STRAUSS GROUP LTD.
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UPDATE OF THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS AFFAIRS" IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY") FOR THE YEAR 2015[1] (HEREINAFTER: THE "PERIODIC REPORT")

Following is a description of material changes and/or developments that occurred in the Company's business in the six months ended on June 30, 2016 and through to the date of publication of the report, which are required to be described in the Periodic Report in accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970. This update refers to several sections in the chapter Description of the Company's Business Affairs as well as a number of regulations appearing in the chapter Additional Information on the Company in the Company's 2015 Periodic Report ("Description of the Company's Business Affairs" and "Additional Information on the Company", respectively).

1. **Section 4 of the Description of the Company's Business Affairs Report, Dividend Distribution**

On July 7, 2016 the Board of Directors of the Company approved the distribution of a cash dividend to the shareholders of the Company. For information on dividend distributions, see the Immediate Report of July 10, 2016 (reference number 2016-01-078250) and Note 9 to the Financial Statements of the Company as at June 30, 2016.

2. **Section 14 of the Description of the Company's Business Affairs Report, the International Dips & Spreads Segment**

On June 30, 2016 PepsiCo-Strauss Fresh Dips & Spreads International (hereinafter: “Obela”), an investee that is jointly controlled by Strauss and PepsiCo, entered into an agreement for the acquisition of 100% of the share capital of Florentin B.V. (hereinafter: “Florentin”).

Florentin is a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread products and markets its products in Western Europe, particularly in the Netherlands, Germany and France. Florentin employs a staff of forty and operates a production site in Holland. According to Florentin's financial statements, its sales turnover in 2015 is estimated at approximately €5 million.

The acquisition represents the expansion of the dips and spreads operation into Western Europe.

For further information on the acquisition, see the Immediate Report of June 30, 2016 (reference number 2016-01-071689).

3. **Section 21 of the Description of the Company's Business Affairs Report, Human Capital**

Section 21.8, Officers and Managers – Following approval by the Board of Directors of the Company it is the Company's intention to convene an Annual General and Special Meeting, on the agenda of which are the following items: (1) Approval of the Company's revised remuneration policy; (2) Approval of the revision and extension of the conditions of office and employment of the Chairperson of the Board of Directors of the Company; (3) Revision of the conditions of office and employment of the Company CEO; (4) Approval of the grant of a letter of undertaking to indemnity to Mr. Adi Strauss, a director of the Company and relative of the controlling shareholder; (5) Discussion of the Annual Financial Statements of the Company and Board of Directors' Report for the year ended December 31, 2015; (6) Reappointment of KPMG Somekh Chaikin as the auditors of the Company until the next Annual General Meeting, empowerment of the Board of Directors of the Company to determine their fee for 2016 and a report on their fee for 2015; and (7) Reappointment of Ms. Ronit Haimovitch, Mr. Akiva Mozes and Ms. Galia Maor, who are retiring by rotation, as directors of the Company in accordance with the provisions of the Articles of Association of the Company.

4. **Section 22 of the Description of the Company's Business Affairs Report, Financing**

Section 22.1, General – On May 18, 2016 the Company published a shelf prospectus. For further information, see the Immediate Report of May 18, 2016 (reference number 2016-01-028557).

Section 22.8, Credit Rating – On April 4, 2016 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with a revision of the rating outlook from stable to negative. For further information, see the Company's Immediate Report of April 4, 2016 (reference number 2016-01-041209).

[1] As published on March 21, 2016 (reference number 2016-01-010371).

On April 21, 2016 the Company announced the reaffirmation of Midroog's Aa2 rating for the Company's outstanding Series B and Series D Debentures, with stable outlook. For further information, see the Company's Immediate Report of April 21, 2016 (reference number 2016-01-054433).

5. <u>Section 25 of the Description of the Company's Business Affairs Report, Restrictions and Supervision of the Group's Operations</u>

On September 30, 2016 the Public Health Protection (Food) Law is to enter into force. In July 2016 a temporary order, valid for three months, took effect. The temporary order precedes the implementation of the reform included in the law with regard to the process of importing non-sensitive foods (the **"Import Chapter"**).

The law deals with the comprehensive regulation of the food industry in Israel and of all parties engaged in this industry (manufacturers, importers, marketers, exporters, shippers and storage companies). Among other things, the law regulates a manufacturer's liability for the food it produces, *inter alia*, supervision of the manufacturing process, the liability of a food importer and supervision of the import of food products. The law further regulates the liability of a food marketer in all phases of food shipping and handling from production through import to the direct point of sale to the consumer.

The law defines a number of mitigations including the extension of licenses (products/storage and shipping), mitigations in the import of non-sensitive products, extension of the expiration date of non-sensitive raw materials, and regulation in the primary legislation of an existing contradiction between official regulations and standards applying to food safety, which are likely to influence competition in the food and beverages industry to a certain extent and at the same time, create new business opportunities for the Company. The information in this clause with respect to a certain influence on competition in the food and beverages industry and the possibility that the law will create new business opportunities for the Company is forward-looking in nature, as this term is defined in the Securities Law, and is based on information in the Company's possession on the reporting date, which includes estimates by the Company on such date, the outcome of which is uncertain. Practically speaking, at present the law (other than the Import Chapter) has not yet entered into force, and the Company is preparing for the implementation of its provisions through a committee established for this purpose, by providing training for employees, a change of work methods and applying controls over food quality. In the Company's opinion, the abovementioned legislative amendment will not have a material effect on the Company's financial results.

6. <u>Section 27 of the Description of the Company's Business Affairs Report, Legal Proceedings</u>

For updates, see Note 6 to the Consolidated Interim Financial Statements of the Company as at June 30, 2016.

7. <u>Regulations 21, 22 and 29A of the Additional Information on the Company Report, Payments to Interested Parties and Senior Officers, Transactions with a Controlling Shareholder, and Company Resolutions, respectively</u>

For information, see section 3 of this Report.

8. <u>Regulation 26 of the Additional Information on the Company Report, Directors of the Company</u>

On May 3, 2016 the Company announced that Mr. Ran Midyan had ceased to serve as a director of the Company. For further information, see the Company's Immediate Report of May 3, 2016 (reference number 2016-01-058330).

Date: August 17, 2016

Names and titles of signatories:
Ofra Strauss, Chairperson of the Board of Directors
Gadi Lesin, CEO

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Strauss Group Ltd.

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT

TO THE SHAREHOLDERS

AS AT JUNE 30, 2016

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED JUNE 30, 2016

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

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"** or the **"Group"**) hereby respectfully submits the Board of Directors' Report for the first half and second quarter of 2016 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Regulations"**).

The review presented below is limited in scope and refers to events and changes that occurred in the state of the Company's affairs in the reporting period, which have a material impact, and should be read together with the chapter "Description of the Company's Business Affairs" in the Periodic Report as at December 31, 2015, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended (the "2015 Periodic Report"), as well as the update of the chapter "Description of the Company's Business Affairs", the Board of Directors' Report and the Financial Statements as at March 31, 2016 and the update of the chapter "Description of the Company's Business Affairs" and the Financial Statements as at June 30, 2016.

Strauss Group Ltd. and the companies it controls, including jointly controlled companies, are a group of industrial and commercial companies engaged mainly in the development, manufacture, sale and marketing of a variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration, purification and carbonation systems.

The Group is active in six segments, as follows: **Strauss Israel**, which comprises two operating segments (Health & Wellness and Fun & Indulgence); **Strauss Coffee**, which comprises two operating segments (Israel Coffee (which includes the coffee company's headquarter) and the International Coffee operation); the **International Dips & Spreads** segment; and other activities that are included in the financial statements as the **"Other Operations"** segment (the major operations being those of Strauss Water and Max Brenner).

The Group is a leading player in most of the markets in which it operates. The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In the first half of 2016 the Group held an 11.5% share of the domestic food and beverage market (in value terms[1]) compared to 11.1% at the end of 2015, and it has the highest sales turnover among Israeli food companies (according to the Company's non-GAAP sales turnover).

