(5) Held by Strauss Health Ltd.



Regulation 20: Trading on the Tel Aviv Stock Exchange

In the reporting year, 134,255 Ordinary Shares of NIS 1 par value of the Company were listed on the Tel Aviv Stock Exchange (TASE) following the exercise of warrants granted to senior employees of the Group.

Regulation 21: Payments to Interested Parties and Senior Officers

Details of recipients of remuneration				Compensation for services (at cost) in NIS thousands – excluding share-based payment				
Name	Title	Scope of position	Percentage of share capital held, holding percentage in full dilution [and in full dilution according to the amount of the benefit inherent in the warrants] (a)	Annual salary	Accompanying benefits (b)	Bonus (c)	Management fees / consulting fees / commission / other	Total excluding share-based payment
Ms. Ofra Strauss ⁽¹⁾	Chairperson of the Board of Directors	100%	0%	-	-	-	2,805	2,805
Mr. Shai Babad ⁽²⁾	President & CEO, Strauss Group	100%	0% Fully diluted – 0.39% [0.000%]	1,800	1,036	450	-	3,286
Mr. Zion Balas ⁽³⁾	CEO, Strauss Coffee	100%	0% Fully diluted – 0.37% [0.000%]	1,524	776	724	-	3,024
Mr. Ronen Zohar ⁽⁴⁾	Deputy CEO and COO, Strauss Group	100%	0% Fully diluted – 0.33% [0.000%]	1,260	743	586	-	2,589
Mr. Ariel Chetrit ⁽⁵⁾	CFO, Strauss Group	100%	0% Fully diluted – 0.34% [0.000%]	1,140	554	447	-	2,141
Remaining directors ⁽⁶⁾		-	-	-	-	-	2,292	2,292

Details of recipients of remuneration		Compensation for services (at cost) in NIS thousands		
Name	Title	Total excluding share-based payment	Share-based payment (d)	Total cost of compensation
Ms. Ofra Strauss	Chairperson of the Board of Directors of the Company	2,805	-	2,805
Mr. Shai Babad	President & CEO, Strauss Group	3,286	4,922	8,208
Mr. Zion Balas	CEO, Strauss Coffee	3,024	1,154	4,178
Mr. Ronen Zohar	Deputy CEO and COO, Strauss Group	2,589	1,329	3,918
Mr. Ariel Chetrit	CFO, Strauss Group	2,141	1,169	3,310

Notes to the Table:

- (a) **Full dilution** – Fully diluted figures are proximate to the publication date of the report, and are calculated under the theoretical assumption of the full exercise of 7,150,751 warrants granted to senior employees and officers of the Group at a ratio of 1:1, excluding dormant shares and excluding warrants granted to senior employees and officers that were approved by the Remuneration Committee and the Board of Directors of the Company in March 2024, which have not yet been allotted on the date of this report.

It is emphasized that according to the terms of the ESOP, in practice, upon exercise of the warrants, grantees will not be allotted the entire amount of underlying shares, but only shares of a quantity that reflects the amount of the benefit inherent in the warrants, which is equal to the amount resulting from one of the following calculations according to the exercise orders given by the grantee: (1) where the grantee gave an order to exercise stating the minimum exercise price ("**Limit Order**"): the amount of the difference between the minimum exercise price stated in the order and the exercise price, multiplied by the number of warrants for which a partial exercise notice was sent and divided by the minimum exercise price; (2) if the grantee did not give a Limit Order: the amount of the difference between the closing price of an ordinary share on the last trading day prior to the exercise date ("**Market Price**") and the exercise price, multiplied by the number of warrants for which the exercise notice was sent and divided by the Market Price.

Full dilution according to the amount of the benefit inherent in the warrants is calculated assuming the full exercise of the 7,150,751 warrants granted to senior employees and officers of the Group for 2,472 shares, according to the amount of the benefit inherent in the warrants, based on the intrinsic value of the warrants according to the closing price of the Company's share on the TASE on March 11, 2024, excluding dormant shares and excluding warrants granted to senior employees and officers that were approved by the Remuneration Committee and the Board of Directors of the Company in March 2024, which have not yet been allotted on the date of this report. For the terms and conditions of the ESOP, see Note 21.1 to the Financial Statements of the Company as of December 31, 2023.

- (b) **Accompanying benefits** – With respect to the recipients of remuneration specified in the table who are employed in the Company – 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”), mobile telephone and social benefits, including adjustment pay (in the form of a bonus or adjustment period in a case of retirement). It is noted that Company employees, including officers, are entitled to reimbursement of reasonable business expenses, according to the Company’s procedures.
- (c) **Bonus** – The amount stated in the “bonus” column is the amount of the bonus for 2023. The amount specified in this column also includes, *inter alia*, a signing/induction bonus in the event of induction into the Company, as well as special bonuses in singular, exceptional cases, such as where an exceptional effort was made in the furtherance and execution of a Group project and upon retirement after at least a five-year tenure. As a rule, according to the Remuneration Policy, the calculated annual bonus for officers of the Company is based on the extent of accomplishment of financial targets based on the Group’s budget as approved by the Board of Directors from time to time (including revisions made thereto during the year) and the extent of accomplishment of functional targets. Additionally, the Remuneration Committee and the Board of Directors may determine a discretionary incentive of no more than three monthly base salaries (gross), considering the officer’s contribution to the advancement of the Company’s interests and goals; for officers who report to the CEO, the Remuneration Committee and the Board of Directors may determine a yearly incentive based on non-measurable criteria considering the officer’s contribution to the Company, in lieu of or in addition to the calculated incentive or the discretionary incentive as set forth in the Remuneration Policy, provided that the total yearly incentive paid to each of said officers shall not exceed the cap on the yearly incentive specified in the Remuneration Policy. For further information regarding the provisions of the Remuneration Policy with respect to officers’ bonuses, see also the Remuneration Policy for Officers of the Company (see the Immediate Report of August 24, 2022, reference no. 2022-01-107899).

Share-based payment – The amount stated in the “share-based payment” column is the expense recorded by the Company in 2023 in accordance with IFRS 2 in respect of the non-tradable warrants that were granted.

Additional information:

- (1) **Ms. Ofra Strauss** – Ms. Strauss has served as active Chairperson of the Board of Directors of the Company since June 2001. Since February 2021, Ms. Strauss has been employed under a management agreement with a company that is wholly owned and controlled by her. The amount of the management fees specified in the table above does not include VAT. The management fees also include management fees in respect of a calculated annual incentive based on financial targets only, as specified in the Remuneration Policy. It is noted that in view of failure to satisfy the threshold conditions for the receipt of the annual incentive for 2023, according to the provisions of the Remuneration Policy, Ms. Strauss will not be paid an incentive for 2023 and the deferred bonus in respect of 2021. For further information on the Chairperson's terms of office and employment, see the Immediate Report of the Company of August 24, 2022, reference no. 2022-01-107899).
- (2) **Mr. Shai Babad** – Mr. Shai Babad has served as CEO of the Company since December 2022. For information on the CEO's terms of office and employment, see the Immediate Reports of the Company of November 7, 2022 and November 28, 2022 (reference no. 2022-01-133720 and 2022-01-113955, respectively), which are incorporated by reference. The bonus paid for 2023 is a discretionary bonus of three salaries, considering the CEO's contribution to the Company. Proximate to the date of the report, Mr. Babad holds 487,096 non-tradable warrants of the Company (according and subject to the Company's ESOP, including with respect to limitations on exercise, such as in a case of termination of the employment relationship), and proximate to the publication date of the report, said warrants are "out of the money".
- (3) **Mr. Zion Balas** – Mr. Balas served from March 2018 through to the end of March 2024 as CEO of Strauss Coffee. For Mr. Balas' terms of office and employment, see the information contained in Regulation 21 in the 2022 Periodic Report (see the Immediate Report of March 23, 2023, reference no. 2023-01-026566, the "2022 Periodic Report"). As of the date of this report, Mr. Balas' retirement conditions have not yet been approved and are not included in the financial statements for 2023, and accordingly, are not included in the compensation presented in the table above. The bonus paid for 2023 is a bonus based on non-measurable criteria, considering Mr. Balas' contribution to the Company. Proximate to the date of the report, Mr. Balas holds 389,166 non-tradable warrants of the Company (according and subject to the Company's ESOP, including with respect to limitations on exercise, such as in a case of termination of the employment relationship), and proximate to the publication date of the report, said warrants are "out of the money".
- (4) **Mr. Ronen Zohar** – Mr. Zohar has served as Deputy CEO of Strauss Group since May 1, 2021 and also serves as the Group's COO. Mr. Zohar's employment is for an indefinite period and may be terminated following 90 days' advance written notice to the counterparty (with an option to shorten the notice period at the Company's initiative or with its consent). The employment relationship will survive the notice period, and the Company will continue to pay Mr. Zohar 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. Zohar's monthly salary is linked

to the cost-of-living increments paid in Israel under extension orders. In addition, Mr. Zohar is entitled to contributions to a pension fund and/or executive insurance, to loss of earning capacity insurance and to an advanced study fund, as well as accompanying benefits, including company car, mobile phone, leave, etc. The bonus paid for 2023 is a bonus based on non-measurable criteria, considering Mr. Zohar's contribution to the Company. On the date of the report, Mr. Zohar holds a total of 415,327 non-tradable warrants of the Company (according and subject to the Company's ESOP, including with respect to limitations on exercise, such as in a case of termination of the employment relationship), and proximate to the publication date of the report, said warrants are "out of the money".

- (5) **Mr. Ariel Chetrit** – Mr. Ariel Chetrit has served as the Company's CFO since April 2019. Mr. Chetrit's employment is for an indefinite period and may be terminated following 90 days' advance written notice to the counterparty (with an option to shorten the notice period at the Company's initiative or with its consent). The employment relationship will survive the notice period, and the Company will continue to pay Mr. Chetrit his salary and accompanying benefits (excluding an incentive or a new award of equity-based compensation or payments for actual job performance) for a further six months, other than in circumstances where severance pay may be denied by law, unless he has begun to work for another employer before the end of adjustment period, in which case he will be paid a lump sum equal to the remainder of the base salary, excluding accompanying benefits, until the end of the adjustment period. Mr. Chetrit's monthly salary will be revised according to extension orders applying to cost-of-living increments paid in Israel. In addition, Mr. Chetrit is entitled to contributions to a pension fund and/or executive insurance, to loss of earning capacity insurance and to an advanced study fund, as well as accompanying benefits, including company car, mobile phone, leave, etc. The bonus paid for 2023 is a bonus based on non-measurable criteria, considering Mr. Chetrit's contribution to the Company. On the date of the report, Mr. Chetrit holds a total of 414,999 non-tradable warrants of the Company (according and subject to the Company's ESOP, including with respect to limitations on exercise, such as in a case of termination of the employment relationship), and proximate to the publication date of the report, 391,666 of said warrants are "out of the money".
- (6) Payments to the other directors include the total payments received by all 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 to an expert director according to said regulations, all of the foregoing in accordance with the Company's ranking.
- (7) For exemption, indemnification and insurance of directors and officers of the Company, see Note 22.4.2 to the Financial Statements of the Company as of December 31, 2023 in Chapter C above, and see also Regulation 29A below.

Regulation 21A: Corporate Control

For information on the controlling shareholder of the Company, see section 1.1 in the Description of the Company's Business report as of December 31, 2023.

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, to which the Company or a subsidiary or an affiliated company of the Company are a party, which was contracted in 2023 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 35 to the Financial Statements of the Company as of December 31, 2023. It is noted that such transactions, even if they are not extraordinary, are brought for approval by the Company's Audit Committee and/or the Board of Directors of the Company, as the case may be, each year in accordance with the procedure adopted by the Company.

Transactions Enumerated in Section 270(4) of the Companies Law

- 1) Terms of office of Ms. Ofra Strauss, Chairperson of the Board of Directors – for information, see Regulation 21 above.
- 2) Terms of office of Mr. Adi Strauss, a director of the Company – Mr. Adi Strauss is entitled to an expert director's fee in accordance with the terms of office in the Company for an expert director for three years, pursuant to the resolution of the Remuneration Committee of August 8, 2023, and the resolution of the Board of Directors of the Company of August 13, 2023, under the Companies Regulations (Easements in Transactions with Interested Parties) 2000. Furthermore, Mr. Strauss is entitled to inclusion in the Company's current D&O insurance policy (see the Immediate Report of May 25, 2020, reference no. 2020-01-051978). Further, he is entitled to a letter of undertaking to indemnification in the form of the Company's current letter of undertaking to indemnification for directors and officers of the Company (see Immediate Reports of August 24, 2022 and September 29, 2022, reference no. 2022-01-107899 and 2022-01-099438, respectively). Mr. Adi Strauss is also entitled to a letter of exemption in the same form as furnished to officers of the Company who are not among the controlling shareholders and their relatives (see Immediate Reports of May 25, 2021 and July 1, 2021, reference no. 2021-01-089310 and 2021-01-110259, respectively).
- 3) Non-compete, undertakings of indemnification and grant of a right to use the name "Strauss" in accordance with the merger transaction with Strauss – for information, see section 21.1 in the Description of the Company's Business report as of December 31, 2023, in Chapter A above.
- 4) Lease rights in real property in Bar Lev Industrial Park – For information on an engagement by Strauss Health Ltd., a subsidiary of the Company, in a transaction with Strauss Holdings Ltd. for the acquisition of Strauss Holdings' lease rights in a property in Bar Lev Industrial Park, see the Company's reports of August 24, 2022 (reference no. 2022-01-107899) and September 29, 2022 (reference no. 2022-01-099438) (the "Transaction Report"). On September 28, 2023, all suspending conditions prescribed in the acquisition agreement, within their meaning in section 17.5 of the

Transaction Report, were satisfied, and accordingly, on November 13, 2023, the consideration under the acquisition agreement was paid and the transaction was closed. For information, see also Note 35.3.1 to the Consolidated Financial Statements of the Company as of December 31, 2023.

Transactions that Are Not Enumerated in Section 270(4) of the Companies Law

In accordance with the resolutions of the Company's Audit Committee which are passed from time to time, the Company has criteria, guidelines and rules for the classification of a transaction of the Company (including companies under its control) with the controlling shareholder of the Company or in which the controlling shareholder has a personal interest, as non-extraordinary and negligible. The criteria constitute criteria pursuant to section 117(a1) of the Companies Law for the review of the extraordinariness of such transactions, and guidelines for the classification of a transaction as negligible in accordance with regulation 41 of the Securities Regulations (Annual Financial Statements), 2010. Among other things, it was determined that said criteria and guidelines will also serve to examine the scope of disclosure in the Periodic Report with respect to a transaction between the Company and the controlling shareholder, or in the approval of which the controlling shareholder has a personal interest. The criteria and 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, as described below.

The criteria were determined, *inter alia*, noting the following relevant factors: The Company is one of the largest industrial groups in Israel, with very widespread operations in Israel and abroad, the scope of the Company's assets according to its GAAP reports, the diversity of the Company's activities, the nature of the transactions it executes, and the extent of their cumulative impact on the Company's activity and its business results. The Audit Committee may deviate from the abovementioned criteria with respect to a particular transaction in light of its circumstances and for reasons that will be recorded.

According to the criteria for classification of a transaction, a transaction with a controlling shareholder or in which a controlling shareholder has a personal interest will be classified as negligible if it satisfies all of the following: It is not an extraordinary transaction (i.e., it is in the ordinary course of business and undertaken in market conditions), its financial scope is less than 5% of the criterion determined in its respect, and insofar as this is not a transaction for the sale of products of the Company and/or corporations under its control being offered to customers of the Company – the scope of the transaction is not more than NIS 30 million linked to the December 2020 CPI (NIS 33.3 million linked to the December 2023 CPI) and its scope is not more than NIS 8.5 million linked to the December 2020 CPI (NIS 9.4 million linked to the December 2023 CPI).

The scope of the transaction and the criterion for its classification will be examined by applying the quantitative materiality test, according to which a transaction with an impact on the Company's profits, assets or liabilities that is less than 5% of the relevant measure in the Company's most recent audited consolidated annual financial statements will not be considered a transaction with a material impact. The scope of the transaction will be determined according to the following criteria and will be

calculated on the basis of the Company's most recent audited consolidated annual financial statements: In a transaction for the sale of the Company's products – the scope of the transaction will be examined against the total annual sales turnover in the annual financial statements; in a transaction that is not a transaction for the sale of products of the Company and/or corporations under its control being offered to customers of the Company, it was determined that for as long as the scope of the transaction is not more than NIS 30 million linked to the December 2020 CPI (NIS 33.3 million linked to the December 2023 CPI), it is not an extraordinary transaction in terms of the materiality test. In a transaction for the purchase and sale of raw materials serving the Company – the scope of the transaction will be examined against the total annual COGS in the annual financial statements; in a transaction for the purchase and sale of services, including rentals and advertising – the scope of the transaction will be examined against the relevant expense item (COGS, general and administrative expenses, selling and marketing expenses) in the most recent annual financial statements. In a transaction with banking corporations and financial institutions – according to detailed criteria based on the type of transaction. In a transaction in which the Company does not own all rights and obligations in the transaction, the transaction will be assessed according to the Company's relative share of the transaction. In exceptional cases, qualitative tests may determine that although the expected impact of the transaction is below 5% of the relevant measure, the impact could nevertheless be material, or that although the expected impact is above 5% of the relevant measure, the impact is still immaterial. In these exceptional cases, the transaction will be brought before the Audit Committee, which will decide whether or not it is an extraordinary transaction.

With respect to the "ordinary course of business", it was clarified that, *inter alia*, a review must be made as to whether in the past twenty-four months transactions of the type of the present transaction can be identified (in terms of the subject and scope), including ongoing transactions in which respect the contract is in effect on the date of the review (or if it is an alternative transaction to an ongoing transaction in which the Company was engaged until recently), or which it is the Company's practice to execute on a routine basis as part of its business with third parties, or is the practice of companies in the Company's area of activity to execute on a routine basis. In such cases, the transaction will be considered a transaction in the Company's ordinary course of business. The Audit Committee may determine that a transaction will be considered as executed in the ordinary course of business also in other circumstances, which will be recorded.