The operation in Israel includes the activity of Strauss Israel (sale of a broad variety of refrigerated and dry food products), the coffee operation in Israel, Strauss Water's activity in Israel and Max Brenner in Israel. In addition to the operation in Israel, the Group is also active in three other major geographical regions: **the operation in Brazil**, which is conducted through the Três Corações joint venture[2] (a company jointly held by the Group (50%) and by the Brazilian São Miguel Group (50%)) and mainly focuses on roast and ground (R&G) coffee in the domestic market; **the operation in Europe**, which mainly includes the coffee business in Russia, Ukraine and Central and Eastern Europe as well as Obela's activity in the Netherlands via the acquisition of Florentin B.V.[3]; and **the operation in the US and Canada**, which includes Sabra's operations and part of the Max Brenner business (excluding Israel). The Group is also active in Australia and in Mexico through the company Obela; and in China and the UK through Strauss Water.

The Group manages and develops its business with the aim of providing the entire public with a broad variety of top-quality branded products for different consumption opportunities. The products of the Group are generally sold

[1] According to StoreNext figures. StoreNext engages in the measurement of the consumer goods market in the barcoded retail market (hereinafter: **"StoreNext"**).

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

[3] For information on the acquisition of Florentin B.V., see Note 4.4 to the Consolidated Interim Financial Statements as at June 30, 2016.

through a variety of sales channels including large food chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, etc.

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

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

CHANGES IN THE ECONOMIC ENVIRONMENT

Prices of raw materials and other production inputs – The commodities markets account for a substantive component of the materials used in the manufacture of the Group's products. The first half of 2016, particularly the second quarter of the year compared to the corresponding quarter last year, was characterized by a drop in the average market prices of some of the Company's raw materials, while the average market prices of other raw materials increased compared to the corresponding period last year. On the one hand, green coffee prices dropped (except in Brazil), as did the price of raw milk (the "target price") and the prices of milk powders, tahini, hazelnuts, almonds and sesame. On the other, green coffee prices in Brazil rose (in Brazilian Reals), as did the prices of cocoa (the increase was partly offset by the weakening of the Pound Sterling), sugar, potatoes and olive oil, coupled with an increase in minimum wage and in other production inputs such as municipal taxes. Since the beginning of 2016 there have been signs of a recovery in the world prices of some of the commodities. In the third quarter of 2015 the Group lowered its prices in a number of dairy product categories such as white cheese, desserts, milk beverages and enriched milk, by 3%-7%. In the beginning of 2016 the Company made a further significant reduction in prices – particularly those of enriched milk and Activia yogurt – of 5%-20%, and further lowered the prices of fruit yogurt products by approximately 22% in June 2016.

The Group is taking steps to reduce the impacts of commodity price volatility, including hedging, making changes in the raw materials mix in its products and operational efficiency enhancement. The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities.

Energy prices – Since the second half of 2014 oil prices have dropped dramatically. This trend was curbed in the first half of 2016 and is reflected in rising energy prices. The cumulative decrease in energy prices has had a favorable effect on the costs of production, transportation and raw materials, and also on packaging costs. However, the cumulative drop in energy prices has indirect impacts, such as a high correlation between the decrease in oil prices and the weakening of the Russian Ruble against the US Dollar.

Exchange rate fluctuations – In the first half and second quarter of 2016 the average currency rates weakened versus the Shekel compared to the average rates in the corresponding period last year. This weakening led to negative translation differences in the Group's statements of income. In the first half of 2016 part of the currencies in which the Group operates – such as the Brazilian Real and the Russian Ruble – were significantly revalued against the Shekel compared to their exchange rates at the beginning of the year, leading to an increase in the Group's shareholders' equity. For an analysis of the foreign currency effect on the Group's sales, see the section on the analysis of financial results below.

The following table presents the average exchange rates **versus the Shekel** in the first half and second quarter of 2016 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Half		% change	Average Exchange Rate in Second Quarter		% change
		2016	2015		2016	2015	
United States Dollar	USD	3.861	3.910	*-1.3*	3.816	3.876	*-1.5*
Ukrainian Hryvnia	UAH	0.152	0.181	*-16.2*	0.151	0.179	*-15.9*
Russian Ruble	RUB	0.055	0.068	*-19.1*	0.058	0.073	*-21.2*
Serbian Dinar	RSD	0.035	0.036	*-3.0*	0.035	0.036	*-1.6*
Romanian Leu	RON	0.958	0.983	*-2.5*	0.958	0.965	*-0.8*
Polish Zloty	PLN	0.987	1.055	*-6.4*	0.986	1.049	*-6.0*
Brazilian Real	BRL	1.045	1.325	*-21.1*	1.088	1.261	*-13.7*
Renminbi (China)	CNY	0.591	0.638	*-7.4*	0.585	0.633	*-7.7*
Canadian Dollar	CAD	2.903	3.169	*-8.4*	2.960	3.152	*-6.1*
Australian Dollar	AUD	2.832	3.058	*-7.4*	2.847	3.014	*-5.5*
Mexican Peso	MXN	0.214	0.258	*-17.3*	0.211	0.253	*-16.6*

The following table presents the average exchange rates **versus the Dollar** in the first half and second quarter of 2016 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Half		% change	Average Exchange Rate in Second Quarter		% change
		2016	2015		2016	2015	
New Israeli Shekel	ILS	0.259	0.256	*1.3*	0.262	0.258	*1.5*
Ukrainian Hryvnia	UAH	0.039	0.046	*-15.1*	0.040	0.046	*-14.6*
Russian Ruble	RUB	0.014	0.017	*-18.1*	0.015	0.019	*-19.9*
Serbian Dinar	RSD	0.009	0.009	*-1.7*	0.009	0.009	*-0.1*
Romanian Leu	RON	0.248	0.251	*-1.2*	0.251	0.249	*0.8*
Polish Zloty	PLN	0.256	0.270	*-5.2*	0.258	0.271	*-4.6*
Brazilian Real	BRL	0.271	0.339	*-20.1*	0.285	0.325	*-12.4*

Business regulation in the food industry – On September 30, 2016 the Public Health Protection (Food) Law is to enter into force. In July 2016 a temporary order, valid for three months, took effect. The temporary order precedes the implementation of the reform included in the law with regard to the process of importing non-sensitive foods (the **"Import Chapter"**). For further information, see the update of the chapter "Description of the Company's Business Affairs" as at June 30, 2016.

Mega Retail Ltd. – Commencing on July 1, 2016 the Company has been making sales to Mega Retail Ltd., which is held and managed by Yenot Bitan Ba'Ir (a company currently incorporating) of the Yenot Bitan Group. Considering the credit insurance in place and provisions made by the Company for doubtful debts, Management is of the view that this change will not have a material impact on the Company's business results.
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ANALYSIS OF FINANCIAL RESULTS

Commencing in the first quarter of 2013 Strauss Group has retrospectively applied IFRS 11 – Joint Arrangements. The significance of the standard is that the statements of income and statements relating to financial position, comprehensive income, changes in shareholders' equity and the cash flows of businesses which are jointly controlled by Strauss and a another partner are no longer stated according to Strauss's relative holding in the entity as was formerly the practice, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant item). The reporting method does not alter the Group's profit. It is noted that this is a change in reporting method only and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no change in the management of the jointly held businesses.

The information contained in this report and its presentation were examined from the Company's perspective in order to provide a comprehensive picture and fairly present the manner in which the Company runs its businesses, which, in the Company's opinion, is material for the purposes of this report.

In view of the fact that the Group's non-GAAP reports and the method in which Group Management measures the results of subsidiaries and the jointly owned companies have remained unchanged, the Group has continued to present the operating segments in the same manner in which they were presented before the standard was applied. The next pages present the non-GAAP reports, the GAAP reports and the various adjustments made by the Company in making the transition between the Company's GAAP reports and its non-GAAP reports.