"Market conditions" were defined as one of the following: (1) the terms and conditions of the transaction are similar to those of at least two similar transactions in terms of their characteristics, which the Company executed in the period proximate to the date of contracting in the transaction under review (including binding offers made by the Company to its customers, and binding offers made by suppliers/service providers to the Company), provided that they were executed with parties that are not on the list of interested parties; or (2) the terms and conditions of the transaction are similar to those of at least two transactions in the relevant market, which are known to the Company, and are similar in their characteristics and were executed in the period proximate to the date of contracting in the transaction under review, provided that they were executed by unrelated parties; or (3) a price determined in a regulated sellers' and buyers' market, such as the price of marketable securities or commodities, provided that marketability in that market with respect to the relevant asset

or product or service is sufficient; or (4) the Audit Committee has determined that the transaction is “undertaken in market conditions”.

It is noted that according to section 117(2a) of the Companies Law, in March 2024 the Audit Committee reapproved the criteria and determined that transactions with the controlling shareholder or in which the controlling shareholder has a personal interest, which are not extraordinary and are not negligible, require the approval of the Company’s Audit Committee, and that certain such non-negligible transactions may be approved by Company Management according to criteria defined by the Audit Committee. In addition, oversight and control mechanisms governing the implementation of the criteria as provided above were defined, including a review thereof by the Audit Committee once a year. The Audit Committee also defined criteria with respect to the obligation to hold a competitive or other proceeding in connection with the Company’s transactions with the controlling shareholder or transactions in which the controlling shareholder has a personal interest, in accordance with section 117(1b) of the Companies Law.

According to the abovementioned criteria, negligible transactions in which the Company (including companies under its control) contracted in 2023 included transactions pertaining to advertising on various platforms operated by Reshet, receipt of hospitality services and sale of the Company’s products (including those of companies under its control).

In 2023, no transactions were executed, and as of the date of this report, there are no transactions still in effect with the controlling shareholder or in which the controlling shareholder has a personal interest, which are not enumerated in Section 270(4) of the Companies Law and which are not negligible transactions, save for the transactions specified hereunder.

Purchase of advertising time – in 2023, the Group purchased advertising time, *inter alia*, from Reshet, a TV franchiser under the Second Authority for Television and Radio Law, 1990. To the best of the Company’s knowledge, the controlling shareholder of the Company indirectly holds its shares. The purchase of advertising time was undertaken in the ordinary course of business, on customary terms and at market prices, and as part of the purchase of advertising time from other commercial broadcasting entities (such as Keshet and Channel 24), based on rating considerations and the Group’s marketing needs.

Achihud waste stabilization (recycling) pond (Bar Lev Industrial Park) – in 2008, Strauss Health built a waste stabilization pond on land belonging to the controlling shareholder, Strauss Holdings Ltd., in Achihud. Since the pond was built and as of the reporting year, Strauss Holdings has not collected land use fees from the Company. On November 13, 2023, the transaction for the purchase of Strauss Holdings’ lease rights with respect to the land on which, *inter alia*, the waste stabilization pond is located, was closed, as described in this Regulation above.

Regulation 24: Holdings of Interested Parties and Senior Officers

For information on the status of holdings of interested parties and senior officers (including information on the treasury shares held by the Company), see the Company’s Immediate Report of January 7, 2024 (reference no. 2024-01-002344).



For information on changes in the holdings of interested parties and senior officers, see the Company's Immediate Report of March 19, 2024 (reference no. 2024-01-028020) and an amending report to an impaired report, dated March 19, 2024 (reference no. 2024-01-023941).

Regulation 24A: Authorized Capital, Issued Capital and Convertible Securities

For details, see Notes 21, 24.1 and 24.2 to the Financial Statements of the Company as of December 31, 2023, and the definition of "full dilution" in Regulation 21 above.

Regulation 24B: Shareholder Register

For information on the Company's shareholder register, see the Company's Immediate Report of March 24, 2024 (reference no. 2024-01-025159).

Regulation 25A: Registered Office

Address: 49 Hasivim St., Petah Tikva 49517

Tel: 03-6752499, Fax: 03-6752279

Email address: yael.nevo@strauss-group.com

Regulation 26: Directors of the Corporation

Following are the details of directors of the Company serving on the Board of Directors as of the publication date of the report²:

Director's name	Ofra Strauss, Chairperson of the Board of Directors (F)	Adi Strauss (M)	Tzipi Ozer- Armon (F)	Dalia Lev (external director) (F)	David Mosevics (M)	Galia Maor (F)	Dalia Narkys (external director) (F)	Dorit Salinger (external director) (F)
Identity no.	56616584	022889323	059685891	007555337	007130271	01154780	51928695	056615487
Date of birth	August 22, 1960	February 27, 1967	May 9, 1965	August 2, 1947	July 26, 1946	February 11, 1943	May 2, 1953	August 12, 1960
Address for service of judicial documents	31 Hamatsbi'im St., Tel Aviv	37 Havradim St., Ganei Yehuda	6A Frankfurt St., Tel Aviv 6347809	16 Bnei Moshe St., Tel Aviv	3 Daniel Frisch St., Tel Aviv 64731	15 Vormiza St., Tel Aviv 6264214	1 Aharon Becker St., Tel Aviv	11 Hama'avak St., Givatayim 53523
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	February 1996	August 2011	October 2020	August 2019	December 1977	May 2013	February 2017	August 2019

² It is noted that Mr. Gil Midyan served as a director of the Company in 2023 and completed his board tenure on July 4, 2023.

Director's name	Ofra Strauss, Chairperson of the Board of Directors (F)	Adi Strauss (M)	Tzipi Ozer- Armon (F)	Dalia Lev (external director) (F)	David Mosevics (M)	Galia Maor (F)	Dalia Narkys (external director) (F)	Dorit Salinger (external director) (F)
Education	LL.B., Tel Aviv University	Bachelor of Business Administration, American InterContinental University; Northwestern University Kellogg – Executive Education Leading Family Enterprises	Bachelor's degree in Economics –Tel Aviv University; MBA – Tel Aviv University; Advanced Management Program (AMP) – Harvard University, USA	Bachelor's degree in Accounting – Hebrew University of Jerusalem; LL.M. – Bar-Ilan University; Advanced Management Program (AMP) – Harvard Business School, Massachusetts, USA; Certified Public Accountant; Israel Bar Association Certified Mediator	LL.B., Hebrew University of Jerusalem	Bachelor's degree in Economics and Statistics – Hebrew University of Jerusalem; MBA – 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	Bachelor's degree in Economics and Management – Technion – Israel Institute of Technology; MBA (Financing Major), Tel Aviv University

Director's name	Ofra Strauss, Chairperson of the Board of Directors (F)	Adi Strauss (M)	Tzipi Ozer- Armon (F)	Dalia Lev (external director) (F)	David Mosevics (M)	Galia Maor (F)	Dalia Narkys (external director) (F)	Dorit Salinger (external director) (F)
Occupation in the past five years	Chairperson of the Board of Directors	Business manager	CEO of Lumenis Ltd. (since 2012)	Independent director of Strauss Group Ltd., external director of the First International Bank of Israel	Attorney in a private law firm	2012-2018: Director of Teva Pharmaceutical Industries Ltd.; Since 2021: Director of Ratio Energies LP	Since 2016, Dalia Narkys Consultants; External director, Isracard Ltd.; External director, Europay Ltd.; External director, Premium Express Ltd.; Member of the Board of Governors, Academic College of Tel Aviv – Yafo; Member of the Board of Governors, ELEM Youth in Distress; 2014-2020: Director & Chair, Finance Committee, Israel Assoc. of Community Centers	9/2013- 8/2018: Commissioner of Capital Markets, Insurance and Savings; 8/2020- 3/2021: External director of Arko Holdings; External director of Bareket Capital; director of Since 2020: Independent director of Melisron Ltd.

Director's name	Ofra Strauss, Chairperson of the Board of Directors (F)	Adi Strauss (M)	Tzipi Ozer- Armon (F)	Dalia Lev (external director) (F)	David Mosevics (M)	Galia Maor (F)	Dalia Narkys (external director) (F)	Dorit Salinger (external director) (F)
Kinship with another interested party	Sister of Adi Strauss and Irit Strauss ³	Brother of Ofra Strauss and Irit Strauss ⁴	None	None	None	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 Strauss Holdings Ltd. and director of subsidiaries of the Company. Sister of Adi Strauss, director of the Company and a controlling shareholder of the Company.	Chairman of the Board of Strauss Holdings Ltd., director of a subsidiary. Brother of Ofra Strauss, Chairperson of the Board of Directors of the Company and a controlling shareholder of the Company.	None	None	None	None	None	None

³ For further information, see Regulation 21A above.

⁴ For further information, see section 1.1 in the chapter Description of the Company's Business as of December 31, 2023.

Director's name	Ofra Strauss, Chairperson of the Board of Directors (F)	Adi Strauss (M)	Tzipi Ozer- Armon (F)	Dalia Lev (external director) (F)	David Mosevics (M)	Galia Maor (F)	Dalia Narkys (external director) (F)	Dorit Salinger (external director) (F)
Other corporations in which he/she serves as a director	Strauss Holdings Ltd.; investee companies and related companies of the Company; Aharon Institute, IDC Herzliya; business board of the Co-Impact venture; O. Tamid Ltd.	Strauss Holdings Ltd.; Strauss Health Ltd.; Michael Strauss Assets Ltd.; Gera Real Estate Development, S.A.; Olivos Real Estate Development, S.A.	Independent director of ICL Group (since 2020); external director of SimilarWeb (since 2021); external director of Check Point (since 2022)	Belgal Ltd.; Belgal Group, Bulgaria; Bank Hapoalim B.M. (external director)		Perihelion G.J. Ltd.; Ratio Energies LP	Isracard Ltd.; Premium Express Ltd.; Europay (Eurocard) Israel Ltd.	Dorit Salinger Ltd.; External director of Bareket Capital (public company); Independent director of Melisron (public company) since 2022; Chair of Kalia Development & Holdings 2004 Ltd.; Chair of Kalia Agriculture Holdings Ltd.; Chair of Agriculture Business Holdings and Management Shefayim – Agricultural Cooperative Society Ltd.

Director's name	Ofra Strauss, Chairperson of the Board of Directors (F)	Adi Strauss (M)	Tzipi Ozer- Armon (F)	Dalia Lev (external director) (F)	David Mosevics (M)	Galia Maor (F)	Dalia Narkys (external director) (F)	Dorit Salinger (external director) (F)
Membership of committee/s of the Board of Directors	Chair of the Human Resources, Nominating and Corporate Governance Committee; Chair of the Risk Management Committee; Member of the Finance and Investment Committee	Human Resources, Nominating and Corporate Governance Committee; Finance and Investment Committee;	No	Chair of the Financial Statements Review Committee; Audit Committee; Remuneration Committee; Risk Management Committee	Audit Committee; Human Resources, Nominating and Corporate Governance Committee	Chair of the Finance and Investment Committee; Human Resources, Nominating and Corporate Governance Committee; Financial Statements Review Committee; Risk Management Committee	Chair of the Remuneration Committee; Audit Committee; Financial Statements Review Committee; Human Resources, Nominating and Corporate Governance Committee; Risk Management Committee	Chair of the Audit Committee; Remuneration Committee; Risk Management Committee; Finance and Investment Committee
Independent director or external director	No	No	No	External director	No	No	External director	External director
Does the Company view him/her as having accounting and financial expertise for purposes of compliance with the minimum number determined by the Board	No	No	Yes	Yes	No	Yes	Yes	Yes

Regulation 26A: Senior Officers

Following are the details of senior officers of the Company serving as of the publication date of the report⁵:

Officer's name	Shai Babad (M)	Ariel Chetrit (M)	Yael Nevo (F)	Hila Mukevisius (F)	Zion Balas (M)	Elad Komissar (M)	Raanan Kovalsky (M)
Identity no.	033193707	028131712	012319398	027458389	59167858	025420209	016464315
Date of birth	August 29, 1976	January 16, 1971	July 23, 1968	October 2, 1974	November 28, 1964	April 12, 1973	September 5, 1969
Commencement of term of office	December 2022	April 2019	November 2022	May 2019	February 2018	January 2023	February 2023
Position in the Company	CEO of Strauss Group	CFO, Strauss Group	Senior Vice President, CLO and Company Secretary	Senior Vice President of Human Resources, Strauss Group	CEO, Strauss Coffee	EVP, Business Development and Strategy	CEO, Strauss Israel
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries – Strauss Water Ltd., Strauss Health Ltd. and Strauss Frito-Lay Ltd.	Director of subsidiaries – Strauss Water Ltd., Pri-Elite Ltd., Elite Shared Resources Ltd., Alnetz (Investments) Ltd., The Kitchen Innovations Ltd., The Kitchen Hub 2 Limited Partnership, Strauss Research & Development Ltd., The Kitchen Management Company Ltd., The Kitchen Hub 2 (G.P.), Limited Partnership, PepsiCo Strauss Fresh Dips and Spreads S. de R.L. de C.V.	None	None	None	Director of subsidiaries – The Kitchen Innovations Ltd., The Kitchen Innovations 2 Ltd., Strauss Research & Development Ltd., The Kitchen Hub 2 Limited Partnership, The Kitchen Management Company Ltd., The Kitchen Hub 2 (G.P.), Limited Partnership	Director of subsidiaries – Strauss Health Ltd., Uri Horazo Yotvata Dairies Ltd., Yad Mordechai Strauss Apiary Ltd., Strauss Import & Trade E.M. Ltd., Strauss Salads Trade Ltd., Strauss Health Fresh Vegetables Ltd., Strauss Marketing Ltd., Strauss Marketing Beersheba 1970 Ltd., Rataf Ltd.

⁵ It is noted that prior to the publication date of the report, the following persons completed their tenure as senior officers of the Company: (1) Mr. Joey Bergstein completed his tenure as Chairman and CEO of Sabra-Obela on November 23, 2023; (2) Mr. Yaniv Reuven ceased to serve as Group Controller on August 1, 2023; (3) Ms. Linor Dloomy completed her tenure as the Company's Internal Auditor on October 31, 2023. For information on the internal auditor of the corporation, see section 28 in the Board of Directors' Report as of December 31, 2023.

Officer's name	Shai Babad (M)	Ariel Chetrit (M)	Yael Nevo (F)	Hila Mukevisius (F)	Zion Balas (M)	Elad Komissar (M)	Raanan Kovalsky (M)
Education	Bachelor's degree in Law and Economics, Hebrew University of Jerusalem; MSc Finance and Economics, London School of Economics; Executive Education Program, Harvard Business School; licensed attorney	Bachelor's degree in Economics and Accounting – Hebrew University of Jerusalem; MBA – Hebrew University of Jerusalem; Certified Public Accountant	LL.B., Tel Aviv University	Bachelor's degree in Behavioral Sciences, College of Management Academic Studies; MA in Diplomacy and Security, Tel Aviv University	Bachelor's degree and master's degree in Industrial Engineering and Management – Technion, Haifa	LL.B., Tel Aviv University; MBA, London Business School	Bachelor's degree in Business Administration, College of Management Academic Studies
Occupation in the past five years	June 2021 – February 2022, CEO of Alon Blue Square Israel Ltd.; May 2015 – June 2020, Director General of the Ministry of Finance	CFO of Strauss Israel until March 31, 2019	Senior Vice President, Legal Counsel and Corporate Secretary, Israel Electric Corporation	Global Vice President of Human Resources, Netafim, until April 30, 2019	CEO of Strauss Israel until February 2018	CEO of Strauss Coffee Israel	CEO of Strauss Health Ltd. and CEO of Strauss's Sales Division
Kinship with another interested party	None	None	None	None	None	None	None

Officer's name	Ronen Zohar (M)	Yaniv Tsur (M)	Esti Carmeli (F)	Gil Ber (M)	Dan Moisan (M)
Identity no.	56216013	031485626	059261016	028913051	565790423 (passport no.)
Date of birth	February 9, 1960	October 6, 1978	April 1, 1965	January 10, 1972	June 3, 1977
Commencement of term of office	April 2015	August 2023	April 2021	November 2023	February 25, 2024
Position in the Company	Deputy CEO, Strauss Group	Group Controller	CEO, Strauss Water	VP, Chief Audit Executive	CEO, Sabra-Obela
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of a subsidiary – Strauss Water Ltd.	None	None	None	None
Education	Bachelor's degree in Food Science, Hebrew University of Jerusalem	Bachelor's degree in Accounting and Economics, Hebrew University of Jerusalem; MBA (Financing major), Hebrew University of Jerusalem; Certified Public Accountant	Bachelor's degree in Economics and Management, Technion, Haifa; MBA, Heriot-Watt University, Edinburgh, Scotland, Ramat Gan College	Bachelor's degree in Business Administration and Accounting, College of Management Academic Studies; Master's degree in Internal Auditing and Public Administration, Bar Ilan University; Certified Public Accountant; CRISC (Certified in Risk and Information Systems Control); QAR (Qualified Assurance Reviewer); CDPSE (Certified Data Privacy Solutions Engineer)	Wheaton College (Bachelor of Arts 1999); Duke University (MBA 2006)
Occupation in the past five years	CEO, Strauss Water	CFO and Tax Director, NCR Corporation; VP Finance, Celsius Networks; CFO, Klips Official	VP Consumer Electronics, Black+Decker and Stanley Black & Decker (2020-2021); VP Global Construction & Storage, Stanley Black & Decker (2015-2020)	El Al Israel Airlines, Chief Audit Executive, VP, member of management; Mekorot (Israel's national water company), VP, member of management	Senior Vice President, PepsiCo, Inc.
Kinship with another interested party	None	None	None	None	None

Regulation 26B: Authorized Signatories in the Company

The Company does not have independent authorized signatories.

Regulation 27: The Corporation's Auditor

Somekh Chaikin, 17 Ha'Arba'a St., Millennium Tower, Tel Aviv 64739.

Regulation 28: Alteration of the Memorandum or Articles of Association in the Reporting Year

No changes to the Memorandum or to the Articles of Association were made.

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.

For information on resolutions of the Board of Directors regarding dividend distributions, see section 2.3 in the Report of the Board of Directors of the Company as of December 31, 2023.

2. Change in the authorized or issued share capital – for the change in the issued capital following the exercise of warrants, see Regulation 20 above.