Strauss Group has a number of jointly controlled companies: the Três Corações joint venture (in Brazil)[4], Sabra Dipping Company (an investee company in North America), Strauss Frito-Lay Ltd. (the salty snack business in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela).

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

Following are the condensed results of business operations (based on the Company's non-GAAP management reports) for the quarter and the half ended June 30, 2016 and 2015 (in NIS millions)*:

	First Half			**Second Quarter**		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Sales	**3,813**	**3,769**	***1.2***	**1,933**	**1,839**	***5.2***
Organic growth excluding foreign currency effect	7.8%	1.3%		11.0%	0.6%	
Cost of sales	2,354	2,351	*0.1*	1,200	1,150	*4.4*
Gross profit – non-GAAP	**1,459**	**1,418**	***2.9***	**733**	**689**	***6.5***
% of sales	38.3%	37.6%		37.9%	37.4%	
Selling and marketing expenses	845	897	*(5.7)*	442	474	*(6.7)*
General and administrative expenses(1)	218	212	*2.9*	108	103	*5.6*
Operating profit – non-GAAP	**396**	**309**	***27.8***	**183**	**112**	***63.3***
% of sales	10.4%	8.2%		9.4%	6.1%	
Financing expenses, net	(61)	(64)	*(4.7)*	(29)	(46)	*(36.0)*
Income before taxes on income	**335**	**245**	***36.2***	**154**	**66**	***131.1***
Taxes on income	(97)	(69)	*38.1*	(50)	(19)	*153.7*
Effective tax rate	28.8%	28.4%		31.9%	29.1%	
Income for the period – non-GAAP	**238**	**176**	***35.6***	**104**	**47**	***122.2***
Attributable to the Company's shareholders	**185**	**133**	***39.1***	**78**	**31**	***149.1***
Attributable to Non-controlling interests	53	43	*24.8*	26	16	*68.3*
EPS (NIS)	1.73	1.24	*38.9*	0.73	0.29	*148.7*

(1) In the first half and second quarter of 2016, including the Company's share of the profits of equity-accounted investees in an immaterial amount.

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

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

Following are the condensed results of business operations (based on non-GAAP management reports) of the major business sectors for the quarter and the half ended June 30, 2016 and 2015 (in NIS millions)*:

	First Half			Second Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Israel						
Net sales	1,488	1,431	*4.0*	*712*	*678*	*5.2*
Operating profit	161	136	*17.8*	*63*	*44*	*41.2*
Coffee						
Net sales	1,657	1,681	*(1.4)*	*877*	*835*	*5.1*
Operating profit	163	136	*20.0*	*83*	*50*	*66.9*
International Dips & Spreads						
Net sales	382	364	*4.9*	*197*	*182*	*8.3*
Operating profit	51	23	*120.8*	*24*	*9*	*169.2*
Other						
Net sales	286	293	*(2.5)*	*147*	*144*	*1.6*
Operating profit	21	14	*50.0*	*13*	*9*	*49.6*
Total						
Net sales	**3,813**	**3,769**	***1.2***	***1,933***	***1,839***	***5.2***
Operating profit	**396**	**309**	***27.8***	***183***	***112***	***63.3***

Following are the condensed financial accounting (GAAP) statements of income for the quarter and the half ended June 30, 2016 and 2015 (in NIS millions)*:

	First Half			Second Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Sales	2,594	2,516	*3.1*	1,273	1,208	*5.4*
Cost of sales excluding impact of valuation of balance of commodity hedging transactions	1,561	1,554	*0.5*	768	742	*3.6*
Valuation of balance of commodity hedging transactions as at end-of-period**	(27)	(5)		(21)	(42)	
Cost of sales	1,534	1,549	*(1.0)*	747	700	*6.7*
Gross profit	**1,060**	**967**	***9.6***	**526**	**508**	***3.6%***
% of sales	40.9%	38.4%		41.3%	42.0%	
Selling and marketing expenses	597	607	*(1.7)*	305	323	*(5.8)*
General and administrative expenses	173	162	*7.0*	86	79	*8.9*
Total expenses	**770**	**769**		**391**	**402**	
Share of profit of equity-accounted investees	103	83	*23.1*	52	34	*52.1*
Operating profit before other expenses	**393**	**281**	***39.5***	**187**	**140**	***34.2***
% of sales	15.2%	11.2%		14.8%	11.7%	
Other expenses, net	(18)	(6)		(16)	(3)	
Operating profit after other expenses	**375**	**275**	***35.8***	**171**	**137**	***24.7***
Financing expenses, net	(56)	(53)	*5.8*	(26)	(42)	*(36.0)*
Income before taxes on income	**319**	**222**	***42.9***	**145**	**95**	***52.7***
Taxes on income	(88)	(55)	*56.2*	(46)	(19)	*139.5*
Effective tax rate	27.6%	25.2%		31.7%	21.0%	
Income for the period	**231**	**167**	***38.5***	**99**	**76**	***30.7***
Attributable to the Company's shareholders	**173**	**124**	***40.6***	**69**	**52**	***36.2***
Attributable to Non-controlling interests	58	43	*32.3*	30	24	*19.2*

* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.
** Reflects mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices.

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

- Adjustments for IFRS 11 – change from the equity method in the GAAP report to the proportionate consolidation method (according to the segmental information based on the Group's management accounting (non-GAAP) and internal reports):

	First Half 2016			First Half 2015			Second Quarter 2016			Second Quarter 2015		
	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)
Sales	**2,594**	**1,219**	**3,813**	**2,516**	**1,253**	**3,769**	**1,273**	**660**	**1,993**	**1,208**	**631**	**1,839**
Cost of sales excluding impact of valuation of balance of hedging transactions as at end-of-period	1,561	793	2,354	1,554	797	2,351	768	432	1,200	742	408	1,150
Valuation of balance of commodity hedging transactions as at end-of-period	(27)	-	(27)	(5)	-	(5)	(21)	-	(21)	(42)	(2)	(44)
Cost of sales	1,534	793	2,327	1,549	797	2,346	747	432	1,179	700	406	1,106
Gross profit	**1,060**	**426**	**1,486**	**967**	**456**	**1,423**	**526**	**228**	**754**	**508**	**225**	**733**
% of sales	40.9%		39.0%	38.4%		37.8%	41.3%		39.0%	42.0%		39.8%
Selling and marketing expenses	597	248	845	607	290	897	305	137	442	323	151	474
General and administrative expenses and Company's share of profit of equity-accounted investees[(1)]	70	154	224	79	142	221	34	77	111	45	63	108
Operating profit before other expenses	**393**	**24**	**417**	**281**	**24**	**305**	**187**	**14**	**201**	**140**	**11**	**151**
% of sales	15.2%		10.9%	11.2%		8.1%	14.8%		10.4%	11.7%		8.2%
Other expenses, net	(18)	(1)	(19)	(6)	-	(6)	(16)	(1)	(17)	(3)	-	(3)
Operating profit after other expenses	**375**	**23**	**398**	**275**	**24**	**299**	**171**	**13**	**184**	**137**	**11**	**148**
Financing expenses, net	(56)	(5)	(61)	(53)	(11)	(64)	(26)	(3)	(29)	(42)	(4)	(46)
Income before taxes on income	**319**	**18**	**337**	**222**	**13**	**235**	**145**	**10**	**155**	**95**	**7**	**102**
Taxes on income	(88)	(18)	(106)	(55)	(13)	(68)	(46)	(10)	(56)	(19)	(7)	(26)
Effective tax rate	27.6%		31.5%	25.2%		29.3%	31.7%		36.4%	21.0%		26.2%
Income for the period	**231**	**-**	**231**	**167**	**-**	**167**	**99**	**-**	**99**	**76**	**-**	**76**
Attributable to the Company's shareholders	**173**	**-**	**173**	**124**	**-**	**124**	**69**	**-**	**69**	**52**	**-**	**52**
Attributable to Non-controlling interests	58	-	58	43	-	43	30	-	30	24	-	24

(1) For further information, see the above GAAP statements of income for the quarter and the half ended June 30, 2016 and 2015.

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

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

	First Half			Second Quarter		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Operating profit – according to proportionate consolidation method – after other expenses	**398**	**299**	***32.8***	**184**	**148**	***24.7***
Share-based payment and liability plan	6	9		3	5	
Valuation of balance of commodity hedging transactions as at end-of-period	(27)	(5)		(21)	(44)	
Other expenses, net	19	6		17	3	
Operating profit – non-GAAP	**396**	**309**	***27.8***	**183**	**112**	***63.3***
Financing expenses, net	(61)	(64)		(29)	(46)	
Taxes on income	(106)	(68)		(56)	(26)	
Taxes in respect of adjustments to the above non-GAAP operating profit	9	(1)		6	7	
Income for the period – non-GAAP	**238**	**176**	***35.6***	**104**	**47**	***122.2***
Attributable to the Company's shareholders	**185**	**133**	***39.1***	**78**	**31**	***149.1***
Attributable to Non-controlling interests	53	43	*24.8*	26	16	*68.3*

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

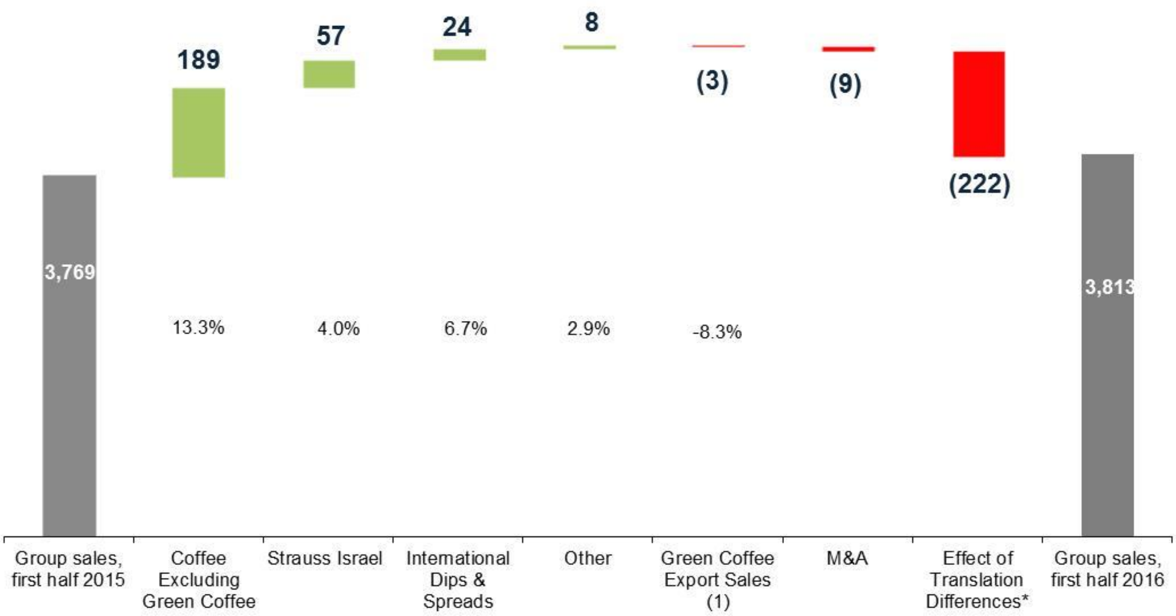
<u>ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP</u>

Sales – non-GAAP

	First Half		Second Quarter	
	2016	**2015**	**2016**	**2015**
Sales	3,813	3,769	1,933	1,839
Growth	1.2%	(3.9%)	5.2%	(5.7%)
Organic growth excluding foreign currency effect	7.8%	1.3%	11.0%	0.6%

Organic growth of the Group's sales in the first half and second quarter of 2016, excluding the foreign currency effect, amounted to 7.8% and 11.0%, respectively, compared to the corresponding periods last year.

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



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

(1) As part of its operations in Brazil, the Três Corações joint venture exports green coffee, mainly to Europe and the US. The amount of green coffee sales is presented further on this report in the framework of sales by the coffee segment according to geographical regions.

The Group's sales in the first half and second quarter of 2016, and particularly sales by Strauss Coffee, were impacted by translation differences into Shekels, which amounted to approximately NIS 222 million and NIS 87 million, respectively, for the Group; of these amounts, NIS 156 million and NIS 53 million are due to the erosion of the average rate of the Brazilian Real versus the Shekel in the half and in the quarter, respectively, versus the corresponding periods last year (see also the foreign exchange rate table in the section "Changes in the Economic Environment").

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

- Organic growth in sales by the coffee business, excluding green coffee (in the first half and second quarter, an increase of approximately NIS 189 million and NIS 124 million, respectively), mainly reflected volume growth along with price increases implemented in most countries of operations (in Israel, the prices of some products were reduced) in light of the rising cost of green coffee and the erosion of the local currencies versus the US Dollar compared to the corresponding periods last year. The US Dollar is the currency in which green coffee is purchased in all countries except for Brazil.

- Growth in Strauss Israel's sales (in the first half and second quarter, an increase of approximately NIS 57 million and NIS 34 million, respectively) mainly reflects volume growth, which was partly offset by price reductions in the various categories, particularly dairy products.

- Organic growth in sales by the International Dips & Spreads operation (in the first half and second quarter, approximately NIS 24 million and NIS 18 million, respectively), mainly reflecting growth in hummus sales with an increase in value market share since the end of the fourth quarter of 2015, up from 60.7% to 62.4% (approximately 60.3% in the corresponding period last year).

- Organic growth in sales by the "Other Operations" segment (in the first half and second quarter, approximately NIS 8 million and NIS 11 million, respectively), mainly as a result of growth in Strauss Water's business in Israel, and conversely, a decrease in sales by Max Brenner.

- Green coffee export sales by the Três Corações joint venture in Brazil(1)(2), reflecting Strauss Coffee's share (50%), decreased in the first half by approximately NIS 3 million compared to the corresponding period last year. The decrease reflects a significant drop in volumes in the first quarter, which was partly set off by an increase in green coffee prices. In the second quarter of the year green coffee export sales from Brazil rose by approximately NIS 2 million compared to the corresponding quarter of 2015.

- Inorganic decrease in the Group's sales (in the first half and second quarter, down by approximately NIS 9 million and NIS 8 million, respectively), mainly reflecting the discontinuation of proportionate consolidation and the change to the equity method in the Haier Strauss Water joint venture in China as a result of the restructuring process; the decrease was offset in part by sales arising from the acquisition of the Itamaraty coffee businesses by the Três Corações joint venture in Brazil.

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

Gross Profit – Non-GAAP

	First Half				**Second Quarter**			
	2016	**2015**	**% Chg**	**% chg excluding translation differences impact**	**2016**	**2015**	**% Chg**	**% chg excluding translation differences impact**
Gross profit	1,459	1,418	*2.9*	*8.1*	733	689	*6.5*	*9.4*
Gross profit margin	38.3%	37.6%			37.9%	37.4%		

The Group's non-GAAP gross profit in the first half and second quarter of 2016 was negatively influenced by translation differences into Shekels, which amounted to approximately NIS 68 million and NIS 18 million, respectively. Most of the translation differences originated in Strauss Coffee as a result of the weakening of the Brazilian Real and the Russian Ruble against the Shekel (approximately NIS 64 million and NIS 25 million, respectively) (see also the table of exchange rates in the chapter "Changes in the Economic Environment").