B. Resolutions of Special General Meetings

Special General Meeting of January 18, 2023, in which the terms of office and employment of the Company CEO, Mr. Shai Babad, were approved; Ms. Dalia Narkys was appointed for a third term of office as an external director of the Company, commencing from the end of her second term of office (i.e., for a three-year period beginning on February 5, 2023). For information, see the meeting convening report of November 28, 2022 (reference no. 2022-11-113955) and the Immediate Report regarding the results of the meeting, of January 19, 2023 (reference no. 2023-01-009288).

Regulation 29A: Company Resolutions

Extraordinary transactions that require special approval under section 270(1) of the Companies Law

In September 2023, the Company entered into a services agreement with a consultancy in which a relative of a director has a personal interest, after the engagement in this agreement was approved in May 2023 by the Audit Committee and Board of Directors of the Company as an extraordinary transaction under sections 270(1) and 272 of the Companies Law. The agreement is for a period commencing on July 1, 2023 and ending on December 31, 2025, subject to a cancellation option exercisable at any time by either of the parties, in accordance with arrangements set forth in the agreement. The compensation payable to the consultancy is variable and is contingent on performance conditions related to various measures of the Company's performance. As classified by the Audit Committee, the transaction is in the ordinary course of business and was undertaken in market conditions for transactions of a similar scope.

Exemption, insurance or an undertaking to indemnify officers, effective as of the reporting date

For the provisions of the Remuneration Policy of the Company with respect to the exemption, insurance and indemnification of officers of the Company, see Part I of the Remuneration Policy that was approved by the General Meeting of Shareholders of the Company on September 29, 2022. See the Company's Immediate Report regarding the convening of an Annual and Special General Meeting of August 24, 2022, and the Immediate Report regarding the results of the meeting of September 29, 2022 (reference no. 2022-01-107899 and 2022-01-099438, respectively).

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 22.4.2 to the Financial Statements of the Company as of December 31, 2023; for the grant of a letter of exemption to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above and the Immediate Report of July 1, 2021 (reference no. 2021-01-110259).

For information on the terms and conditions of the Company's D&O insurance policy, including those who are among the controlling shareholders of the Company and their relatives, see Note 22.4.2 to the Financial Statements of the Company as of December 31, 2023, and with respect to the inclusion of Ms. Ofra Strauss and Mr. Adi Strauss in the policy, see also Regulation 22 above.

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, see Note 22.4.2 to the Financial Statements of the Company as of December 31, 2023; for the grant of an undertaking to indemnification to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above, and the Company's Immediate Report regarding the convening of an Annual and Special General Meeting of August 24, 2022 and the Immediate Report regarding the results of the meeting of September 29, 2022 (reference no. 2022-01-107899 and 2022-01-099438, respectively).



Names of the signatories and their positions:

Strauss Group Ltd.

Ofra Strauss, Chairperson of the Board of Directors

Shai Babad, Company CEO

Date: March 25, 2024

Corporate Governance Questionnaire



CORPORATE GOVERNANCE QUESTIONNAIRE¹

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 may be marked, if the period in which there were no two external directors holding office in the corporation does not exceed 90 days, as provided in Section 363.a(b)(10) of the Companies Law. However, any answer (correct/incorrect) shall indicate the time period (in days) in which two or more external 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 Director B: Dalia Lev Director C: Dorit Salinger Number of external directors holding office in the corporation as of the date of release of this Questionnaire: 3	√	
2.	The ratio² of independent directors³ holding office in the corporation on the date of release of this Questionnaire: 3/8. The percentage of independent directors stated in the articles of association⁴ of the corporation⁵: _____ ☒ Irrelevant (no provision was stated in the articles of association).	-----	-----
3.	In the reporting year, an inquiry 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 satisfied the conditions required for holding office as an external (or independent) director.	√	

¹ Published in the context of legislative proposals for the improvement of financial statements on March 16, 2014.

² In this Questionnaire, “ratio” – a particular number in relation to the total number of directors. Thus, e.g. 3/8.

³ Including “external directors”, as defined in the Companies Law.

⁴ For purposes of this question, “articles” – including in accordance with a specific provision of law applying to the corporation (e.g. for a bank corporation – guidelines of the Supervisor of Banks).

⁵ A debenture company is not required to complete this section.

		Correct	Incorrect
4.	All directors who held office in the corporation during the reporting year are not, directly or indirectly, subordinate⁶ to the general manager (except for 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 general manager as aforesaid) - the number of directors not complying with the aforesaid restriction shall be indicated: _____.	√	
5.	All directors who disclosed the existence of a personal interest in the approval of a transaction on the meeting agenda were not present during discussions and did not participate in such vote (other than discussions and/or a vote in the circumstances described 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). Kindly indicate the number of meetings in which such directors were present during discussions and/or participated in the vote, other than in circumstances as provided in subsection a: _____.	√	

⁶ For purposes of this question – the mere holding of the office of a director in an investee company which is controlled by the corporation shall not be deemed "subordinacy"; conversely, holding office as a director in a corporation that serves as an officer (other than a director) and/or employee in an investee which is controlled by the corporation shall be deemed "subordinacy" for purposes of this question.

	Correct	Incorrect
6. The controlling shareholder (including his relative and/or a person acting on his behalf), who is not a director or senior officer of the corporation, was not present at board meetings held in the reporting year. If your answer is "incorrect" (i.e. the controlling shareholder and/or his relative and/or a person acting on his behalf who is not a board member and/or senior officer of the corporation attended board meetings as aforesaid) – the following details regarding the presence of any such additional person at board meetings shall be disclosed: Identity: _____. Position in the corporation (if any): _____. Information on the linkage to the controlling shareholder (if the person is not the controlling shareholder himself): _____. Was it for the purpose of presentation of a certain subject by him: ☐ Yes ☐ No (kindly mark X in the appropriate box). The rate of his presence⁷ at meetings of the board held in the reporting year for the purpose of presentation of a certain subject 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 acting on his behalf.

COMPETENCIES AND QUALIFICATIONS OF THE DIRECTORS

		Correct	Incorrect
7.	There is no provision in the corporation's articles of association that limits the possibility of immediately terminating the office of all directors of the corporation, who are not external directors (in this context - assertion by an ordinary majority is not deemed a limitation)⁸. If your answer is "incorrect" (i.e., such limitation exists), the following shall be indicated - a. The period prescribed in the articles of association for the term of office of a director: _____. b. The required majority prescribed in the articles of association for termination of the directors' office: _____. c. Quorum in the general meeting prescribed in the articles for termination of the directors' office: _____. d. Majority required for the amendment of those provisions in the articles of association: _____.	√	
8.	The corporation has a training program for new directors on the corporation's field of business and the legal field that governs the corporation and the directors, and has a prepared a follow-on program for training directors holding office, tailored, <i>inter alia</i>, to the director's role in the corporation. If your answer is "correct", please indicate whether the plan was implemented in the reporting year: ☒ Yes ☐ No (kindly mark X in the appropriate box).	√	
9.	a. The corporation has prescribed a minimum number of directors in office who are required to possess accounting and financial expertise. If your answer is "correct", please indicate the minimum number determined: 3.	√	
	b. Number of directors serving in office in the corporation in the reporting year – With accounting and financial expertise⁹: 5. With professional qualifications¹⁰: 8. In the event of changes in the number of such directors in the reporting year, please provide the figure for the lowest number (excluding during a period of 60 days from the date of the change) of directors of each kind who served in office in the reporting year.	-----	-----

⁸ A debenture company is not required to complete this section.

⁹ Following an evaluation by the board, in accordance with the provisions of the Companies Regulations (Conditions and Criteria for a Director with Accounting and Financial Expertise and a Director with Professional Qualifications), 2005.

¹⁰ See Footnote #9.

			Correct	Incorrect
10.	a.	Throughout the reporting year, the composition of the board included members of both genders. If your answer is "incorrect", please indicate the period (in days) in which the aforesaid was not met: ____. In this question, you may answer "correct" if the period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (correct/incorrect), please indicate the period (in days) in which directors of both genders did not hold office in the corporation: 0.	√	
	b.	Number of directors of each gender serving on the board of the corporation on the date of publication of this questionnaire ¹¹ : Men: 2, Women: 6	-----	-----

¹¹ In the reporting year, 3 men and 6 women served on the board of directors. On July 4, 2023, Mr. Gil Midyan completed his board tenure.

MEETINGS OF THE BOARD OF DIRECTORS (AND CONVENING OF THE GENERAL MEETING)

							Correct	Incorrect	
11.	a.	Number of meetings of the board held in each quarter in the reporting year: Q1 (2023): 5 Q2: 4 Q3: 2 Q4: 6					-----	-----	
	b.	Alongside each of the names of the directors serving in office in the corporation during the reporting year, please indicate the ratio ¹² of their participation in board meetings (in this subsection - including meetings of the board committees of which they are members, as stated below) held during the reporting year (in reference to his/her term of office):					-----	-----	
		Director's Name	Participation Ratio – Board Meetings	Participation Ratio – Audit Committee ¹³ Meetings	Participation Ratio – Financial Statements Review Committee ¹⁴ Meetings	Participation Ratio – Remuneration Committee ¹⁵ Meetings	Participation Ratio – Meetings of Other Board Committees of which he/she is a member (stating name of committee)		
		Ofra Strauss	17/17	_____	_____	_____	Finance and Investment Committee – 4/5 HR, Nominating and Corporate Governance Committee – 0/0 Risk Management Committee – 3/3		
		Adi Strauss	17/17	_____	_____	_____	Finance and Investment Committee – 5/5 HR, Nominating and Corporate Governance Committee – 0/0		

¹² See Footnote #2.¹³ For a director who is a member of this committee.¹⁴ For a director who is a member of this committee.¹⁵ For a director who is a member of this committee.

	Director's Name	Participation Ratio – Board Meetings	Participation Ratio – Audit Committee¹³ Meetings	Participation Ratio – Financial Statements Review Committee¹⁴ Meetings	Participation Ratio – Remuneration Committee¹⁵ Meetings	Participation Ratio – Meetings of Other Board Committees of which he/she is a member (stating name of committee)		
	David Mosevics	17/17	7/7	_____	_____	HR, Nominating and Corporate Governance Committee – 0/0		
	Dalia Narkys	16/17	7/7	5/5	6/6	HR, Nominating and Corporate Governance Committee – 0/0 Risk Management Committee – 3/3		
	Dalia Lev	17/17	6/7	5/5	6/6	Risk Management Committee – 3/3		
	Dorit Salinger	17/17	7/7	_____	6/6	Finance and Investment Committee – 5/5 Risk Management Committee – 3/3		
	Galia Maor	15/17	_____	5/5	_____	Finance and Investment Committee – 5/5 HR, Nominating and Corporate Governance Committee – 0/0 Risk Management Committee – 3/3		
	Tzipi Ozer-Armon	15/17	_____	_____	_____	_____		
12.	In the reporting year, the board of directors held at least one discussion on the management of the corporation's business by the general manager and officers reporting to him, in their absence, and they were given the opportunity to present their position.						√	

SEPARATION BETWEEN THE ROLES OF THE GENERAL MANAGER AND CHAIRMAN OF THE BOARD

		Correct	Incorrect
13.	Throughout the reporting year, a chairman of the board served in office in the corporation. In this question, you may answer "correct" if the period in which a chairman of the board did not hold office does not exceed 60 days as provided in Section 363a.(2) of the Companies Law. However, in any answer (correct/incorrect), please indicate the period (in days) in which a chairman of the board did not hold office in the corporation as aforesaid: 0.	√	
14.	Throughout the reporting year, a general manager served in office in the corporation. In this question, you may answer "correct" if the period in which a general manager did not hold office does not exceed 90 days as provided in Section 363a.(6) of the Companies Law. However, in any answer (correct/incorrect), please indicate the period (in days) in which a general manager did not hold office in the corporation as aforesaid: 0.	√	
15.	In a corporation in which the chairman of the board also serves as the general manager of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law ¹⁶ . ☒ Irrelevant (insofar as such dual office does not exist in the corporation).	-----	-----
.16	The general manager is <u>not</u> a relative of the chairman of the board. If your answer is "incorrect" (i.e. the general manager is a relative of the chairman of the board) -	√	
a.	Please state the kinship between the parties: _____.	-----	-----
b.	The office was approved in accordance with Section 121(c) of the Companies Law ¹⁷ : ☐ Yes ☐ No (Kindly mark X in the appropriate box)	-----	-----
17.	The controlling shareholder or his relative does <u>not</u> serve as the general manager or as a senior officer in the corporation, other than as a director. ☐ Irrelevant (the corporation does not have a controlling shareholder).	√	

¹⁶ In a debenture company – approval in accordance with Section 121(d) of the Companies Law.

¹⁷ In a debenture company – approval in accordance with Section 121(d) of the Companies Law.

AUDIT COMMITTEE			Correct	Incorrect
18.	The following <u>did not</u> serve on the audit committee in 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 who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him.		√	
d.	A director who regularly renders services to the corporation or to the controlling shareholder of the corporation or to a corporation controlled by him.		√	
e.	A director whose primary livelihood depends on the controlling shareholder. ☐ Irrelevant (the corporation does not have a controlling shareholder).		√	
19.	No person who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present at the meetings of the audit committee in the reporting year, other than pursuant to the provisions of Section 115 (e) of the Companies Law.		√	
20.	The quorum for discussion and the adoption of resolutions in all meetings of the audit committee held in 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" – please state the rate of meetings in which 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, with regard to deficiencies in the business management of the corporation.		√	
22.	At all meetings of the audit committee at which a person who is not entitled to be a member of the committee was present, this was approved by the committee chairman and/or at the request of the committee (with respect to the CLO and corporate secretary who is not a controlling shareholder or his relative).		√	

		Correct	Incorrect
23.	Arrangements determined by the audit committee were in effect in the reporting year with respect to the manner of handling employee complaints pertaining to deficiencies in the conduct of the corporation's business, and to the protection to be granted to employees making such complaints.	√	
24.	The audit committee (and/or the financial statements review committee) was satisfied that the scope of the auditor's work and his fee with respect to the financial statements in the reporting year were adequate for the purpose of performing a proper audit and review.	√	

DUTIES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE (HEREINAFTER – FSRC) IN ITS PRELIMINARY WORK PRIOR TO APPROVAL OF THE FINANCIAL STATEMENTS

		Correct	Incorrect
25.	a. Please indicate the period (in days) determined reasonable by the board of directors for furnishing the committee's recommendations in contemplation of the board discussion for the approval of the financial statements: 2 business days.	-----	-----
	b. The number of days that passed in practice from the date on which the recommendations were furnished to the board until the date of the board discussion for the approval of the financial statements: Q1 statements (2023): 6 Q2 statements: 5 Q3 statements: 3 Annual statements: 2	-----	-----
	c. The number of days that passed from the date on which the draft financial statements were furnished to the directors until the date of the board discussion for the approval of the financial statements: Q1 statements (2023): 11 Q2 statements: 9 Q3 statements: 8 Annual statements: 4		
26.	The corporation's external auditor was present at all FSRC and board meetings in which the financial statements of the corporation referring to the periods included in the reporting year were discussed. If your answer is "incorrect" – please indicate the rate of his participation: _____.	√	

		Correct	Incorrect
27.	All conditions set forth below were satisfied by the FSRC throughout the entire reporting year until the annual statements were published:	-----	-----
a.	The number of its members was not less than 3 (on the date of the discussion by the FSRC and approval of the financial statements as aforesaid).	√	
b.	All conditions set forth in Sections 115(b) and (c) of the Companies Law (with respect to the office of members of the audit committee) were satisfied.	√	
c.	The chairman of the FSRC is an external director.	√	
d.	All committee members are directors, and most of its members are independent directors.	√	
e.	All of its members are able to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
f.	The FSRC members made a declaration prior to their appointment.	√	
g.	The quorum for discussion and the adoption of resolutions by the FSRC was the majority of its members, provided that most of those present were independent directors and included at least one external director.	√	
	If your answer to one of more of the subsections of this question is "incorrect", please indicate with respect to which report (periodic/quarterly) said condition was not satisfied, and the condition that was not satisfied: _____.	-----	-----

REMUNERATION COMMITTEE			
		Correct	Incorrect
28.	In the reporting year the committee comprised at least three members, and the external directors constituted a majority thereof (on the date of the discussion by the committee). ☐ Irrelevant (no discussion was held).	√	
29.	The terms of office and employment of all members of the remuneration committee in the reporting year are in accordance with the Companies Regulations (Rules for Remuneration and Reimbursement of Costs to an External Director), 2000.	√	

		Correct	Incorrect
30.	The following did not sit on the remuneration committee in 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 renders services to the corporation or to the controlling shareholder of the corporation or to a corporation controlled by him.	√	
e.	A director whose primary livelihood depends on the controlling shareholder. ☐ Irrelevant (the corporation does not have a controlling shareholder).	√	
31.	The controlling shareholder or his relative was not present in the reporting year in meetings of the remuneration committee, unless the committee chairman determined their presence necessary to present a certain issue.	√	
32.	The remuneration committee and the board did not exercise their power under Sections 267a(c), 272(c)(3) and 272(c1)(1)(c) to approve a transaction or remuneration policy despite the objection of the general meeting. If your answer is "incorrect", please indicate – The type of transaction approved as aforesaid: _____. The number of times their power was exercised in the reporting year: _____.	√	

INTERNAL AUDITOR			
		Correct	Incorrect
33.	The chairman of the board or the general manager of the corporation is the organizational supervisor of the internal auditor in the corporation.	√	
34.	The chairman of the board or the audit committee approved the work plan in the reporting year. In addition, the audit items addressed by the internal auditor in the reporting year shall be specified: In 2023, the internal audit submitted cross-Group audit reports on the following: Information collection, reliability and control to meet sustainability targets, follow-up of the implementation of recommendations from earlier reports. The audit subjects addressed by the internal audit in the reporting year in the Israel territory: Management of the organizational restructuring process, management of reputational risk, cybersecurity audit – Purple Team – measurement of the organization's monitoring capabilities and testing cyber resilience by running cybersecurity attack simulation exercises. Strauss Israel – food safety, technical procurement, and segregation of duties. Strauss Water – inventory management process. Strauss Coffee – inventory management process and review of the work of the internal auditor in Brazil. Sabra – procurement and segregation of duties.	√	
35.	Scope of the internal auditor's employment in the corporation in the reporting year: 9,559 work hours.	-----	-----
	In the reporting year a discussion was held (by the audit committee or board of directors) on the internal auditor's findings.	√	
36.	The internal auditor is not an interested party in the corporation, a relative thereof, the external auditor or a party acting on his behalf, nor does he maintain a material business relationship with the corporation, its controlling shareholder, his relative or corporations under their control.	√	

INTERESTED PARTY TRANSACTIONS		
	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 your 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 through 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. To the best of the corporation's knowledge, the controlling shareholder has no other businesses in the corporation's field of business (in one or more fields). If your answer is "incorrect" – please indicate whether an arrangement has been defined for the demarcation 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 of Directors:
Ofra Strauss

Chairperson of the Audit Committee:
Dorit Salinger

Chairperson of the FSRC:
Dalia Lev



Strauss Group Ltd.

Effectiveness of internal control





Somekh Chaikin
KPMG Millennium Tower
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Tel Aviv 61006, Israel
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An Unofficial translation of the Hebrew version; the Hebrew version is the binding version

Auditors' Report to the Shareholders of Strauss Group Ltd. with respect to components of internal control over financial reporting pursuant to Section 9b(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal control over financial reporting by Strauss Group Limited and its subsidiaries (hereinafter jointly referred to as the "Company") as of December 31, 2023. These control elements were determined as explained in the next paragraph. The Company's board of directors and management are responsible for conducting effective internal control over financial reporting and assessing the effectiveness of internal control components over financial reporting, which is attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over the Company's financial reporting based on our audit.

The components of internal control that were audited were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", including the amendments thereto (hereinafter: "Auditing Standard (Israel) 911"). These components are: (1) entity-level controls, including controls over the process of preparing and closing financial reporting and general information systems controls; (2) controls over the selling process; (3) controls over the procurement process and payments to suppliers; (4) the inventory process, with emphasis on its measurement and pricing (all jointly hereinafter referred to as the "Audited Components of Control").

We conducted our audit in accordance with Auditing Standard (Israel) 911. This standard requires that we plan and perform the audit with the aim of identifying the Audited Components of Control to obtain reasonable assurance as to whether these components of control were effectively applied in all material respects. Our audit included gaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk of material weakness in the Audited Components of Control, and examining and assessing the effectiveness of the design and operation of those components based on the risk assessed. Our audit of the control components also included performing such other procedures as we considered necessary under the circumstances. Our audit only addressed the Audited Components of Control, as opposed to internal controls over all material processes related to financial reporting, and therefore our opinion only addresses the Audited Components of Control. In addition, our audit did not address the mutual effects between the Audited Components of Control and those that are not audited, and therefore, our opinion does not take into account such potential effects. We believe that our audit provides an adequate basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and its components in particular, may not prevent or detect misstatement. In addition, drawing conclusions about the future on the basis of any current effectiveness assessment is subject to the risk that controls will become unsuitable due to changes in circumstances, or that the extent of performance of policies or procedures will undergo an adverse change.

In our opinion, the Company has, in all material respects, effectively applied the Audited Components of Control as of December 31, 2023.



Somekh Chaikin
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Tel Aviv 61006, Israel
+972 3 684 8000

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2023 and 2022, and for each of the three years in the period ended December 31, 2023, and our report, dated March 25, 2024, includes an unqualified opinion regarding those financial statements based on our audit and on the reports of the other auditors, and also draws attention to the recall by the confectionery plant.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 25, 2024

ANNUAL REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE PURSUANT TO REGULATION 9B(a):

Management, under the supervision of the board of directors of Strauss Group Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over financial reporting and disclosure within the Corporation.

For this purpose, the members of management are:

1. Shai Babad, Chief Executive Officer;
2. Ronen Zohar, Deputy Chief Executive Officer;
3. Ariel Chetrit, Chief Financial Officer;
4. Yael Nevo, EVP, CLO and Company Secretary;
5. Hila Mukevisius, SVP HR;
6. Raanan Kovalsky, CEO Strauss Israel
7. Elad Komissar, SVP BD and Strategy

Internal control over financial reporting and disclosure includes controls and procedures existing within the Corporation, which were planned by or under the supervision of the CEO and the most senior financial officer, or by anyone performing such functions in practice, under the supervision of the board of directors of the Corporation, which are designed to provide a reasonable level of assurance regarding the reliability of financial reporting and preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth in the law.

Internal control includes, *inter alia*, controls and procedures which were planned to ensure that information which the Corporation is required to disclose as aforesaid, is gathered and transferred to the management of the Corporation, including the Chief Executive Officer and the most senior financial officer or anyone performing such functions, in order to enable decisions in reference to the disclosure requirement to be made in a timely manner.

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 detected.

Management, under the supervision of the board of directors, carried out an examination and evaluation of 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 management under the supervision of the board of directors included:

A risk assessment process based on a risk-based model related to financial reporting and disclosure for evaluating the processes, as well as determining the business units relevant to the assessment.

Based on its understanding of the reporting and disclosure risks in the corporation, Company management focused on the financial reporting items and disclosure items that may be more likely to be materially misstated, and examined the operational planning and effectiveness of the controls and procedures that provide a proper response to these risks.

Based on the model, the business processes and the existing internal controls over financial reporting and disclosure were documented.

In order to ensure that the controls defined are effective, tests were conducted for verification.

The internal control components that were assessed:

1. Entity Level Controls;
2. Controls over the process of editing and closing financial statements;
3. General controls over information systems (ITGC);
4. Controls over processes that are highly material to financial reporting and disclosure. The processes that the Company considers highly important to financial reporting and disclosure are: The sales process, with emphasis on invoicing and customer master data; the procurement process, with emphasis on payments to suppliers; and the inventory process, with emphasis on its measurement and pricing.

Based on the effectiveness assessment performed by management under the supervision of the board of directors, as detailed above, the board of directors and management of the Corporation reached the conclusion that internal control over financial reporting and disclosure in the Corporation as of December 31, 2023 is effective.

MANAGERS' DECLARATIONS:

A. Declaration by the Chief Executive Officer pursuant to Regulation 9B(d)(1):

I, Shai Babad, declare that:

- (1) I have reviewed the Periodic Report of Strauss Group Ltd. (the "Corporation") for the year 2023 (the "Reports").
- (2) To my knowledge, the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which is required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.
- (3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, in 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 internal control over financial reporting and disclosure:
 - a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of 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 Chief Executive Officer or anyone reporting to him directly or which involves other employees who play a significant role in internal control over financial reporting and disclosure;
- (5) I, either alone or jointly with others in the Corporation:
 - a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -
 - b. Have determined controls and procedures or confirmed the determination and existence of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with Generally Accepted Accounting Principles.



- c. Have assessed the effectiveness of internal control over financial reporting and disclosure, and have presented in this report the conclusions of the board of directors and management pertaining to the effectiveness of said internal control as of the date of the Reports.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, pursuant to applicable law.

March 25, 2024

Shai Babad, Chief Executive Officer

MANAGERS' DECLARATIONS:

B. Declaration by the most senior financial officer pursuant to Regulation 9B(d)(2):

I, Ariel Chetrit, declare that:

- (1) I have reviewed the Financial Statements and other financial information included in the reports of Strauss Group Ltd. (the "Corporation") for year 2023 (the "Reports");
- (2) To my knowledge, the Financial Statements and 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 is required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.
- (3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, in 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 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 other financial 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 doubt on the reliability of 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 internal control over financial reporting and disclosure;
- (5) I, either alone or jointly with others in the Corporation:
 - a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 2010, 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 our supervision, which are designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements



according to the provisions of the law, including in accordance with Generally Accepted Accounting Principles;

- c. Have assessed the effectiveness of internal control over financial reporting and disclosure, insofar that it refers to the Financial Statements and other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my assessment as aforesaid were presented to the board of directors and management and are incorporated in this Report.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, pursuant to applicable law.

March 25, 2024

Ariel Chetrit, Chief Financial Officer



Strauss Group LTD.

Inclusion of the Financial Statements of an Investee Pursuant to Regulation 44 of the Securities Regulations, 1970





Três Corações Alimentos S.A.

Consolidated financial statements as of and for
the year ended December 31, 2023 and 2022

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Independent auditor's report

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, 2023, 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 the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by international Accounting Standards Board – IASB.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 in accordance with the 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") that are relevant to our audit of the consolidated financial statements 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 Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 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 ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, 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 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 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 to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated 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 regarding, 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, February 29, 2024

KPMG Auditores Independentes Ltda

CRC SP-014428/O-6 S-CE



Pedro Barroso Silva Júnior

Accountant CRC CE-021967/O-5

Três Corações Alimentos S.A.

Consolidated Statements of Financial Position as of December 31, 2023 and 2022

(In thousand of Brazilian Reais)



Assets	Note	December 31, 2023	December 31, 2022	Liabilities and equity	Note	December 31, 2023	December 31, 2022
Current				Current			
Cash and cash equivalents	6	870,986	1,037,736	Short term loans	17	889,694	1,037,201
Deposits	7	10,788	15,148	Trade payables	18	956,301	891,886
Trade receivables	8	734,278	765,622	Short term lease liabilities	16	42,888	36,934
Inventories	9	1,199,532	1,076,052	Income tax payables		616	4,987
Recoverable taxes	10	75,169	133,004	Employees and other payroll related liabilities	19	88,970	100,453
Income tax receivables		19,582	25,371	Proposed dividends	25.c	138,190	82,484
Other current assets	11	28,260	23,791	Interest on equity payable	20	-	79,689
		<u>2,938,595</u>	<u>3,076,724</u>	Payable taxes	21	33,298	22,405
				Other current liabilities	22	33,024	38,375
						<u>2,182,981</u>	<u>2,294,414</u>
Non-current				Non-current			
Trade receivables	8	7,464	9,482	Long term loans	17	461,864	424,600
Judicial deposits	23	9,260	8,988	Long term lease liabilities	16	59,868	71,626
Loans to related parties	12	-	14,389	Other non-current liabilities	22	20,368	19,497
Recoverable taxes	10	192,823	124,306	Deferred tax liabilities	24.c	2,947	6,342
Other non-current assets	11	74,159	68,551	Provision for legal proceedings	23	71,374	70,152
Deferred tax assets	24.c	75,091	17,842	Interest on equity payable	20	33,855	33,855
Investments	13	105,562	85,072			<u>650,276</u>	<u>626,072</u>
Fixed assets	14	748,005	681,623	Equity			
Intangible assets	15	462,052	416,459	Share capital	25.a	276,464	275,531
Right-of-use assets	16	87,322	95,845	Translation reserve		(195,776)	(200,891)
		<u>1,761,738</u>	<u>1,522,557</u>	Retained earnings		1,786,237	1,603,919
						<u>1,866,925</u>	<u>1,678,559</u>
				Equity attributable to owners of the Company			
						<u>1,867,076</u>	<u>1,678,795</u>
				Non-controlling interests		151	236
						<u>1,867,076</u>	<u>1,678,795</u>
Total assets		<u>4,700,333</u>	<u>4,599,281</u>	Total liabilities and equity		<u>4,700,333</u>	<u>4,599,281</u>

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

Três Corações Alimentos S.A.
Consolidated Statements of Income
Years ended December 31, 2023 and 2022
(In thousand of Brazilian Reais)



	Note	December 31, 2023	December 31, 2022
Revenue	26	7,896,711	8,169,768
Cost of sales	27	(6,176,645)	(6,287,861)
Gross profit		1,720,066	1,881,907
Selling and marketing expenses	28	(1,218,877)	(1,099,641)
General and administrative expenses	29	(196,996)	(207,351)
Allowance for expected credit losses	8	(10,864)	(17,789)
Equity method	13	20,490	10,414
Other income (expenses), net		1,571	(1,902)
Operating profit		315,390	565,638
Financial income		93,582	45,841
Financial expenses		(186,414)	(113,741)
Net financial expenses	30	(92,832)	(67,900)
Profit before income tax		222,558	497,738
Income tax (expense)	24.a	98,786	(45,121)
Profit for the year		321,344	452,617
Profit attributable to:			
Owners of the Company		321,441	452,761
Non-controlling interests		(97)	(144)
Total profit for the year		321,344	452,617

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

Três Corações Alimentos S.A.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2023 and 2022

(In thousand of Brazilian Reais)



	Note	December 31, 2023	December 31, 2022
Profit attributable to:		321,344	452,617
Other comprehensive income (loss) items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences	25.b	5,115	287
Comprehensive income for the year		<u>326,459</u>	<u>452,904</u>
Comprehensive income attributable to:			
Owners of the Company		326,556	453,048
Non-controlling interests		(97)	(144)
Total comprehensive income for the year		<u>326,459</u>	<u>452,904</u>

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

Três Corações Alimentos S.A.

Consolidated Statements of Changes in Equity

Years ended December 31, 2023 and 2022

(In thousand of Brazilian Reals)



Note	Retained earnings					Accumulated profit	Total	Non- controlling interests	Total Equity
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation reserve				
Balance as of 31 December, 2021	275,531	55,106	512,623	801,089	(201,178)	-	1,443,171	735	1,443,906
Profit for the year	-	-	-	-	-	452,761	452,761	(144)	452,617
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	287	-	287	-	287
Total other comprehensive gain (loss):	-	-	-	-	287	452,761	453,048	(144)	452,904
Internal equity changes									
State VAT and Federal tax incentives	-	-	147,264	-	-	(147,264)	-	-	-
Change in interest in investments valued by the equity method	-	-	-	(2,448)	-	-	(2,448)	(355)	(2,803)
Profit destination									
Interest on equity credited	-	-	-	-	-	(122,750)	(122,750)	-	(122,750)
Dividends proposed	-	-	-	-	-	(92,462)	(92,462)	-	(92,462)
Reserve for profit to be distributed	-	-	-	90,285	-	(90,285)	-	-	-
	-	-	147,264	87,837	-	(452,761)	(217,660)	(355)	(218,015)
Balance as of 31 December, 2022	275,531	55,106	659,887	888,926	(200,891)	-	1,678,559	236	1,678,795
Profit for the year	-	-	-	-	-	321,441	321,441	(97)	321,344
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	5,115	-	5,115	-	5,115
Total other comprehensive gain (loss):	-	-	-	-	5,115	321,441	326,556	(97)	326,459
Internal equity changes									
Capitalization of tax incentives	933	-	(933)						
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	12	12
State VAT and Federal tax incentives	-	-	134,943	-	-	(134,943)	-	-	-
Reserves reclassification	-	-	317	(317)	-	-	-	-	-
Legal reserve	-	187	-	-	-	(187)	-	-	-
Profit destination									
Dividends proposed	-	-	-	-	-	(138,190)	(138,190)	-	(138,190)
Reserve for profit to be distributed	-	-	-	48,121	-	(48,121)	-	-	-
	933	187	134,327	47,804	-	(321,441)	(138,190)	12	(138,178)
Balance as of 31 December, 2023	276,464	55,293	794,214	936,730	(195,776)	-	1,866,925	151	1,867,076

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

Três Corações Alimentos S.A.

Consolidated Statements of Cash Flow
Years ended December 31, 2023 and 2022
(In thousand of Brazilian Reais)



	Note	December 31, 2023	December 31, 2022
Cash flows from operating activities			
Profit for the year		321,344	452,617
Adjustments for:			
Depreciation and amortization		124,267	124,201
Termination of lease contracts		(66)	(2,330)
Provision for legal proceedings		1,222	4,449
Allowance for expected credit losses		10,864	17,789
Other income, net		(1,571)	1,902
Equity method		(20,490)	(10,414)
Finance expenses, net		92,832	67,900
Income tax (expense)		(98,786)	45,121
Change in:			
Trade receivables		20,882	(290,783)
Inventories		(126,353)	(111,596)
Recoverable and payable taxes, net		49,770	(16,833)
Judicial deposits		(272)	(909)
Trade payables		65,170	193,590
Employees and other payroll related liabilities		(11,483)	24,208
Other current and non-current assets and liabilities		(15,090)	(13,251)
Change in operating activities		412,240	485,661
Interest paid		(161,708)	(62,906)
Interest received		73,391	36,712
Income tax paid		(3,673)	(7,415)
Net cash flows provided by operating activities		320,250	452,052
Cash flows from investing activities			
Change in deposits		3,740	9,888
Payment for acquisition of operations, net of cash		-	(400)
Proceeds from sales of fixed assets		5,244	4,179
Acquisition of fixed assets	14.b	(160,072)	(133,955)
Investments in intangible assets		(59,220)	(28,245)
Dividend received		-	15
Long term loans to related parties	17.d	15,665	6
Net cash flows used in investing activities		(194,643)	(148,512)
Cash flows from financing activities			
Proceeds from loans	17.d	942,690	796,240
Repayment of loans	17.d	(1,041,740)	(463,400)
Payment of lease liabilities	17.d	(31,134)	(26,476)
Interest on equity paid	17.d	(79,689)	(52,078)
Dividend paid	17.d	(82,484)	(62,770)
Net cash flows used in (provided by) financing activities		(292,357)	191,516
Net decrease (increase) in cash and cash equivalents		(166,750)	495,056
Net decrease (increase) in cash and cash equivalents			
Cash and cash equivalents as at beginning of period		1,037,736	542,680
Cash and cash equivalents as at end of period		870,986	1,037,736
		(166,750)	495,056

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

1 General information

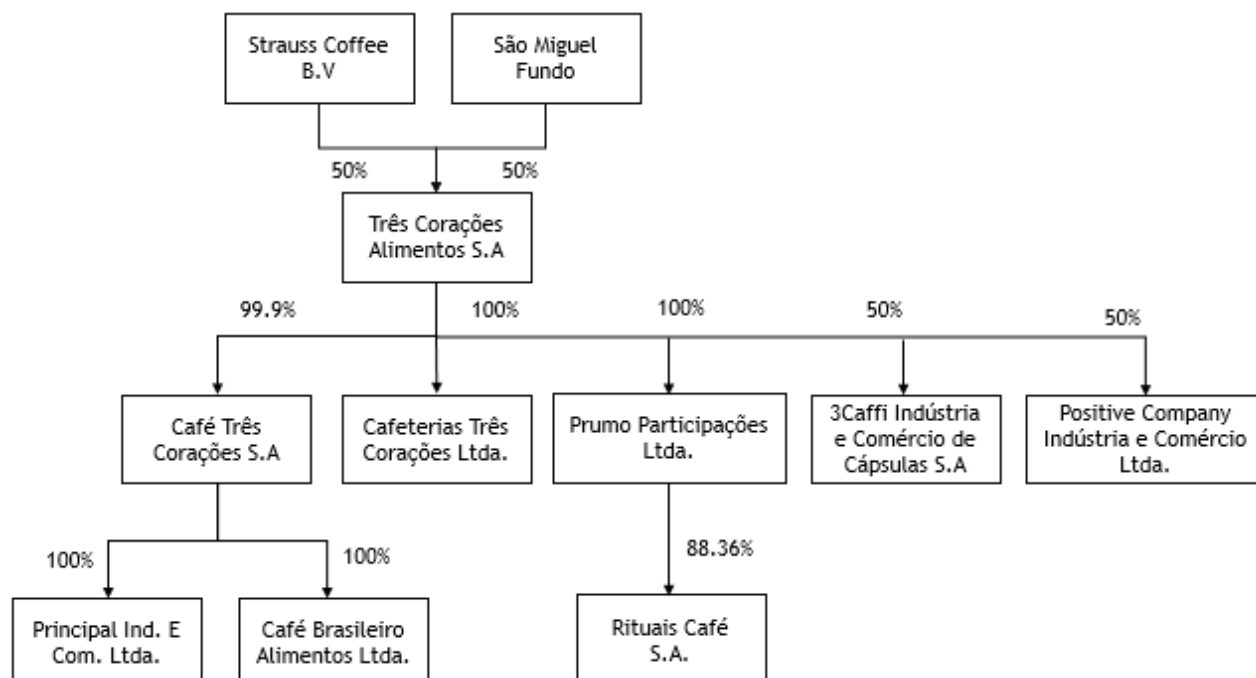
Três Corações Alimentos S.A. (the “Company”) together with its subsidiaries (the “Group”) are an industrial and commercial Group, which operate in Brazil, in producing and selling branded coffee products, multi-beverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports, lending Away-From-Home machines, operation of coffee shops, industrialization and sales of plant-based beverages, especially nuts milk and isotonic ones, cashew butter, roasting and selling specialty coffees in e-commerce and to third party businesses and investing in other companies.