The Group's non-GAAP gross profit in the first half and second quarter of the year increased by approximately NIS 41 million and NIS 44 million, respectively, compared to the corresponding periods last year:

- In the Strauss Israel segment the gross profit rose by approximately NIS 44 million and NIS 17 million in the first half and second quarter, respectively, compared to the corresponding periods last year. The increase in the gross profit is due to sales growth and reflects the favorable effect of the launch of new products, efficiency enhancing moves applied in production and packaging processes in a number of manufacturing sites, a drop in energy prices and a decrease in the prices of some raw materials (particularly raw milk), which was accompanied by a reduction in the retail prices of some of the Company's products.

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

(2) As part of its activities in Brazil, the Três Corações joint venture exports green coffee, mainly to Europe and the US. The amount of green coffee sales is presented further on this report in the framework of sales by the coffee segment according to geographical regions.

- The aggregate gross profit of the International Dips & Spreads and Other Operations segments grew by approximately NIS 16 million and NIS 9 million in the first half and second quarter, respectively, compared to the corresponding periods last year. The growth in the gross profit mainly reflects sales growth, efficiency enhancing processes and a decrease in the prices of commodities used in these segments.

- In Strauss Coffee the gross profit dropped by approximately NIS 19 million in the first half and rose by NIS 18 million in the second quarter of 2016 compared to the corresponding periods last year. The change in the gross profit margin in the half and in the quarter is explained by the negative impact of translation differences as well as the negative impact of the cost of green coffee to the Company in local currency due to the weakening of the local currencies versus the US Dollar (the currency in which green coffee is purchased in all countries of operations, except for Brazil), compared to the corresponding periods last year. Most of this decrease was offset by volume growth in sales and by price increases introduced in most countries where the Company is active (in Israel, the prices of some products were reduced). The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives used to economically hedge those commodities.

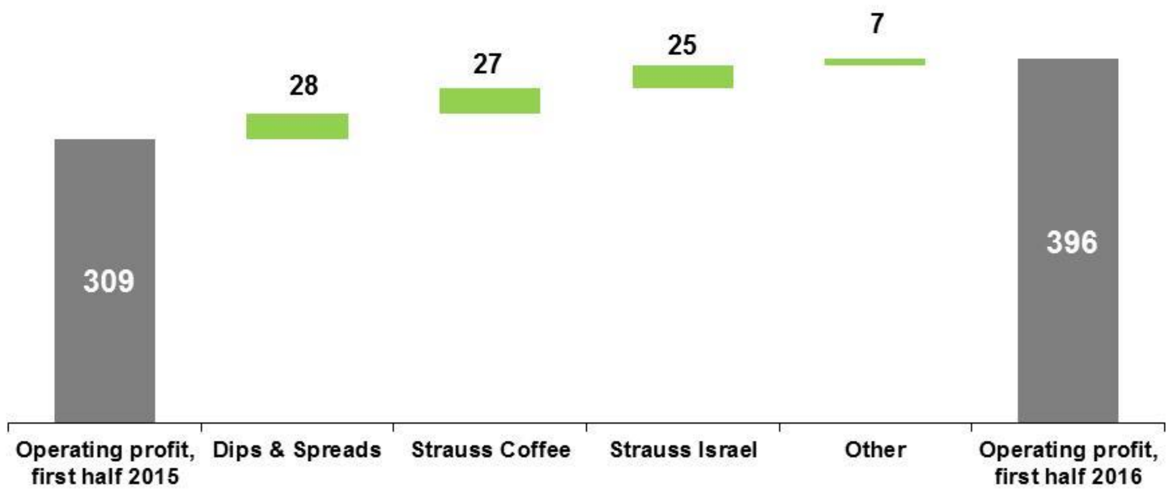
Further explanations on the Group's gross profit are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

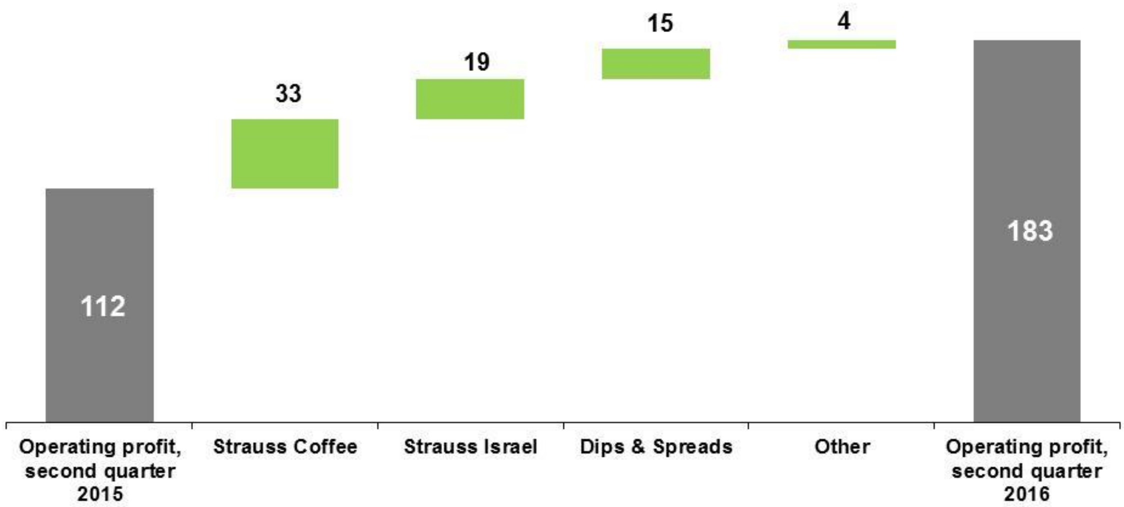
Operating Profit before Other Expenses – Non-GAAP

	First Half				Second Quarter			
	2016	**2015**	**% Chg**	**% chg excluding translation differences impact**	**2016**	**2015**	**% Chg**	**% chg excluding translation differences impact**
Operating profit (EBIT)	396	309	*27.8*	*34.9*	183	112	*63.3*	*73.4*
Operating profit margin	10.4%	8.2%			9.4%	6.1%		

The Group's non-GAAP operating profit (EBIT) in the first half and second quarter of 2016 was adversely influenced by translation differences into Shekels, which amounted to approximately NIS 16 million and NIS 7 million, respectively. Most of the translation differences originated in Strauss Coffee as a result of the weakening of the Brazilian Real and the Russian Ruble against the Shekel (approximately NIS 18 million and NIS 8 million, respectively) (see also the table of exchange rates in the chapter "Changes in the Economic Environment").

In the first half and second quarter of 2016 the non-GAAP operating profit grew by approximately NIS 87 million and NIS 71 million. Following are the components of the change in the operating profit compared to the corresponding periods last year, according to the Company's major activity segments:





The change in the Group's EBIT in the first half and second quarter of 2016 was the result of the following:

- The operating profit of the International Dips & Spreads operation increased by approximately NIS 28 million and NIS 15 million in the half and in the quarter, respectively, due to sales growth and operational efficiency enhancement. In addition, Sabra's results include an insurance payout as a result of the product recall, which amounted to approximately NIS 10 million in the first quarter of 2016 (approximately NIS 5 million reflect the Group's share (50%)).

- An increase of approximately NIS 27 million and NIS 33 million in the operating profit of the coffee business in the first half and second quarter, respectively, compared to last year. The change in Strauss Coffee's operating profit reflects:

    - An increase in the operating profit of the coffee business in the CEE countries in the first half and second quarter of the year, mainly as a result of an improvement in the product mix sold in Poland and Romania, compared to the corresponding periods last year. In addition, the results for the second quarter last year include an NIS 8 million impairment in respect of intangibles in Serbia;

    - Growth in the operating profit of Israel Coffee in the first half and second quarter of the year, mainly as a result of sales growth and an improvement in the instant coffee supply chain in Israel, compared to the corresponding periods in 2015.

    - A decrease in the operating profit of the Três Corações joint venture in Brazil(1) in the first half as a result of negative translations differences arising from the Brazilian Real, and the negative impact of the cost of green coffee. These effects were partly offset by an increase in volumes and prices. In the second quarter Três Corações' EBIT increased, despite the adverse effect of negative translation differences in respect of the Brazilian Real. Três Corações' operating profit (before other expenses) in Brazilian Real fell in the half by 3.9% and in the second quarter rose by 22.7% (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group);

- An increase of approximately NIS 25 million and NIS 19 million in the operating profit of Strauss Israel in the half and in the quarter, respectively, compared to the corresponding periods last year. The growth in EBIT mainly reflects an increase in sales, which was reflected in volume growth and was partly offset by price reductions in the various categories, as well as an increase in the gross profit reflecting operational efficiency enhancement and the favorable effect of a drop in the prices of some raw materials as described above.

- An increase in the EBIT of the Other Operations segment – approximately NIS 7 million and NIS 4 million in the first half and second quarter, respectively, compared to last year, which mainly reflects an improvement in Strauss Water's results of operations.

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

Financing Expenses, Net – Non-GAAP

Net financing expenses in the first half of 2016 totaled NIS 61 million compared to expenses of NIS 64 million in the corresponding period last year.

Net financing expenses in the second quarter of the year amounted to NIS 29 million compared to expenses of NIS 46 million in the corresponding quarter of 2015. Most of the decrease in financing expenses in the second quarter is due to the effect of a 1.1% increase in changes in the (known) CPI in the corresponding quarter last year compared to an increase of 0.5% in the current quarter, net of the impact of index derivatives, in which a substantial portion of the Company's debt is denominated, as well as expenses in respect of exchange differences and the valuation of foreign exchange derivatives in the corresponding quarter following the weakening of the US Dollar, versus income in the second quarter from foreign exchange derivatives due to the strengthening of the Dollar against part of the currencies.

Net credit (according to the proportionate consolidation method) as at June 30, 2016 totaled NIS 1,574 million compared to NIS 1,655 million on December 31, 2015.

Net credit (according to the equity method) as at June 30, 2016 totaled NIS 1,427 million compared to NIS 1,516 million on December 31, 2015.

Taxes on Income – Non-GAAP

In the first half of 2016 taxes on income (non-GAAP) amounted to NIS 97 million, reflecting an effective tax rate of 28.8%, whereas in the corresponding period last year income tax amounted to NIS 69 million and the effective tax rate was 28.4%.

In the second quarter taxes on income (non-GAAP) amounted to NIS 50 million, reflecting an effective tax rate of 31.9%, versus NIS 19 million in the corresponding quarter last year with an effective tax rate of 29.1%.

The increase in the effective tax rate in the first half and second quarter of 2016 is mainly the result of the profit mix for tax purposes between the companies in the various countries and of an increase in the weight of non-deductible tax expenses, offset by the impact of the decrease in the corporate tax rate in Israel (from 26.5% to 25%).

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

	First Half			Second Quarter		
	2016	2015	% Chg	2016	2015	% Chg
Income attributable to the Company's shareholders	185	133	*39.1*	78	31	*149.1*
% of sales	4.9%	3.5%		4.1%	1.7%	

Non-GAAP income attributable to the Company's shareholders in the first half and second quarter of 2016 rose by approximately NIS 52 million and NIS 47 million, respectively, compared to the corresponding periods last year. The increase in non-GAAP income attributable to the Company's shareholders is mainly due to growth in the operating profit and to a decrease in financing expenses.

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

In the first half of the year the GAAP comprehensive income amounted to approximately NIS 355 million, compared to a comprehensive loss of NIS 28 million in the corresponding period last year. In the reporting period income in respect of translation differences, which are the main component of the other comprehensive income, amounted to NIS 124 million compared to losses of NIS 199 million arising from translation differences in the corresponding period last year.

In the second quarter the GAAP comprehensive income amounted to approximately NIS 191 million, compared to comprehensive income of NIS 26 million in the corresponding quarter last year. In the reporting period gains in respect of translation differences, which are the main component of the other comprehensive income, amounted to NIS 92 million compared to losses of NIS 48 million arising from translation differences in the corresponding period last year.

The gains from translation differences in the first half and second quarter of 2016 primarily arise from the operations of Strauss Coffee; of the above amounts, approximately NIS 103 million and NIS 75 million, respectively, are due to the strengthening of the Brazilian Real against the Shekel in the first half of the year compared to their exchange rate at the end of 2015.

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

In the first half of 2016

Cash flows used in operating activities amounted to a positive cash flow of approximately NIS 179 million, compared to a negative cash flow of NIS 9 million in the corresponding period last year. The change in cash flows is due to an increase in income for the period and a decrease in supplier credit and payables in the corresponding period last year, mainly in light of changes in the supplier mix. On the other hand, in December 2015 the Company received a rebate from the Assessing Officer in respect of advance tax in the amount of approximately NIS 96 million. Of this amount, the sum of NIS 53 million was refunded to the Assessing Officer in January 2016.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 39 million compared to a negative cash flow of NIS 27 million in the corresponding period last year. The change is mainly due to an investment in an investee company and is offset by investments in fixed assets on a smaller scale compared to the corresponding period and by the sale of securities and deposits on a smaller scale compared to the corresponding period in 2015.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 145 million compared to a negative cash flow of NIS 199 million last year. The change is mainly due to loans amounting to NIS 115 million taken by subsidiaries in the current period, less a dividend paid to the non-controlling interest in the amount of NIS 42 million.

In the second quarter of 2016

Cash flows used in operating activities amounted to a positive cash flow of approximately NIS 232 million, compared to a positive cash flow of NIS 144 million in the corresponding period last year. The change in cash flows is due to a decrease in supplier credit and payables in the corresponding period last year, mainly following changes in the supplier mix.

Cash flows provided by (used in) investing activities amounted to a negative cash flow of approximately NIS 21 million compared to a positive cash flow of NIS 8 million last year. The change is mainly due to the acquisition of the operation of a subsidiary and is offset by investments in fixed assets on a smaller scale compared to the corresponding period and by the sale of securities and deposits on a smaller scale compared to the corresponding period in 2015.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 52 million compared to a negative cash flow of NIS 25 million last year. The change is mainly due to the repayment of short-term loans by a subsidiary in the current period.

The change in working capital (according to the proportionate consolidation method) in the first half of 2016 and 2015 reflects an increase of approximately NIS 155 million and NIS 170 million compared to December 31, 2015 and 2014, respectively. The change in working capital (according to the proportionate consolidation method) in the second quarter of 2016 and 2015 reflects a decrease of approximately NIS 61 million and NIS 52 million compared to March 31, 2015 and 2014, respectively.

The change in working capital (according to the equity method) in the first half of 2016 and 2015 reflects an increase of approximately NIS 54 million and NIS 147 million compared to December 31, 2015 and 2014, respectively. The change in working capital (according to the equity method) in the second quarter of 2016 and 2015 reflects a decrease of approximately NIS 113 million and NIS 69 million compared to March 31, 2015 and 2014, respectively.

The Company's cash and cash equivalents as at June 30, 2016 totaled NIS 555 million compared to NIS 560 million on December 31, 2015. In accordance with Company policy, these assets are held mainly in deposits (most of them in Shekels and Dollars).

The Company's liquidity ratio as at June 30, 2016 is 1.39 compared to 1.39 on December 31, 2015. On June 30, 2016 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,984 million compared to NIS 2,096 million on December 31, 2015. On June 30, 2016 short-term credit (excluding current maturities) totaled NIS 52 million compared to NIS 40 million on December 31, 2015. On June 30, 2016 supplier credit totaled NIS 674 million, compared to NIS 713 million on December 31, 2015.

Total assets in the Company's Consolidated Statement of Financial Position on June 30, 2016 amounted to NIS 6,308 million, compared to NIS 6,147 million on December 31, 2015.