The Company is located at Rua Santa Clara, 100, Parque Santa Clara, Eusébio, Ceará, Brazil. The Company controls the entities Cafeterias Três Corações Ltda., Prumo Participações Ltda., which in turns controls the entity Rituais Café S.A. and also controls Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda and Café Brasileiro Alimentos Ltda. The Company also participates in joint-venture agreements, sharing the control with third parties of the companies 3Caffi Indústria e Comércio de Cápsulas S.A. (“3Caffi”) and Positive Company Indústria e Comércio Ltda. (“Positive Company”), with 50% of shares in each company, which are not consolidated in this report, but evaluated by the equity method.

The Group is currently the largest group in roasted and ground coffee business in Brazil according to Nielsen Flash Report, and owns the coffee and other food brands of Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Itamaraty, Londrina, Chocolatto, Claralate, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, Cirol, Cirol Real, Realmil, Toko, Apollo, Astoria, Manaus, Tapajós, Betânia, Tribo do Café, Bar Barista, Café do Moço, A Tal da Castanha, Jungle and Café Brasileiro, Café 3 Fazendas, Café Bandeira, Café Premiado, .br, .br Gold and Coolate.

The Group’s industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais, Rio de Janeiro, Amazonas, São Paulo and Mato Grosso. Distribution centers are located in almost all states of Brazil. In addition, the Group owns green coffee processing plants in the state of Minas Gerais. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in these financial statements, 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%). The Group also owns coffee shops that are located in the cities of Fortaleza, Natal and Curitiba. Positive Company’s physical structure is located in the state of Espírito Santo.

As of December 31, 2023 and 2022, the Group had the following structure:



2 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 February 29, 2024.

Details of the Group's accounting policies, including changes thereto, are included in Note 3 and Note 4.

(b) Basis of measurement

These consolidated financial statements have been prepared based on the historical cost, except where stated otherwise. For further information regarding the measurement of these assets and liabilities see Note 4.

(c) Functional and presentation currency

The Group's consolidated financial statements are presented in Brazilian Real (R\$).

For each entity, the Group determines the functional currency and items included in the financial statements are measured using that functional currency. All Group entities have the same functional currency, except for the export business of green coffee, for which the functional currency is the United States Dollar (Note 25.b).

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have significant effects on the amounts recognized in the financial statements is included in the following notes:

Note 4(a) - Consolidation: whether the Group has significant influence and control over an investee;

Note 13 - Equity-accounted investees: whether the Group has significant influence and control over an investee or joint ventures;

Note 16 - Lease term: whether the Group is reasonably certain to exercise extension options; and

Note 18 - Reverse factoring: presentation of amounts related to supply chain financing arrangements in the statement of financial position.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at December 31, 2023 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

Note 8 - Measurement of ECL (Expected Credit Loss) allowance for trade receivables: key assumptions in determining the weighted-average loss rate;

Note 14 - Useful life of fixed asset items;

Note 15 - Impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;

Note 23 - Recognition and measurement of provisions for legal proceedings: key assumptions about the likelihood and magnitude of an outflow of resources;

Note 24 (c) - Recognition of deferred tax assets: availability of future taxable profits against which tax loss carryforwards can be used and uncertain tax treatments;

Note 24 (d) - Uncertainty over income tax treatment; and

Note 31 - Financial instrument fair value measurements.

(i) **Fair value measurement**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

When necessary, management reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices in an active market for identical assets and liabilities;

Level 2: inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). As of December 31, 2023 and 2022, the Group had no assets or liabilities classified at Level 3.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3 Changes in significant accounting policies

New standards are effective from January 1, 2023 but they do not have a material effect on the Group's financial statements. See the list of new standards in Note 5.

4 Material accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if otherwise mentioned.

(a) **Basis of consolidation**

(i) **Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is

exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

(ii) Non-controlling interests (NCI)

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Interests in equity-accounted investees

The Group's interests in equity-accounted investees include interests in a joint venture. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income (OCI) of equity-accounted investees, until the date on which joint control ceases.

(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 gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. 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 currencies are translated into the respective functional currencies of the Group companies at the exchange rate at the date of the transactions.

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 financing expenses.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities derived from foreign operations are translated to Brazilian real 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.

(c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as amortized cost or fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, and which are initially measured at the transaction price, the Group initially measures a financial asset at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, at transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at the instrument level.

For the purposes of SPPI assessment, 'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows and as such it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the SPPI criteria if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortized cost;
- Financial assets at fair value through the profit or loss.

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents (except for

Deposits in banks), trade receivables with third parties, trade receivables with related parties, loans to related parties and others.

Financial assets at fair value through the profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

The Group's financial assets at fair value through the profit or loss include Deposits in banks, Deposits with brokers and Derivatives.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, when applicable, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

Classification, initial recognition and subsequent measurement

Financial liabilities are classified as measured at amortized cost or FVTPL, as appropriate.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Group's financial liabilities include trade payables, loans and borrowings, distributions to

shareholders (dividends and interest on equity), payables for acquisition, lease liabilities and others.

Derecognition

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iii) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iv) *Derivative financial instruments and hedge accounting*

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.

The Group designates certain derivatives as hedging instruments. Most of the currency hedge operations is currently related to importation of multi-beverage single portion machines.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and of the hedging instrument are expected to offset each other.

Fair value hedges

A hedge of the foreign currency risk of a firm commitment is accounted as a fair value hedge.

When a hedged item in a fair value hedge is a firm commitment to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognized in the statement of financial position.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability, with a corresponding gain or loss recognized in profit or loss.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

(d) Inventories

Inventories are 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.

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). 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.

(e) Fixed assets

Recognition and measurement

Fixed assets are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation (see below) and impairment losses.

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).

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 of each other within “other income” or “other expenses”, if relevant, in profit or loss.

Subsequent expenditures

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

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 calculated to write off the cost of items of fixed assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Land is not depreciated.

The annual average rates for the principal depreciation groups, for current and comparative period, are as follows:

	2023	2022
Buildings	3.04	2.01
Machinery and equipment	7.05	6.07
Vehicles - Airplane	5.00	5.00
Vehicles - Others (a)	10.55	20.31
Furniture and other equipment	12.10	10.61
Leasehold improvements	2.32	2.02

- (a) During 2023, Management carried out an analysis and updated the useful life and residual value of its trucks. The updated impact is a decrease of R\$ 9,721 in the depreciation of the year. The analysis and conclusion came mainly from the increase in the usage time of these trucks within the Company (positively impacting the useful life) and the increase in the price of used vehicles in the national market (positively impacting the residual value).

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.

(f) Intangible assets and goodwill

Goodwill

Goodwill arises on the acquisition of subsidiaries, and is presented as part of intangible assets. In subsequent periods, goodwill is measured at cost, less accumulated impairment losses.

Other intangible assets

The intangible assets include brands, trademarks, software, distribution networks, client portfolio, license agreements, and non-competition agreements, that were acquired as part of business combination.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditures on internally generated intangibles, are recognized in profit or loss as incurred.

Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Goodwill and some brands are not amortized. For tax purposes, Goodwill may be amortized, according to Brazilian tax legislation.

The annual average rate for the principal amortization groups, for current and comparative period are as follows (2023 and 2022):

	2023	2022
Computer software	23.20	30.68
Brands and trademarks	13.36	20.77
List of customers (presented as "others" in Note 15)	9.49	10.00
Other	20.01	23.75

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

(g) Impairment

(i) Non-financial assets

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.k, 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 of 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.

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 values using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

(ii) Non-derivative financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for financial assets measured at amortized cost. ECL is the probable weighted estimate of credit losses. The Group measures loss allowances for trade receivables at an amount equal to the expected credit losses that result from all possible default events over the expected life of a financial instrument (lifetime ECLs).

For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group expects no significant recovery from the amounts written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures and with the tax legal requirements for recovery of amounts due.

(h) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. The Group normally 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.

(i) Government grants

Government grants are recorded in profit or loss when there is reasonable assurance that the grant will be received or compensated and the conditions established for the grant will be achieved by the Group. Afterwards, the grant is recognized in the statement of income.

The types of government grants received by the Group and their respective tax treatment are described in Note 25.e.

(j) Revenue

Revenue is recognized when the control of the goods is transferred to the customer, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

Sale of goods

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

The Group considers whether there are other provisions in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of

variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. Some contracts for the sale of goods provide customers with a right of discounts and volume rebates. The rights of discounts and volume rebates give rise to variable consideration. The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer.

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale, as required by law (Note 23). These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(k) 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.

The Group has determined that interest and penalties related to income tax, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37- *Provisions, Contingent Liabilities and Contingent Assets*.

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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. 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 24.c and 25.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, and is subject, as always, to uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(I) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets in annual average rates, as follows (2023 and 2022):

	2023	2022
Buildings	13.53	12.99
Machinery and equipment	21.82	21.82
Vehicles	59.43	59.50

The right-of-use assets are also subject to impairment test.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate since the implicit interest rate is not readily available.

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the fixed payments, including in-substance fixed payments.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

5 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. However, the Group has not early adopted the following new or amended accounting standards in preparing these consolidated financial statements.

(a) Classification of Liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1)

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting periods beginning on or after 1 January 2024.

The Group is in process of assessing the potential impact of the amendments on the classification of these liabilities and the related disclosures.

(b) Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

The amendments introduce new disclosures relating to supplier finance arrangements that assist users of the financial statements to assess the effects of these arrangements on an entity's liabilities and cash flows and on an entity's exposure to liquidity risk. The amendments apply for the annual period beginning on or after 1 January 2024.

As disclosed in Note 18, the Group participates in a supply chain financing arrangement for which the new disclosures will apply. The Group is in the process of assessing the impact of the amendments, particularly with respect to the collection of additional information needed to meet the new disclosure requirements.

(c) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

- Lack of Exchangeability (Amendments to IAS 21)

6 Cash and cash equivalents

	R\$	
	31/12/2023	31/12/2022
Bank balances	98,531	51,817
Cash	146	201
Short term deposits:		
Deposits in banks (a)	772,309	985,718
	<u>870,986</u>	<u>1,037,736</u>

- (a) Refers to short-term deposits, with high liquidity, classified as financial assets 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 Bank Deposit Certificate - "CDB", with interest calculated over resources kept in bank account for short periods, normally up to 30 days, with interest currently of 101.66% of the Brazilian Interbank Deposit rate - CDI (in 2022, 102.33% of CDI).

7 Deposits

	R\$	
	31/12/2023	31/12/2022
Deposits with brokers	10,788	15,148
	<u>10,788</u>	<u>15,148</u>

Refers to deposits made to brokers to use in future operations, classified as financial assets at fair value through profit and loss, with brokers responsible for derivative financial instrument operations, especially green coffee sell and buy options.

8 Trade receivables

	R\$	
	31/12/2023	31/12/2022
Third parties	831,475	859,364
Foreign customers	17,611	13,457
Related parties (Note 12)	21,218	11,932
	<u>870,304</u>	<u>884,753</u>
Less:		
Provision for discounts (a)	(105,486)	(87,632)
Subtotal	<u>764,818</u>	<u>797,121</u>
Allowance for expected credit losses (b)	(23,076)	(22,017)
	<u>741,742</u>	<u>775,104</u>
Current assets	734,278	765,622
Non-current assets	7,464	9,482

- (a) Refers to discounts calculated based on volume rebates or other conditions agreed with customers.
- (b) Provision calculated based on an assessment of the risk per customer cluster, as detailed in Note 31.b. Please, see below the aging list.

Days	31/12/2023	31/12/2022
Not past due	637,198	685,285
Past due 1 to 30	91,155	81,573
Past due 31 to 60	1,280	6,474
Past due 61 to 90	-	2,973
Past due 91 to 120	2,210	1,520
More than 120	32,975	19,296
Subtotal	<u>764,818</u>	<u>797,121</u>
Allowance for expected credit losses	<u>(23,076)</u>	<u>(22,017)</u>
	<u>741,742</u>	<u>775,104</u>

The movement in the allowance for expected credit losses of trade receivables during the period was:

	R\$	
	2023	2022
Balance at 1 January	(22,017)	(6,021)
Provision for expected credit losses	(10,864)	(17,789)
Write-offs	9,805	1,793
Balance at December 31,	<u>(23,076)</u>	<u>(22,017)</u>

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated, and there is a low level of concentration with the biggest customers. The largest customer represents 7.23% of 2023 revenue (7.79% in 2022). Further information about the credit risk exposures is disclosed in Note 31.b.

9 Inventories

	R\$	
	31/12/2023	31/12/2022
Finished goods including green coffee	760,489	750,581
Work in progress (a)	63,312	61,685
Raw material	206,971	117,139
Packaging and other materials	141,505	113,121
Import in progress	14,541	13,349
Advances to suppliers	12,714	20,177
	1,199,532	1,076,052

Inventory balances are presented net of provision for obsolescence and write-offs for reduction to net realizable value. In 2023 the write-down of inventory to net realizable value amounted was R\$ 2,045 (2022: R\$ 1,631), 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.

- (a) Some kinds of raw materials (mainly some raw coffee beans) are sent for processing in other companies, until 2022 they were classified as raw materials. However, in 2023 the Management reviewed the classification and concluded that the best way to present them is in the sub-group of work in progress, since the Company is waiting the return of them as other work in process items or as a finished good. Therefore, we reclassified the 2022 balance between raw materials and work in progress products for better comparability and analysis in R\$ 61,033.

10 Recoverable taxes

	R\$	
	31/12/2023	31/12/2022
State VAT - ICMS (a)	65,795	71,301
Federal VAT - PIS and COFINS (b)	113,464	155,335
Income taxes - IRPJ and CSLL (c)	65,059	22,281
Other	23,674	8,393
	267,992	257,310
Current assets	75,169	133,004
Non-current assets	192,823	124,306

(a) State VAT - ICMS

State VAT recoverable is mainly due to credits for purchases of inputs and raw materials and operations where advanced VAT was paid at the moment of the out-of-state goods entering the respective state. However, for those cases where the presumed operation has not taken place due to goods subsequent movement to another state, the Company is entitled to a reimbursement of the VAT paid in advance to the state government (mainly Minas Gerais and São Paulo).

Part of state VAT credits was recorded in non-current assets, since management understands that it will not be available for use in less than a year because the authorities usually take a long time to process these credits. As of December 31, 2023, the state VAT non-current balances were R\$ 42,253 (R\$ 39,716 as of December 31, 2022).

(b) Federal VAT - PIS and COFINS

Federal VAT recoverable 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.

Part of the total amount is related to non-inclusion of state VAT (ICMS) in the basis of calculation of federal VAT (PIS and COFINS). As of December 31, 2023 the amount was R\$ 102,138 (R\$ 122,351 as of December 31, 2022).

(c) Income taxes - IRPJ and CSLL

The main variation in the period is related to the update of the impact on Income taxes resulting from the calculation of the exclusion of State VAT (ICMS) in the basis of Federal VAT (PIS and COFINS) calculation base in amount of R\$ 29,384 in November, 2023.

11 Other current and non-current assets

	R\$	
	31/12/2023	31/12/2022
Advances to suppliers	6,460	880
Advances to employees	6,435	4,080
Prepaid expenses (a)	26,000	28,179
Special bank deposit for reinvestment	7,493	7,042
Indemnification assets (b)	50,347	47,716
Sundry	5,684	4,445
	102,419	92,342
Current assets	28,260	23,791
Non-current assets	74,159	68,551

- (a) Prepaid expenses are mainly represented by advance payments for marketing campaigns, software maintenance and Away From Home expenses.
- (b) Indemnification assets recognized as a result of the obligation of former owners of Café Brasileiro to reimburse any contingent amounts that may materialize unfavorably after the business combination.

12 Related parties

The Group's related parties are the parent entities with 50% shareholding each, related parties of the parent entities, investee entities of both the Group and the parent entities and members of the Board, senior management and their close family members, of both the Group and the parent entities.

The prices and credit terms in respect of transactions with related parties are determined according to customary commercial terms and for the transactions with 3Caffi according to master supply agreement and Positive Company according to the products purchase and sale contract.

	R\$	
	31/12/2023	31/12/2022
Current assets		
Trade receivables (Note 8)		
3Caffi Indústria e Comércio de Cápsulas S.A.	20,433	11,900
Positive Company Indústria e Comércio de Alimentos Saudáveis S.A	778	32
Fazenda Sequoia Minas Ltda.	7	-
	21,218	11,932
Non-current assets		
Loans to related parties		
3Caffi Indústria e Comércio de Cápsulas S.A.	-	14,389

	R\$	
	31/12/2023	31/12/2022
	-	14,389
Current liabilities		
Trade payables (Note 18)		
3Caffi Indústria e Comércio de Cápsulas S.A.	32,183	19,675
Positive Company Indústria e Comércio de Alimentos Saudáveis S.A	12,030	2,074
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	3,559	3,357
	47,772	25,106
Proposed dividends (Note 25.c)		
Strauss Coffee B.V.	69,095	41,242
São Miguel Fundo de Investimento em Participações	69,095	41,242
	138,190	82,484
Interest on equity payable - long and short term (Note 20)		
Strauss Coffee B.V. (net of tax withheld)	15,555	52,169
São Miguel Fundo de Investimento em Participações	18,300	61,375
	33,855	113,544
	219,687	221,134
Statement of income		
Revenue		
3Caffi Indústria e Comércio de Cápsulas S.A.	69,496	64,663
Positive Company Indústria e Comércio de Alimentos Saudáveis S.A	894	91
Fazenda Sequoia Minas Ltda.	7	43
	70,397	64,797
Cost of sales		
3Caffi Indústria e Comércio de Cápsulas S.A.	238,513	204,242
Positive Company Indústria e Comércio de Alimentos Saudáveis S.A	76,591	57,319
Fazenda Sequoia Minas Ltda.	-	74
	315,104	261,635
Sales and general and administrative expenses		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	13,656	12,935
	13,656	12,935

- (i) **Trade receivables, trade payables, cost of sales and sales**
Trade receivables, trade payables, cost of sales and sales balances with related parties are due to operations of purchase and sale of goods and services. Part of the facilities used by the Group is leased from Três Corações Imóveis Armazéns Gerais e Serviços Ltda.
- (ii) **Loans to related party**
In 2023, the loan to 3Caffi, for the construction of the capsule factory, was completely received.

13 Investments

	R\$	
	31/12/2023	31/12/2022
Interest in joint ventures		
3Caffi Indústria e Comércio de Cápsulas Ltda. (a)	61,893	43,098
Positive Company Indústria e Comércio de Alimentos Saudáveis S.A (b)	43,669	41,974

		105,562	85,072
(a)	3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi") is an equity-accounted investee held jointly by the Group and the Italian Caffitaly System S.p.A., which share the Company control in the joint-venture, with 50% share participation each. Most of the Group's capsule production is concentrated in 3Caffi. Accordingly, the Group has classified its interest in 3Caffi as a joint venture.		
(b)	Positive Company Indústria e Comércio Ltda. ("Positive Company"), is a non-listed company based in Fortaleza-CE, with manufacturing unit in Espírito Santo, that operates in industrialization and sales of plant-based beverages, especially nuts milk and isotonic ones and cashew butter. According to the agreement, the Company has 50% of voting rights. Accordingly, the Group has classified its interest in Positive Company as a joint venture.		

Below is the movement of the year:

	R\$	
	2023	2022
Balance at 1 January	85,072	77,122
Group's share of profit (loss) of equity accounted investees	20,490	10,414
Dividends received	-	(15)
Change in relative participation in investments	-	(2,448)
Others	-	(1)
Balance at December 31,	105,562	85,072

The following table summarizes the financial information of the joint ventures as included in their own financial statements, including fair value adjustments at acquisition. The table also reconciles the summarized financial information to the carrying amount of the Group's interest in the joint ventures.

	R\$		R\$	
	3Caffi		Positive	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Assets				
Current	150,576	111,343	29,741	24,563
Non-current	138,324	115,200	13,901	8,067
	<u>288,900</u>	<u>226,543</u>	<u>43,642</u>	<u>32,630</u>
Liabilities				
Current	80,549	50,602	17,584	9,454
Non-current	84,566	89,746	1,006	1,514
Equity	123,785	86,195	25,052	21,662
	<u>288,900</u>	<u>226,543</u>	<u>43,642</u>	<u>32,630</u>
Statement of income				
Revenue	240,072	205,559	86,722	65,683
(-) Cost of sales	<u>(193,820)</u>	<u>(167,578)</u>	<u>(66,961)</u>	<u>(51,070)</u>
(=) Gross profit	46,252	37,981	19,761	14,613
Other expenses, net	<u>(2,919)</u>	<u>(5,871)</u>	<u>(19,238)</u>	<u>(22,051)</u>
(=) Profit before income tax	43,333	32,110	523	(7,438)
(-) Income tax (expenses)	<u>(5,743)</u>	<u>(6,097)</u>	<u>2,865</u>	<u>2,251</u>
(=) Profit (loss) for the year	<u>37,590</u>	<u>26,013</u>	<u>3,388</u>	<u>(5,187)</u>

The Company granted endorsements in favor of the joint ventures, with balances on December 31, 2023 and 2022 listed below:

	R\$	
	3Caffi	
	31/12/2023	31/12/2022
Type of endorsement		
Legal entity endorsement	<u>71,918</u>	<u>74,783</u>
Total	<u>71,918</u>	<u>74,783</u>

14 Fixed assets

(a) Fixed asset movements

	R\$					
	Land and Buildings	Machinery and Equipment	Vehicles	Furniture and other equipment	Leasehold improvements	Total
Cost						
Balances as of December 31, 2021	131,891	413,245	108,731	244,753	130,272	1,028,892
Additions	4,138	42,401	34,483	42,924	9,191	133,137
Disposals	(295)	(2,211)	(739)	(6,992)	(61)	(10,298)
Transfer between classes of assets (a)	(1,242)	196	2	743	1,174	873
Effect of changes in exchange rates	(23,494)	392	1	(115)	(896)	(24,112)
Balances as of December 31, 2022	110,998	454,023	142,478	281,313	139,680	1,128,492
Additions	7,331	58,758	3,697	65,008	12,740	147,534
Disposals	(9)	(4,080)	(1,670)	(3,253)	(88)	(9,100)
Transfer between classes of assets (a)	(3,863)	703	(252)	451	3,819	858
Effect of changes in exchange rates	(38)	(594)	(5)	(301)	(131)	(1,069)
Balances as of December 31, 2023	114,419	508,810	144,248	343,218	156,020	1,266,715

Três Corações Alimentos S.A.
Notes to the consolidated financial statements
(In thousands of Brazilian Reals)



	R\$					
	Land and Buildings	Machinery and Equipment	Vehicles	Furniture and other equipment	Leasehold improvements	Total
Accumulated depreciation						
Balances as of December 31, 2021	<u>(20,218)</u>	<u>(175,206)</u>	<u>(57,600)</u>	<u>(106,036)</u>	<u>(18,522)</u>	<u>(377,582)</u>
Additions	(3,175)	(26,687)	(14,516)	(32,260)	(5,213)	(81,851)
Disposals	80	1,290	583	4,041	62	6,056
Transfer between classes of assets (a)	(126)	136	(1)	(15)	(10)	(16)
Effect of changes in exchange rates	5,939	311	(1)	55	220	6,524
Balances as of December 31, 2022	<u>(17,500)</u>	<u>(200,156)</u>	<u>(71,535)</u>	<u>(134,215)</u>	<u>(23,463)</u>	<u>(446,869)</u>
Additions	(3,039)	(28,458)	(5,074)	(35,703)	(5,202)	(77,476)
Disposals	10	2,321	1,299	1,795	2	5,427
Transfer between classes of assets (a)	(345)	38	-	-	307	0
Effect of changes in exchange rates	(735)	552	4	111	276	208
Balances as of December 31, 2023	<u>(21,609)</u>	<u>(225,703)</u>	<u>(75,306)</u>	<u>(168,012)</u>	<u>(28,080)</u>	<u>(518,710)</u>
Balance net as of						
December 31, 2022	93,498	253,867	70,943	147,098	116,217	681,623
December 31, 2023	92,810	283,107	68,942	175,206	127,940	748,005

- (a) In the year ended December 31, 2023, the amount of R\$ 858 (R\$ 857 as of December 31, 2022), regarding coffee machines lent to customers, was transferred from inventories to fixed assets.

(b) Reconciliation between fixed assets movement and cash flows from investing activities

	R\$	
	31/12/2023	31/12/2022
Fixed assets additions	(147,534)	(133,137)
(-) Loans for acquisition of machines and vehicles - Additions	67	11,895
(+) Loans for acquisition of machines and vehicles - Amortization	(13,150)	(14,034)
(-) Payable for acquisition of fixed assets of the year (Note 22)	(2,639)	(3,184)
(+) Payable for acquisition of fixed assets of prior year (Note 22)	3,184	4,505
Acquisition of fixed assets in investing activities	(160,072)	(133,955)

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.

In 2023 and 2022, the Group did not recognize any impairment loss from the fixed assets, since no impairment trigger has been identified.

15 Intangible assets

	R\$				
	Brands and trademarks	Computer software	Goodwill	Others	Total
Cost					
Balances as of December 31, 2021	<u>93,462</u>	<u>64,382</u>	<u>231,426</u>	<u>92,064</u>	<u>481,334</u>
Additions	38	25,690	-	4,051	29,779
Disposals	-	(365)	-	(147)	(512)
Transfer between classes of assets	-	8,069	697	(8,766)	-
Balances as of December 31, 2022	<u>93,500</u>	<u>97,776</u>	<u>232,123</u>	<u>87,202</u>	<u>510,601</u>
Additions	48	54,361	-	4,056	58,465
Balances as of December 31, 2023	<u>93,548</u>	<u>152,137</u>	<u>232,123</u>	<u>91,258</u>	<u>569,066</u>
Accumulated amortization					
Balances as of December 31, 2021	<u>(4,550)</u>	<u>(39,154)</u>	<u>-</u>	<u>(35,652)</u>	<u>(79,356)</u>
Additions	(21)	(5,008)	-	(9,794)	(14,823)
Disposals	-	32	-	5	37
Transfer between classes of assets	-	(6,682)	-	6,682	-
Balances as of December 31, 2022	<u>(4,571)</u>	<u>(50,812)</u>	<u>-</u>	<u>(38,759)</u>	<u>(94,142)</u>
Additions	(20)	(2,919)	-	(9,933)	(12,872)
Balances as of December 31, 2023	<u>(4,591)</u>	<u>(53,731)</u>	<u>-</u>	<u>(48,692)</u>	<u>(107,014)</u>
Balance net as of					
December 31, 2022	88,929	46,964	232,123	48,443	416,459
December 31, 2023	88,957	98,406	232,123	42,566	462,052

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.

Others refer mainly to, new product development R\$ 14,497 (2022: R\$ 14,208) and client portfolio R\$ 28,263 (2022: R\$ 34,429).

Additions to computer software refer to software acquired by the Company for use in automated process and software licenses acquired, in 2023 and 2022, mainly SAP licenses and software development.

(a) Impairment assessment

As of December 31, 2023, intangible assets include an amount of R\$ 321,080 that is attributable to brands (except for those acquired in 3Corações Sul business combination) and goodwill, having an indefinite useful life (R\$ 322,515 as of December 31, 2022).

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; existence of indicators of changes in lifestyle, competitive environment, market requirements and industry trends, 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, on December 31, the recoverable amounts of goodwill and brands from business combination transactions. Fixed assets 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 fully or partially recoverable.

Management analyzes 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 with 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 five-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 2023 and 2022. The projected cash flows were discounted according to pre-tax discount rates of 14.51% in 2023 and of 13.12% in 2022. Both 2023 and 2022 projected cash flows were prepared in Brazilian Real currency, without inflation effects.

The Group performed a sensitivity analysis over the discount rate and the growth rate. Considering an increase in the discount rate of 1.20% and a reduction in the growth rate of 1%, Management concluded that there is no need to recognize goodwill impairment. The estimated recoverable amount of the cash-generating units exceeded its carrying amount by R\$ 2,396,023

(2022: R\$ 5,093,962). In 2023 and 2022, the Group did not recognize any impairment loss from the operation.

16 Leases

The Group has lease contracts for various items of plant, distribution centers, machinery, vehicles and other equipment used in its operations. Leases of plant and distribution centers generally have lease terms between 2 and 15 years, while vehicles and other equipment generally have lease terms between 2 and 6 years. Lease payments are renegotiated periodically to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The plants and distribution centers leases were entered into years ago as combined leases of land and buildings.

The Group also has certain leases of IT equipment with lease terms of 12 months or less and leases of office equipment of low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

Set out below are the carrying amounts of recognized right-of-use assets and the movements during the period:

	R\$			
	Buildings	Machinery and equipment	Vehicles	Total
As at December 31, 2021	79,291	-	5,107	84,398
Additions	33,878	1,706	5,505	41,089
Terminations	(1,384)	-	(731)	(2,115)
Depreciation expense	(24,039)	(93)	(3,395)	(27,527)
As at December 31, 2022	87,746	1,613	6,486	95,845
Additions	18,436	-	7,581	26,017
Terminations	(266)	-	(355)	(621)
Depreciation expense	(27,757)	(372)	(5,790)	(33,919)
As at December 31, 2023	78,159	1,241	7,922	87,322

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	R\$	
	2023	2022
As at January 01	108,560	96,277
Additions	26,017	41,089
Terminations	(687)	(2,330)
Interest expense	11,414	7,110
Payments (principal and interest)	(42,548)	(33,586)
As at December 31,	102,756	108,560
Current liabilities	42,888	36,934
Non-current liabilities	59,868	71,626

The following table sets out a maturity analysis of lease liabilities:

	R\$	
	31/12/2023	31/12/2022
One to two years	46,684	64,315
Two to three years	36,032	18,013
Three to four years	11,767	17,177
Four to five years	2,539	4,140
More than five years	5,734	4,915
	102,756	108,560

The amount recognized in the statement of income relating to short-term leases and leases of low-value assets during the period was R\$ 21,616 (R\$ 17,462 in 2022). The Group had total cash outflows for leases of R\$ 42,548 in 2023 (R\$ 33,586 in 2022).

Extension options

Some leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility.

The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

17 Short and long term loans

(a) Loans schedule

	Annual interest rate - %		Index	R\$	
	31/12/2023	31/12/2022		31/12/2023	31/12/2022
Brazilian reais loans and borrowings					
Loans for acquisition of machines and vehicles	8.83	12.57	TJLP	258,500	274,375
Working capital loans	12.28	13.25	CDI	828,330	918,958
Loans for acquisition of green coffee	9.25	8.21	-	87,412	88,870
				<u>1,174,242</u>	<u>1,282,203</u>
United States dollar loans and borrowings					
Loans for acquisition of inventories (ACC)	6.27	3.21	-	177,316	179,598
				<u>177,316</u>	<u>179,598</u>
Total				<u>1,351,558</u>	<u>1,461,801</u>
Current liabilities				<u>889,694</u>	<u>1,037,201</u>
Non-current liabilities				<u>461,864</u>	<u>424,600</u>

There are no debt covenants on the Group's loans and borrowing contracts with the banks.

(b) Non-current payment schedule

	R\$	
	31/12/2023	31/12/2022
13 to 24 months	142,978	404,899
25 to 36 months	309,977	13,825
37 to 48 months	3,490	4,813
49 to 60 months	5,419	1,063
	<u>461,864</u>	<u>424,600</u>

(c) Guarantees

The following liens have been provided as security for the liabilities of the Group:

	R\$	
	31/12/2023	31/12/2022
Pledges registered in favor of the banks	<u>34,204</u>	<u>38,657</u>

(d) Reconciliation between financial position movement and cash flows from financing activities

Note	R\$									
	Short and long term loans	Short and long term lease liabilities	Proposed dividends	Interest on equity Payable	Total	Short and long term Loans	Short and long term lease liabilities	Proposed Dividends	Interest on equity payable	Total
	2023					2022				
Balance as of December 31, of Prior Year	1,461,801	108,560	82,484	113,544	1,766,389	1,100,197	96,277	52,792	52,078	1,301,344
Cash flows from financing activities items:										
Proceeds from loans	942,690	-	-	-	942,690	796,240	-	-	-	796,240
Repayment of loans	(1,041,740)	-	-	-	(1,041,740)	(463,400)	-	-	-	(463,400)
Payment of lease liabilities	-	(31,134)	-	-	(31,134)	-	(26,476)	-	-	(26,476)
Interest on equity paid	20	-	-	(79,689)	(79,689)	-	-	-	(52,078)	(52,078)
Dividend paid	25.c	-	(82,484)	-	(82,484)	-	-	(62,770)	-	(62,770)
Total cash flows used in financing activities	(99,050)	(31,134)	(82,484)	(79,689)	(292,357)	332,840	(26,476)	(62,770)	(52,078)	191,516
Other items:										
Additions of lease liabilities	16	-	26,017	-	26,017	-	41,089	-	-	41,089
Terminations of lease	16	-	(687)	-	(687)	-	(2,330)	-	-	(2,330)
Interest and exchange rate variation expenses		148,801	11,414	-	160,215	74,087	7,110	-	-	81,197
Interest and exchange rate variation payments		(149,662)	(11,414)	-	(161,076)	(46,230)	(7,110)	-	-	(53,340)
Proceeds from investment loans		67	-	-	67	11,895	-	-	-	11,895
Repayment of investment loans		(13,150)	-	-	(13,150)	(14,034)	-	-	-	(14,034)
Working Capital - PROADI and PROVIN	25.e	2,751	-	-	2,751	3,046	-	-	-	3,046
Dividend provisioned	25.c	-	-	138,190	138,190	-	-	92,462	-	92,462
Interest on equity credited	20	-	-	-	-	-	-	-	122,750	122,750
Withholding income tax	20	-	-	-	-	-	-	-	(9,206)	(9,206)
Total other items		(11,193)	25,330	138,190	152,327	28,764	38,759	92,462	113,544	273,529
Balance as of December 31, of the Year	1,351,558	102,756	138,190	33,855	1,626,359	1,461,801	108,560	82,484	113,544	1,766,389

18 Trade payables

	R\$	
	31/12/2023	31/12/2022
National suppliers	871,490	846,262
National related party suppliers (Note 12)	47,772	25,106
Foreign suppliers	37,039	14,687
Foreign related party suppliers	-	5,831
	<u>956,301</u>	<u>891,886</u>

The Group participates in a supply chain finance program under which its suppliers may elect to receive early payment of their invoices from a bank by factoring their receivable from the Group. Under the arrangement, a bank agrees to pay amounts to a participating supplier in respect of invoices owed by the Group and receives settlement from the Group at a later date. The principal purpose of this program is to facilitate efficient payment processing and enable the willing suppliers to sell their receivables due from the Group to a bank before their due date. The Group does not incur any additional interest towards the bank on the amounts due to the suppliers.