Reportable credit – further to Note 20.6 to the Periodic Report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at June 30, 2016 is 31.3%, compared to 27.7% on December 31, 2015. The net financial debt-to-EBITDA ratio as at June 30, 2016 is 1.5, compared to 1.9 on December 31, 2015. The Company is in compliance with the required financial criteria.

On July 7, 2016 the Board of Directors of the Company approved the distribution of a cash dividend to the shareholders of the Company. For information on dividend distributions, see the update of the chapter "Description of the Company's Business Affairs" as at June 30, 2016.

Customer credit – from time to time, the Group executes non-recourse factoring transactions in accounts receivable, as well as reverse factoring transactions in supplier credit.

In April 2016 the Company announced the reaffirmation of Midroog's Aa2 rating for the Company's outstanding Series B and Series D Debentures, with stable outlook.

In April 2016 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with a revision of the rating outlook from stable to negative.

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

	First Half		**Second Quarter**		**Year Ended December 31**
	2016	**2015**	**2016**	**2015**	**2015**
Cash flow from operating activities (proportionate consolidation method)	270	30	296	180	516
Acquisition of fixed assets and investment in intangibles (proportionate consolidation method)	113	157	57	70	279
Net debt balance (proportionate consolidation method) as at the reporting date	1,574	1,833	1,574	1,833	1,655
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	112	116	56	61	232
Strauss Israel:					
Health & Wellness	29	24	14	12	54
Fun & Indulgence	18	14	9	7	32
Strauss Coffee:					
Israel Coffee	6	5	3	3	10
International Coffee	25	34	14	20	57
International Dips & Spreads	11	12	5	6	23
Other	23	27	11	13	56

The Group's EBITDA (non-GAAP) totaled approximately NIS 508 million in first half of the year compared to NIS 425 million in the corresponding period in 2015, an increase of 19.4%. Non-GAAP EBITDA in the second quarter amounted to NIS 239 million compared to NIS 173 million last year, an increase of 37.8%.

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

Strauss Coffee

Following are the condensed results of business operations based on the non-GAAP management reports of Strauss Coffee by reported segments for the quarter and the half ended June 30, 2016 and 2015 (in NIS millions):

	First Half			**Second Quarter**		
	2016	**2015**	**% Chg**	**2016**	**2015**	**% Chg**
Israel Coffee						
Net sales	347	333	*4.3*	153	137	*11.5*
Operating profit	52	46	*12.3*	17	7	*121.8*
% operating profit	15.1%	14.0%		11.2%	5.6%	
International Coffee						
Net sales	1,310	1,348	*(2.8)*	724	698	*3.8*
Operating profit	111	90	*24.0*	66	43	*56.9*
% operating profit	8.5%	6.6%		9.2%	6.1%	
Total Strauss Coffee						
Net sales	**1,657**	**1,681**	***(1.4)***	**877**	**835**	***5.1***
Organic growth excluding foreign currency effect	**12.7%**	**7.9%**		**16.9%**	**7.6%**	
Gross profit	**540**	**559**	***(3.4)***	**284**	**266**	***6.6***
% gross profit	**32.6%**	**33.3%**		**32.4%**	**31.9%**	
Operating profit	**163**	(1)**136**	***20.0***	**83**	(1)**50**	***66.9***
% operating profit	**9.9%**	**8.1%**		**9.6%**	**6.0%**	

(1) The operating profit of the coffee business in the first half and second quarter of 2015 includes a provision for impairment of intangible assets attributed to the operation in Serbia in the amount of NIS 8 million.

Sales

In the first half and second quarter of 2016 organic growth in the coffee business, excluding the foreign currency effect, amounted to 12.7% and 16.9%, respectively, compared to the corresponding periods last year. Organic growth of the coffee operation, excluding the foreign currency effect and green coffee exports, amounted to 13.3% and 16.9%, respectively, compared to the corresponding periods in 2015.

Growth in coffee sales in local currency in the first half and second quarter mainly reflects volume growth as well as price increases implemented in most countries (in Israel, the prices of some products were reduced), in light of the rising cost of green coffee to the Company and the erosion of the functional currencies versus the US Dollar compared to the corresponding periods last year, since in all countries except for Brazil, green coffee is purchased in US Dollars. For further information, see the section "Strauss Coffee Sales by Major Geographical Regions".

In the first half of 2016 Strauss Coffee's sales decreased by approximately NIS 24 million whereas in the second quarter sales grew by NIS 42 million, compared to the corresponding periods last year. Translation differences into Shekels in the half and in the quarter had a negative impact on sales by the coffee operation and amounted to NIS 214 million and NIS 85 million, respectively; of said amounts, NIS 156 million and NIS 53 million, respectively, were due to the erosion of the average exchange rate of the Brazilian Real against the Shekel and NIS 44 million and NIS 26 million, respectively, to the erosion of exchange rates in Russia and Ukraine against the Shekel, compared to the corresponding periods in 2015.

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

Gross profit

In the first half of 2016 the gross profit decreased by approximately NIS 19 million compared to the corresponding period last year. The gross profit margin dropped by 0.7% and amounted to 32.6%. In the second quarter of the year the gross profit increased by approximately NIS 18 million compared to the corresponding quarter in 2015, and the gross profit margin rose by 0.5% and amounted to 32.4%. The change in the gross profit margin in the first half and second quarter is explained by the negative impact of translation differences and a negative impact of the cost of green coffee to the Company in local currency in light of the weakening of the local currencies against the US Dollar compared to the corresponding periods last year, since the currency in which green coffee is purchased in all countries of operations except for Brazil is the US Dollar. Most of the decrease was offset by growth in sales volumes, price increases implemented in almost all countries where the Company is active (in Israel, the prices of some products were reduced), and an improvement in the product mix sold in part of the Company's countries of operations (Brazil, Israel, Romania and Poland). The cost of raw materials to the Company (including green coffee) in the Group's non-GAAP reports includes profits and losses that were realized in respect of financial derivatives that served to economically hedge those commodities.

Operating profit

In the first half and second quarter of 2016 the operating profit of the coffee operation increased by approximately NIS 27 million and NIS 33 million, respectively, compared to the corresponding periods last year. The operating profit margin in the half and the quarter amounted to 9.9% and 9.6%, respectively, compared to the corresponding periods last year.

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

- An increase in the operating profit of the coffee business in the CEE countries in the first half and second quarter of the year, mainly as a result of an improvement in the product mix sold in Poland and Romania, compared to the corresponding periods last year. In addition, the results for the second quarter last year include an NIS 8 million impairment in respect of intangibles in Serbia;

- Growth in the operating profit of Israel Coffee in the first half and second quarter, mainly as a result of sales growth and an improvement in the instant coffee supply chain in Israel, compared to the corresponding periods in 2015.

- A decrease in the operating profit of the Três Corações joint venture in Brazil[1] in the first half as a result of negative translations differences arising from the Brazilian Real and the adverse impact of the cost of green coffee. These effects were partly offset by an increase in volumes and in prices. In the second quarter Três Corações' EBIT increased, despite the adverse effect of negative translation differences in respect of the Brazilian Real. Três Corações' operating profit (before other expenses) in Brazilian Real fell in the half by 3.9% and in the second quarter rose by 22.7% (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group);

Strauss Coffee sales by major geographical regions

Following is the scope of sales of the coffee business in the major geographical regions (not including intercompany sales), and growth rates for the quarter and the half ended June 30, 2016 and 2015 (in NIS millions):

	First Half				Second Quarter			
Geographical region	**2016**	**2015**	**% chg**	**% change in local currency***	**2016**	**2015**	**% chg**	**% change in local currency***
Israel Coffee	**347**	**333**	***4.3***	***4.3***	**153**	**137**	***11.5***	***11.5***
International Coffee								
Três Corações joint venture (Brazil) [1] [2] [3] - 50%	727	773	*(6.0)*	*17.8*	411	394	*4.3*	*20.5*
Former USSR countries	262	240	*8.9*	*33.5*	141	135	*3.8*	*28.8*
Poland	135	138	*(2.3)*	*4.4*	68	66	*3.2*	*9.9*
Romania	128	124	*3.4*	*5.7*	66	61	*7.9*	*8.8*
Serbia	58	73	*(19.7)*	*(17.4)*	38	42	*(6.1)*	*(4.6)*
Total International Coffee	**1,310**	**1,348**	***(2.8)***	***15.5***	**724**	**698**	***3.8***	***18.1***
Total Coffee	**1,657**	**1,681**	***(1.4)***	***13.0***	**877**	**835**	***5.1***	***16.9***

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

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

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

(2) Sales by the Três Corações joint venture (Brazil) include:

	First Half		Second Quarter	
	2016	2015	2016	2015
Green coffee sales	35	49	19	19
Sales of corn-based products	32	32	18	18

(3) The Três Corações joint venture (Brazil) – Excluding intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee.