The Group has not derecognized the original liabilities to which the arrangement applies because neither a legal release was obtained nor the original liability was substantially modified on entering into the arrangement. The Group discloses the amounts related to the program within trade payables because the nature and function of the financial liability remain the same as those of other trade payables. The payments to the bank are included within operating cash flows because they continue to be part of the normal operating cycle of the Group and their principal nature remains operating - i.e. payments for the purchase of goods and services. The payments to a supplier by the bank are considered non-cash transactions for the Group.

As of December 31, 2023, the balance of trade payables negotiated by suppliers, related to the supply chain finance program, was R\$ 228,514 (R\$ 129,605 as of December 31, 2022).

19 Employees and other payroll related liabilities

	R\$	
	31/12/2023	31/12/2022
Payroll and related charges	16,146	14,567
Provision for vacation	57,005	48,060
Provision for variable remuneration	10,687	33,224
Other	5,132	4,602
	<u>88,970</u>	<u>100,453</u>

The Group Employees benefits' treatment is in accordance with local legal requirements. These requirements mainly call for and are limited to monthly contributions to Social Security funds (INSS, FGTS). The Group has no obligations under defined benefits or defined contribution plans. The Group offers other short-term benefits to its employees, which are expensed when incurred.

20 Interest on equity payable - short and long term

During 2023 there was no Interest on equity distribution.

The Company, in Extraordinary Shareholders' Meetings held on a quarterly basis through 2022, approved recommendations of the Board of Directors for the distribution of Interest on equity for the year ended December 31, 2022, in the total amount of R\$ 86,150 fully paid on June 15, 2023. On this amount, there is the foreign shareholders' income tax to be withheld at source, in the amount of R\$ 6,461, already deducted from the Interest on equity payable balance.

On June 30, 2022, in the Extraordinary Shareholders' Meeting, the Company approved the recommendation of the Board of Directors for the distribution of additional Interest on Equity in the amount of R\$ 36,600 (R\$ 33,855 net of income tax). This amount is to be paid up until December, 2027, recorded in long term liability, observing the financial situation of the Company and in accordance with the Dividend Policy.

21 Payable taxes

	R\$	
	31/12/2023	31/12/2022
State VAT - ICMS	23,942	15,161
Withholding income tax - payroll (IRRF)	5,397	4,779
Federal VAT - PIS and COFINS	20	23
Other	3,939	2,442
	<u>33,298</u>	<u>22,405</u>

22 Other current and non-current liabilities

	R\$	
	31/12/2023	31/12/2022
Advances from customers	8,665	6,078
Accounts payable for acquisition of operations - Fino Grão	239	216
Accounts payable for acquisition of operations - Café Manaus	-	669
Contingent consideration - Positive Company	-	916
Contingent consideration - Mitsui Alimentos	16,745	16,745
Marketing services	328	216
Payable for acquisition of fixed assets	2,639	3,184
Provision for handling and storage	622	-
Provision for lawyers' fees	10,260	11,798
Warranties	3,402	1,646
Sundry	10,492	16,404
	<u>53,392</u>	<u>57,872</u>
Current liabilities	<u>33,024</u>	<u>38,375</u>
Non-current liabilities	<u>20,368</u>	<u>19,497</u>

23 Provision for legal proceedings

Based on information from Group management supported by 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\$			
	31/12/2023		31/12/2022	
	Probable loss	Possible loss	Probable loss	Possible loss
Labor (a)	24,333	191,187	22,387	186,160
Tax (b)	44,423	306,623	45,559	288,012
Civil	2,618	23,638	2,206	20,870
	<u>71,374</u>	<u>521,448</u>	<u>70,152</u>	<u>495,042</u>

- (a) The Group is party 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 December 31, 2023, total quantity of labor claims was 606 (560 as of December 31, 2022).
- (b) Tax claims details by type are demonstrated in the following table:

	R\$			
	31/12/2023		31/12/2022	
	Probable Loss	Possible loss	Probable loss	Possible loss
State VAT - ICMS (i)	20,037	144,260	18,615	136,581
Federal VAT - PIS/COFINS/IPI (ii)	22,519	126,870	24,385	117,822
Income taxes (IRPJ/CSLL) (iii)	1,354	34,169	1,998	32,237
Other	513	1,324	561	1,372
	<u>44,423</u>	<u>306,623</u>	<u>45,559</u>	<u>288,012</u>

The main legal claims are listed below:

(i) State VAT - ICMS

State VAT (ICMS) - São Paulo State - Tax authorities claim that the Group Três Corações Alimentos S.A. incorrectly calculated the ICMS (State VAT) in transactions with goods subject to the ICMS tax substitution method (ST), claiming that it should have used the sale price for consumer instead of the cost of goods entry, although the State of São Paulo legislation determines that wholesalers are not allowed to receive goods without the ICMS - ST calculation. The infraction notices were received in December 2020 and refer to the periods from January 2016 to December 2016. The Group received a new infraction notice in May 2021 referring to the periods from January 2017 to December 2017.

On August 2, 2021, the Group obtained a partially favorable judgment at the State of São Paulo Tax Judgment Office, first administrative instance, regarding the State VAT (ICMS) treatment applied in transactions with goods subject to the ICMS tax substitution method (ST) in the period from January to December of 2016. The court judged favorably for the Group the matter of greater value, but judged two less relevant topics unfavorably, which the Group still has the opportunity to counter, both administratively and in courts, arguing the decision.

Considering that the decision is at least in part contrary to the Government and the relatively high values involved, the judging body itself will send the process to the second administrative instance for review.

The partially favorable outcome at the first administrative instance confirmed the understanding of the Group and of its tax advisors, that there is no need to record any liability. The Group's tax advisors responsible for monitoring the proceeding classify the risk of loss as possible. As of December 31, 2023 the amount of the legal claim was R\$ 83,252 (R\$ 75,782 as of December 31, 2022).

State VAT (ICMS) - Mato Grosso State - On October 10, 2021, the subsidiary Café Brasileiro received a tax assessment notice, issued by the Mato Grosso State Treasury Office, in the total amount of R\$ 48,815. Tax authorities argued that the Group used incorrectly the state tax benefit of the fiscal years 2018 and 2019, calculating less state VAT (ICMS). The Company defended the tax noticed with its legal advisors. The period regarding the tax notice is from before the acquisition date, and because of that any payment regarding this issue will be reimbursed by the former owners.

The Group's tax advisors responsible for monitoring the proceeding classify the risk of loss as possible. As of 31 December 2023 the amount of the legal claim was R\$ 63,382 (R\$ 57,128 as of December 31, 2022).

(ii) Federal VAT - PIS/COFINS/IPI

Federal VAT (PIS/COFINS) credits - tax authorities claim that the Group (together with most other coffee companies in Brazil) had purchased green coffee from de facto, but not legally constituted companies in order to receive more PIS and COFINS credits and demand the difference between the total credit and the presumed credit. On March 31 2023, the Company adhered to the Tax Litigation Reduction Program, the program contemplates a reduction of up to 100% of penalties and fines applied on tax debts that are in the midst of administrative proceedings, and taxpayers can use tax losses accumulated to offset part of the tax debt (up to 70% of remainder after the discounts). Almost the totality of the debts related to green coffee will be paid with the program, given the probability of loss, according to unfavorable administrative decisions and indication of the lawyers. Because of that, there was a reduction in the amount, which was R\$ 727 on December 31, 2023 to in comparison with R\$ 70,688 on December 31, 2022.

Notices of infraction - Federal VAT (PIS and COFINS) - On March 2, 2020, the companies Três Corações Alimentos S.A. and Café Três Corações S.A. received tax assessment notices issued by the Brazilian Federal Revenue. The infraction notices refer to non-collection of Federal VAT (PIS and COFINS), referring to the periods from December 2015 to December 2018. The federal tax authorities claim that the companies did not calculate PIS and COFINS over the sales of powdered cappuccino and coffee with milk. They do not agree with the Group's understanding that the products are coffee based and therefore taxed at rate zero. In addition, the authorities also contest what they believe were undue tax credits over intercompany transfers of finished goods. The Group and its tax and legal advisors responsible for monitoring the processes classify the chances of loss as possible. Therefore, management understands there is no need to record a provision for any liability. As of December 31, 2023 the amount of the legal claim was R\$ 123,924 (R\$ 112,699 as of December 31, 2022).

Notices of infraction - Federal VAT (PIS and COFINS) - On February 9, 2023 the Group was notified of the administrative decision that didn't recognize the tax credits regarding the lawsuit about the exclusion of State VAT (ICMS) from the PIS and COFINS bases. Among the total requested of R\$ 122,765, R\$ 18,523 refers to non-cumulative credits. Another part of the total amount, R\$ 72,748 was not authorized, resulting in a claim of R\$ 3,897. The process is monitored by the tax legal team of the Group. Management understands that the probability to not have success is remote, considering that the methodology used represents the judicial decision in a more reliable way. As for non-cumulative credits, the Group will use them extemporaneously in the EFD Contributions (Accessory obligation that contains the detailed calculation of PIS/COFINS). The tax proceeding waits for the judgment in the first administrative level. The Group's tax advisors responsible for monitoring the proceeding classify the risk of loss as remote. As of December 31, 2023 the amount of the legal claim was R\$ 5,151.

Federal excise tax (IPI) - tax authorities claim the tax treatment applied, in respect to federal tax IPI - tax on manufactured goods, for powder juice was incorrect. According to the Group's understanding of the regulation, powder juice is a product classified at zero IPI tax rate. According to tax authorities, the Group 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 amount of the claim, as of December 31, 2023 is R\$ 81,199 (R\$ 75,590 as of December 31, 2022). In 2019 the Group obtained 2 favorable outcomes in the first administrative instance; the Government may still contest the outcome at higher instances of the Administrative Board of Tax Appeals (CARF). The Group and its tax advisors are of the opinion that there is no need to record any liability, since the classification of loss is remote.

(iii) **Income taxes (IRPJ/CSLL)**

Goodwill amortization - tax authorities claim that the Group does not meet all criteria to deduct Goodwill amortization for tax purposes. As of October 31, 2017, the Goodwill Amortization process was judged in the Superior Chamber of Tax Appeals of CARF (Federal Administrative Court). In June 2020 the Group obtained a favorable outcome in the first judicial instance; the Government may still contest the outcome at higher judicial instances. The Group and its tax advisors are of the opinion that there is no need to record any liability. As of December 31, 2023, the amount of the legal claim was R\$ 34,006 (R\$ 32,074 as of December 31, 2022). The claim amount increased due to interest incurred.

Changes in provision for legal proceedings during the year

	R\$	
	2023	2022
Balance as of 1 January	70,152	65,703
Provisions made during the year	5,832	8,298
Legal proceedings settled during the year	(4,610)	(3,849)
Balance as of December 31,	<u>71,374</u>	<u>70,152</u>

Judicial deposits

The Group has, on December 31, 2023, the amounts of R\$ 9,260 of judicial deposits (R\$ 8,988 as of December 31, 2022). These deposits are required by courts associated with various open legal proceedings and comprise a number of individual case deposits of smaller amounts.

24 Income taxes and social contribution

(a) Amounts recognized in statement of income

	R\$	
	2023	2022
Current taxes	18,931	(51,115)
Deferred taxes	12,690	3,847
Carryforward tax loss	<u>67,165</u>	<u>2,147</u>
Tax in income statement as of December 31,	<u>98,786</u>	<u>(45,121)</u>

(b) Reconciliation of effective tax rate

	R\$	
	31/12/2023	31/12/2022
Profit before income tax	222,558	497,738
Income tax expenses (34%)	(75,670)	(169,231)
Permanent differences and temporary time differences , net:		
Equity method	6,967	3,541
Interest on equity	-	41,735
State tax incentives	78,918	82,393
Federal incentive	798	8,476
R&D Benefits	11,192	3,508
IAS 21 adjustments	(2,695)	(6,654)
Tax rate differential	336	(7,405)
Non-deductible expenses	4,080	(5,305)
Carryforward tax losses from previous periods	31,277	-
Gain lawsuits	29,384	232
Profit eliminations on inventory	16,721	(4,935)
Other	(2,522)	8,524
Tax in Income statement	98,786	(45,121)
Effective tax rate	(44.39%)	9.1%

(c) Deferred income tax assets and liabilities

				R\$	
				31/12/2023	31/12/2022
Temporary differences	Basis	Income tax (*)	Social contribution (9%)		
Provision for legal proceedings	27,491	5,489	2,474	7,963	8,250
Inventory adjustments	(290)	(707)	(26)	(733)	1,147
Allowance for expected credit losses	27,183	4,787	2,446	7,233	6,899
Derivatives transactions	10,792	2,696	971	3,667	4,281
Provision for discounts	94,666	15,582	8,520	24,102	22,446
Provision for short term employee performance award	7,062	2,052	636	2,688	7,960
Provision for revenue recognition	17,676	2,849	1,591	4,440	5,238
Difference between economic depreciation and tax rate	(4,444)	(1,111)	(400)	(1,511)	(1,531)
Goodwill amortization	(92,263)	(12,151)	(8,304)	(20,455)	(20,455)
Exchange rate variation cash basis	(14,110)	(3,516)	(1,270)	(4,786)	2,110
Profit elimination on inventory	40,165	10,041	3,615	13,656	536
IFRS 16 - Leasing	15,342	2,686	1,381	4,067	3,424
Federal VAT credit loss (Note 10)	20,080	3,866	1,807	5,673	-
Carryforward tax losses	217,923	50,101	-	50,101	2,147
Positive Company acquisition	(9,100)	(3,064)	-	(3,064)	(30,561)
Mitsui Alimentos acquisition	(86,957)	(21,739)	(7,826)	(29,565)	(3,071)
Other	26,763	6,036	2,409	8,668	2,680
Total net deferred tax				72,144	11,500
Non-current assets				75,091	17,842
Non-current liabilities				(2,947)	(6,342)

(*) Income tax rate (excluding the Social contribution) is 25%, applicable to all Group's subsidiaries. However, as the Company has tax incentives (see Note 25.e), the Group's future average income tax rate expected to be applied when the deferred tax is realized or settled, is 13.17% (2023 and 2022).

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 Group. Under Brazilian tax law, carryforwards tax loss (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 assets on accumulated losses. The subsidiary, Principal Comércio e Indústria de Café Ltda., has, as of December 31, 2023, R\$ 1,822 (Principal Comércio e Indústria de Café Ltda. R\$ 5,162 as of December 31, 2022) of unrecognized carryforward tax losses, because it is not probable that future taxable profit will be available against which the subsidiaries can use the benefits.

(d) Uncertainty over income tax treatment

As described in the Note 23(iii), tax authorities claim that the Group does not meet all criteria to deduct goodwill amortization for income tax purposes. The Group understands that the goodwill arose from an operation with an economic basis and therefore it can be used for tax purposes. No amount of income tax was recognized in these consolidated financial statements, because the Group believes that the tax thesis used by the Company are in compliance with the applicable law and believes that it is probable that it would successfully defend the Group's tax treatment in court. The Group believes that its provisions for tax liabilities are adequate for all open tax years based on its assessment of all factors, including interpretations of tax law and prior experience.

25 Equity

(a) Share capital

As of December 31, 2023 and 2022, Três Corações Alimentos S.A.'s share capital consists of the following:

Shareholders	%	R\$	
		31/12/2023	31/12/2022
Strauss Coffee B.V.	50%	138,232.14	137,765.38
São Miguel Fundo de Investimento em Participações	50%	138,232.14	137,765.38
		<u>276,464.28</u>	<u>275,530.76</u>

Share capital as of December 31, 2023 consisted of 27,646,427,639 (27,553,075,054 as of December 31, 2022) shares with a nominal value of R\$ 0.01 (one cent each).

(b) Translation adjustments

Management decided to use two different functional currencies, according to IAS 21 - Effects of changes in foreign exchange rates. For internal market operations, the functional currency is the Brazilian real (R\$). For the green coffee export activity, the functional currency is the United States dollar (US\$).

Management assessed the Group 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 is that 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 December 31, 2023 and 2022:

	R\$		
	Três Corações Alimentos	Café Três Corações	Total
December 31, 2023			
Inventories	-	(1,906)	(1,906)
Fixed assets	705	(1,566)	(861)
Trade receivables	-	(1,616)	(1,616)
Derivatives	-	(620)	(620)
Cost of sales	-	(109)	(109)
Loans and borrowings	-	10,227	10,227
	<u>705</u>	<u>4,410</u>	<u>5,115</u>

	R\$		
	Três Corações Alimentos	Café Três Corações	Total
December 31, 2022			
Inventories	-	(1,693)	(1,693)
Fixed assets	(17,778)	188	(17,590)
Trade receivables	-	1,830	1,830
Derivatives	-	(291)	(291)
Cost of sales	-	(241)	(241)
Loans and borrowings	-	18,272	18,272
	<u>(17,778)</u>	<u>18,065</u>	<u>287</u>

(c) Dividends

Dividends are calculated in accordance with the terms agreed upon in the Shareholders' Agreement, with a rate of 35% over net income, adjusted by financial results. This amount is provisioned as a proposed dividend in the balance sheet, subject to the approval by the General shareholders meeting.

The proposal for 2023 profit destination is to be paid in the amount of R\$ 138,190 until December 2024.

The proposal for 2022 profit destination was paid on June 15, 2023 the amount of R\$ 82,484, after the credit of interest on equity, in the amount of R\$ 86,150 (over this amount there is the foreign shareholders' withholding income tax of R\$ 6,461).

In addition, the Company approved the recommendation of the Board of Directors for the distribution of additional interest on equity in the amount of R\$ 36,600 (over this amount there is the foreign shareholders' withholding income tax of R\$ 2,745) to be paid up until December 2027 - Note 20.

(d) Retained earnings

Legal reserve

Created at the rate of 5% on profit for the year, limited to 20% of share capital. On December 31, 2023, an additional reserve in the amount of R\$ 187 was created and the limit was achieved. This reserve can only be used for capital increases or absorption of losses.

(e) Tax incentives reserve

During the year ended December 31, 2023, the Company received government grants in the amount of R\$ 134,943 (R\$ 147,264 as of December 31, 2022). The tax incentive reserve cannot be distributed as dividends. If the Company distributes it in the future, the amounts have the following tax 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.

The existing 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 Ceará. 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 2028.

PROEDI - Rio Grande do Norte State

The benefit consists in the deduction of presumed tax credit of the VAT payable, related to outflows based on own production. For the Natal factory the presumed tax credit percentage ranges from 75% to 80% and for the Mossoró unit it ranges from 80% to 85%. The percentage is determined according to the level of employment and unit revenues. The incentive is valid until June 2032.

PRODEIC - Mato Grosso State

The subsidiary Café Brasileiro has a facility in the state of Mato Grosso, which produces roasted and ground coffee, which is benefited since 2017 with a state VAT Tax Incentives named PRODEIC (Mato Grosso Industrial and Commercial Development Program). The incentive is valid until December 2032.

Café Brasileiro is part of the PRODEIC Investment Food Industry of Vegetable and Animal Origin sub-module, with the objective of promoting the industrial development of products of animal and vegetable origin, by adding value to raw materials in Mato Grosso.

The tax benefit will consist of credit granted on the outputs of products manufactured at the industrial plant, with a percentage of 85% on the operations of intra-state deliveries and 90% on the operations of inter-state deliveries.

Stimulus credit - State VAT in Amazonas state

The government of the state of Amazonas, aiming at the integration, expansion, modernization and consolidation of the industrial sector, grants the tax incentive to the roasted and ground coffee industries established in the state. The incentive consists of the application of the percentage of 90.25% on the outstanding balance of State VAT (ICMS) calculated on the operation with roasted and ground coffee, deducting the tax payable. The incentive is valid until December 2032.

Presumed tax credit - State VAT in Minas Gerais State

The group's most important facility is located in Santa Luzia, Minas Gerais. The government, aiming to protect and stimulate enterprises with the aim of facilitating the dynamization and modernization of the Minas Gerais production park and strengthening the state and regional economy, granted a presumed credit of 5% on interstate deliveries of roasted and ground coffee destined to the states of São Paulo, Rio de Janeiro, Rio Grande do Sul and Santa Catarina. The incentive is valid until December 2032.

Other state tax incentives

The Group has received certain tax incentives and special tax regimes also in other Brazilian states, with no significant impacts on these consolidated financial statements.

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), Manaus (state of Amazonas), Natal and Mossoró (state of Rio Grande do Norte).

The industrial site of Manaus (AM) has its incentive validated until December 2028 and the other factories have their incentives validated until December 2027. The factory of Santa Luzia in Minas Gerais is not established in an incentive area, the reason why it has no Federal incentive.

Tax Incentive for technological innovation

The Federal Law nº 11.196/05, known as "Lei do Bem", offers tax incentives to legal entities that carry out research, development and technological innovation, with application starting in

the Group in 2017.

According to the Law, technological innovation is a conception of a new product or manufacturing process, as well as an addition of new features or characteristics to an existing product or process, that brings incremental improvements and effective gains in quality or productivity, resulting in greater competitiveness in the market.

The legal entities are allowed to deduct (additionally) from the calculation of the IRPJ (income tax) and CSLL (social contribution) a percentage of the expenditures incurred with technological research and development of technological innovation, classifiable as operating expenses.

Reserve for profit to be distributed

Management, with approval of the shareholders, decided to create a reserve for profit to be distributed, for the remaining profit after all destinations above. In December 31, 2023 was the amount of R\$ 936,482 (R\$ 888,926 as of December 31, 2022).

26 Revenue

Disaggregated net revenue information

	R\$		
	Products	Services	31/12/2023
Geographical markets			
Domestic	7,630,974	1,773	7,632,747
Foreign			
Japan	109,614	-	109,614
Chile	39,607	-	39,607
Switzerland	35,127	-	35,127
Germany	27,696	-	27,696
United States	13,514	-	13,514
Other countries	38,406	-	38,406
	7,894,938	1,773	7,896,711
	R\$		
	Products	Services	31/12/2022
Geographical markets			
Domestic	7,808,857	876	7,809,733
Foreign			
Japan	75,606	-	75,606
Switzerland	70,217	-	70,217
United States	65,739	-	65,739
Netherlands	54,120	-	54,120
Chile	32,135	-	32,135
Canada	28,926	-	28,926
Other countries	33,292	-	33,292
	8,168,892	876	8,169,768

Composition of Net Revenue

	R\$	
	31/12/2023	31/12/2022
Products - domestic	9,581,267	9,414,021
Products - foreign	265,080	360,036
Services	1,804	901
Other	702	1,970
Taxes on sales	(993,267)	(931,963)
State VAT incentives	232,271	251,056
Discounts	(859,691)	(673,784)
Other deductions	(331,455)	(252,469)
Net revenue	7,896,711	8,169,768

27 Cost of sales by nature

	R\$	
	31/12/2023	31/12/2022
According to source		
Cost of sales - domestic	(6,010,355)	(6,056,242)
Cost of sales - foreign	(166,290)	(231,619)
	(6,176,645)	(6,287,861)

	R\$	
	31/12/2023	31/12/2022
According to components		
Materials consumed	(5,946,955)	(6,086,545)
Wages, salaries and related expenses	(95,987)	(81,221)
Depreciation and amortization	(33,253)	(30,779)
Services contracted	(23,150)	(18,175)
Maintenance	(13,896)	(11,108)
Other	(64,404)	(60,033)
	(6,176,645)	(6,287,861)

28 Selling and marketing expenses by nature

	R\$	
	31/12/2023	31/12/2022
Wages, salaries and related expenses	(525,129)	(457,852)
Depreciation and amortization	(42,556)	(50,103)
Transport expenses	(327,758)	(284,997)
Export expenses	(5,245)	(8,985)
Services contracted	(99,057)	(74,534)
Marketing	(117,663)	(148,349)
Travel expenses	(17,126)	(15,489)
Other	(84,343)	(59,332)
	(1,218,877)	(1,099,641)

29 General and administrative expenses by nature

	R\$	
	31/12/2023	31/12/2022
Wages, salaries and related expenses	(90,192)	(101,279)
Tax expenses	(18,243)	(13,437)
Depreciation and amortization	(48,458)	(43,644)
Constitution (Reversal) of provision for legal proceedings	3,393	(465)
Travel expenses	(4,585)	(3,213)
Maintenance	(20,345)	(17,643)
Other	(18,566)	(27,670)
	<u>(196,996)</u>	<u>(207,351)</u>

30 Finance expenses, net

	R\$	
	31/12/2023	31/12/2022
Finance expenses		
Interest expenses	(5,844)	(1,929)
Interest on loans and borrowings	(160,470)	(93,135)
Exchange rate effect	716	(3,207)
Interest on lease liabilities	(11,414)	(7,110)
Other	(9,402)	(8,360)
	<u>(186,414)</u>	<u>(113,741)</u>
Finance income		
Interest income	29,417	19,415
Interest from deposits	64,165	26,426
	<u>93,582</u>	<u>45,841</u>
	<u>(92,832)</u>	<u>(67,900)</u>

31 Financial instruments - Fair values and risk management

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

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		R\$			R\$		
		Carrying amount			Fair value		
	Note	Financial assets at fair value	Financial assets at amortized cost	Other financial liabilities amortized cost	31/12/2023	Level 2	31/12/2023
Financial assets measured at fair value through profit and loss							
Short term deposits - Deposits in banks	6	772,309	-	-	772,309	772,309	772,309
Deposits with brokers	7	10,788	-	-	10,788	10,788	10,788
Financial assets not measured at fair value							
Cash and cash equivalents	6	-	98,677	-	98,677	-	98,677
Trade receivables with third parties	8	-	720,524	-	720,524	-	720,524
Trade receivables with related parties	8	-	21,218	-	21,218	-	21,218
Loans to related parties	12	-	-	-	-	-	-
Other		-	50,959	-	50,959	-	50,959
Financial liabilities not measured at fair value							
Trade payables	18	-	-	956,301	956,301	-	956,301
Short and long term loans	17	-	-	1,351,558	1,351,558	1,481,320	1,351,558
Short and long term lease liabilities	16	-	-	102,756	102,756	-	102,756
Distribution to shareholders	25.c and 20	-	-	171,915	171,915	-	171,915
Payables for acquisition	22	-	-	239	239	-	239
Other		-	-	44,488	44,488	-	44,488

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				R\$		R\$	
				Carrying amount		Fair value	
	Note	Financial assets at fair value	Financial assets at amortized cost	Other financial liabilities amortized cost	31/12/2022	Level 2	31/12/2022
Financial assets measured at fair value through profit and loss							
Short term deposits - Deposits in banks	6	985,718	-	-	985,718	985,718	985,718
Deposits with brokers	7	15,148	-	-	15,148	15,148	15,148
Financial assets not measured at fair value							
Cash and cash equivalents	6	-	52,018	-	52,018	-	52,018
Trade receivables with third parties	8	-	763,172	-	763,172	-	763,172
Trade receivables with related parties	8	-	11,932	-	11,932	-	11,932
Loans to related parties	12	-	14,389	-	14,389	-	14,389
Other		-	72,271	-	72,271	-	72,271
Financial liabilities not measured at fair value							
Trade payables	18	-	-	891,886	891,886	-	891,886
Short and long term loans	17	-	-	1,461,801	1,461,801	1,546,093	1,546,093
Short and long term lease liabilities	16	-	-	108,560	108,560	-	108,560
Distribution to shareholders	25.c and 20	-	-	196,028	196,028	-	196,028
Payables for acquisition	22	-	-	885	885	-	885
Other		-	-	50,909	50,909	-	50,909

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 determines the fair value 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, which is identified in the fair value hierarchy as the Level 2 of source of information.

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, which is identified in the fair value hierarchy as the Level 2 of source of information.

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;

Other techniques, such as discounted cash flow analysis, are used to determine fair value of the remaining financial instruments.

(b) 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).

(i) **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 and counterparts, as well as defines credit limits and monitors outstanding debts and operates only 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\$	
	31/12/2023	31/12/2022
Cash and cash equivalents (Note 6)	870,986	1,037,736
Deposits with brokers (Note 7)	10,788	15,148
Trade receivables (Note 8)	741,742	775,104
Other receivables	41,699	63,283
Judicial deposits	9,260	8,988
	<u>1,674,475</u>	<u>1,900,259</u>

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated. The largest customer represents 7.23% of 2023 revenue (7.79% in 2022).

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics: geographic region and type of product purchased.

Provision for expected credit losses amounts to R\$ 10,864 as of December 31, 2023 (R\$ 17,789 as of December 31, 2022), representing 1.46% (2.12% as of December 31, 2022) of total trade receivables balance, and is expected to properly reflect the existing credit risk.

(ii) **Commodity price risk**

The prices of raw materials used in manufacture (primarily green coffee) of the Group's products are affected, among other things, by uncontrollable factors, such as weather conditions.

Green coffee export business

For its green coffee export activity, the Group covers its fixed future sales agreements by both physical inventory, fixed future purchase agreements and uses financial derivatives to a limited extent. Below is a table with the quantities of bags (60 kg each) which the Group was committed to purchase or sell in the future, as of December 31, 2023 and 2022:

	31/12/2023	31/12/2022
Purchase agreements:		
Price fixed	15,550	35,527
Sales agreements:		
Price fixed	107,096	172,410
Price to be fixed	12,120	18,300

Green coffee for the industry (internal market)

For its internal market production, the Group mainly seeks to manage its industry green coffee price exposure by managing its physical inventory of green coffee and its green coffee future purchases, while it 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

As of December 31, 2023 there is no open derivatives position and no sensitivity analysis was required.

(iii) 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 instruments in order to reduce exposure to risks arising from changes in interest rates. At the report date the interest rate profile of the Group's interest-bearing financial instrument was:

	Carrying amount	
	31/12/2023	31/12/2022
	R\$	
Fixed rate instruments		
Financial liabilities - Short and long terms loans	(274,652)	(599,404)
Variable rate instruments		
Financial assets - Short terms deposits	772,309	985,718
Financial liabilities - Short and long terms loans	(1,076,906)	(862,397)
Net exposure	(579,249)	(476,083)

Cash flow sensitivity analysis for variable rate instruments - CDI and TJLP

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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.

December 31, 2023					
	Decrease of 10%	Decrease of 5%	Annual weighted interest	Increase of 5%	Increase of 10%
	R\$				
Total	30,460	15,230	(63,696)	(15,230)	(30,460)

December 31, 2022					
	Decrease of 10%	Decrease of 5%	Annual weighted interest	Increase of 5%	Increase of 10%
	R\$				
Total	42,930	21,465	(28,841)	(21,465)	(42,930)

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 4.62 for the year ended December 31, 2023 (5.78% for the year ended December 31, 2022) as measured by the IPCA consumer price index of the independent Fundação Getúlio Vargas. The Brazilian economy is not considered as hyperinflationary according to IAS 29. However, management is aware of the high inflation rates impact on the Group's financial statements.

(iv) *Foreign currency risk*

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	Exposure to US\$	
	R\$	
	31/12/2023	31/12/2022
Financial assets		
Foreign customers (Note 8)	17,611	13,457
Financial liabilities		
Foreign suppliers (Note 18)	(37,039)	(20,518)

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Short term loans (Note 17)	(177,316)	(179,596)
Total exposure	(196,744)	(186,657)

Sensitivity analysis of currency risk

Any change in the exchange rates of the principal currency, Brazilian Real, versus foreign exchange rate currencies, mainly United States Dollars, as of December 31, 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 here 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.

December 31, 2023

	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
			R\$		
Functional currency BRL/USD exchange rate			4.8407		
Effect in R\$ Thousand	19,674	9,837	(196,744)	(9,837)	(19,674)

December 31, 2022

	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
			R\$		
Functional currency BRL/USD exchange rate	4.6959	4.9568	5.2177	5.4786	5.7395
Effect in R\$ Thousand	34,660	17,330	(346,597)	(17,330)	(34,660)

The Group uses derivative financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates. As of December 31, 2022 and 2023, 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/2024	192,570

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Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as of December 31, 2023 and 2022 in R\$. Any change in the exchange rates of the principal currency, Brazilian Real, versus foreign exchange rate currencies, mainly United States Dollar, as of December 31, 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.

December 31, 2023					
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
	R\$				
Functional currency BRL/USD exchange rate	4.3566	4.5987	4.8407	5.0827	5.3248
Effect of forwards	(19,518)	(9,946)	747	9,199	18,771
December 31, 2022					
	Decrease of 10%	Decrease of 5%	Exchange rate carrying amount	Increase of 5%	Increase of 10%
	R\$				
Functional currency BRL/USD exchange rate	4.6959	4.9568	5.2177	5.4786	5.7395
Effect of forwards	(8,609)	(4,305)	722	4,305	8,609

(v) 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 rates known as of December 31, such as foreign exchange rates and interest rates.

	December 31, 2023							
	Carrying amount	Contractual cash flow	2024	2025	2026	2027	2028	Thereafter
	R\$							
Non-derivative financial liabilities:								
BRL long term loan	461,863	544,152	-	179,762	334,208	23,177	3,239	3,766
USD long term loan	-	-	-	-	-	-	-	-
BRL credit from bank	712,379	792,313	792,313	-	-	-	-	-
USD credit from bank	177,316	183,176	183,176	-	-	-	-	-
Lease liabilities	102,756	102,756	42,888	26,265	21,307	5,476	1,594	5,226
Trade payables	956,301	956,301	956,301	-	-	-	-	-
Other payables	133,699	133,699	24,359	109,340	-	-	-	-
	<u>2,544,312</u>	<u>2,712,395</u>	<u>1,999,937</u>	<u>315,367</u>	<u>355,515</u>	<u>28,653</u>	<u>4,833</u>	<u>8,992</u>
	December 31, 2022							

	Carrying amount	Contractual cash flow	2023	2024	2025	2026	2027	Thereafter
	R\$							
Non-derivative financial liabilities:								
BRL long term loan	424,600	468,872	-	447,548	15,059	5,180	1,085	-
USD long term loan	-	3,554	-	3,554	-	-	-	-
BRL credit from bank	857,603	758,152	758,152	-	-	-	-	-
USD credit from bank	179,598	179,598	179,598	-	-	-	-	-
Lease liabilities	108,560	108,560	36,399	27,916	18,013	17,283	4,034	4,915
Trade payables	891,886	891,886	891,886	-	-	-	-	-
Other payables	152,247	152,247	132,750	19,497	-	-	-	-
	<u>2,614,494</u>	<u>2,732,575</u>	<u>2,168,491</u>	<u>498,515</u>	<u>33,072</u>	<u>22,463</u>	<u>5,119</u>	<u>4,915</u>

(vi) 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 and interest-on-equity amounts distributed to the shareholders.

Management seeks to maintain a balanced level of returns to the shareholders, with a 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\$	
	2023	2022
Loans (Note 17)	1,351,558	1,461,801
Cash and cash equivalent (Note 6)	<u>(870,986)</u>	<u>(1,037,736)</u>
Total	480,572	424,065
Equity	<u>1,866,925</u>	<u>1,678,559</u>
Equity/(Loans - Cash and cash equivalent) ratio as of December 31,	3.88	3.96
Trade receivables (Note 8)	741,742	775,104
Inventories (Note 9)	1,199,532	1,076,052
Trade payables (Note 18)	<u>(956,301)</u>	<u>(891,886)</u>
Total working capital	<u>984,973</u>	<u>959,270</u>
Working capital/(Loans - Cash and cash equivalent) ratio as of December 31,	2.05	2.26