The Três Corações joint venture (Brazil) – A company jointly held by the Group (50%) and the São Miguel Group (50%); (Data reflect Strauss Coffee's share (50%))

In March 2016 Três Corações signed a contract to acquire the operation attributed to the retail coffee brands of the coffee company Cia Iguaçu. The agreement between the companies includes the acquisition of the retail coffee brands (Iguaçu, Cruzeiro, Amigo), as well as accompanying Cia Iguaçu products, in South America, including Brazil. In June, the agreement was approved by the regulatory authorities in Brazil.

In the first half of 2016 the Três Corações joint venture's average value market share in roast and ground coffee (R&G) amounted to approximately 24.1%, compared to 24.0% in the corresponding period last year (value market share reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures).

Despite the economic and political crisis in Brazil, in the first half and second quarter of 2016 the Três Corações joint venture's sales in local currency grew by approximately 17.8% and 20.5% (17.4% and 20.4%, respectively, before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee). Excluding green coffee sales, growth in local currency amounted to 19.6% and 20.8% in the half and quarter, respectively. Most of the growth originates in R&G sales. The increase in the Três Corações joint venture's local currency sales reflects price increases introduced in 2015 and 2016 in light of the rising cost of green coffee to Três Corações compared to the corresponding periods last year, as well as volume growth in sales. The sales growth also reflects sales of machines and capsules under the TRES brand.

Green coffee export sales from Brazil by the Três Corações joint venture, reflecting Strauss Coffee's share (50%), decreased in the first half of 2016 by approximately NIS 14 million compared to the corresponding period last year (excluding the foreign exchange effect, sales decreased by NIS 3 million). The decrease in the half reflects a significant drop in volumes in the first quarter, which was offset in part by an increase in green coffee prices compared to the corresponding period last year. In the second quarter green coffee export sales from Brazil by Três Corações remained unchanged compared to the corresponding quarter last year (excluding the foreign currency effect, export sales increased by approximately NIS 3 million).

Growth in the Três Corações joint venture's Shekel sales in the first half and second quarter of 2016 compared to the corresponding periods last year was adversely affected by the erosion of the average exchange rate of the Brazilian Real against the Shekel, which amounted to approximately NIS 156 million and NIS 52 million, respectively.

The Três Corações joint venture's gross profit in domestic currency rose by 3.1% and 11.9% in the first half and second quarter and amounted to approximately 183 million and 101 million BRL, respectively. In the half and quarter the Três Corações joint venture's gross profit margin decreased by 3.7% and 2.0% and amounted to 26.5% and 26.9%, respectively. The decrease in the gross profit margin primarily reflects the rising cost of green coffee to the Três Corações joint venture, which was offset in part by price increases. EBIT (before other expenses) in Brazilian Real dropped in the first half by 3.9% and reflects the drop in the gross profit margin, coupled with a drop in selling and marketing expenses as well as erosion of the TRES brand's profit margin. In the second quarter EBIT (before other expenses) in Brazilian Real rose by 22.7% and mainly reflects sales growth (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

The overall impact of the TRES brand on the Três Corações joint venture's operating profit in the first half and second quarter amounted to an operating loss of approximately NIS 10 million and NIS 6 million, respectively (9 million and 5 million BRL, respectively), compared to an operating loss of NIS 11 million and NIS 8 million, respectively (8 million and 6 million BRL, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)).

The former USSR countries

Following the political crisis in Russia and Ukraine and the complexity of Russia's relations with the West and as a result of the drop in oil prices, the Russian and Ukrainian currencies devalued significantly against the major currencies, including the US Dollar (which adversely impacted the cost of sales in the region) and the Shekel (causing negative translation differences). Additionally, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew in the first half and second quarter of 2016 by approximately 33.5% and 28.8%, respectively, compared to the corresponding periods last year. The Company's sales in local currency mainly reflect price increases introduced in light of the devaluation of the Russian and Ukrainian currencies against the US Dollar, as mentioned.

The Company's Shekel sales in the region grew by approximately NIS 22 million and NIS 6 million in the half and in the quarter, respectively, compared to the corresponding periods last year, and were affected by volume growth as well as negative translation differences against the Shekel.

Poland

The Company's sales in Poland in local currency increased by approximately 4.4% and 9.9% in the first half and second quarter of 2016, respectively, compared to the corresponding periods last year. Sales reflect price increases due to the rise in the cost of green coffee (particularly Arabica) to the Company, coupled with the strengthening of the US Dollar (the currency in which green coffee is purchased) against the Polish Zloty, compared to the corresponding periods in 2015.

The Company's Shekel sales in Poland decreased by approximately NIS 3 million in the half and increased by NIS 2 million in the quarter compared to the corresponding periods last year. Shekel sales were affected by the erosion of the Polish Zloty against the Shekel.

Romania

The Company's sales in Romania in local currency grew by approximately 5.7% and 8.8% in the first half and second quarter of 2016, respectively, compared to the corresponding periods last year.

The growth in sales in local currency reflects volume growth and an increase in the cost of green coffee to the Company, along with the strengthening of the US Dollar (the currency in which green coffee is purchased) against the New Romanian Leu, compared to the corresponding periods in 2015.

Shekel sales in Romania increased by approximately NIS 4 million and NIS 5 million in the first half and second quarter, respectively, compared to the corresponding periods in 2015, and were affected by negative translation differences due to the erosion of the Romanian Leu against the Shekel.

On June 1, 2015 VAT on food products in Romania was lowered from 24.0% to 9.0%.

Serbia

The Company's sales in Serbia in local currency decreased by 17.4% and 4.6% in the first half and second quarter of the year, respectively, compared to the corresponding periods last year. Sales were influenced by a drop in volumes reflecting a consumer trend of preferring cheaper coffee brands and by price erosion due to the harshening competitive environment.

The Company's Shekel sales in Serbia dropped by approximately NIS 15 million and NIS 4 million in the half and in the quarter, respectively, compared to the corresponding periods last year, and were affected by negative translation differences as a result of the erosion of the Serbian Dinar against the Shekel.

Israel

The Company's sales in Israel rose by approximately NIS 14 million and NIS 16 million in the first half and second quarter, respectively, compared to the corresponding periods last year. The increase is explained by growth in volumes and is also due to effective price reductions. The increase in the operating profit is the result of sales growth as mentioned and of improvements in the instant coffee supply chain in Israel.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first half of 2016 according to StoreNext figures held an 11.5% share of the total retail domestic food and beverage market in value terms (compared to 11.2% in the corresponding period last year), an increase of 0.3% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in

Israel grew by 2.7% in value terms, although according to StoreNext, in the first half of 2016 the Israeli food and beverage market decreased by 0.7% in financial value.

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

In the first half of the year Strauss Group's Israel sales totaled approximately NIS 2,068 million versus NIS 1,987 million last year, an increase of 4.1%. In the second quarter sales totaled approximately NIS 986 million compared to NIS 924 million last year, an increase of 6.7%.

Strauss Israel

Following are the condensed results of business operations based on the non-GAAP management reports of Strauss Israel by activity segments, for the quarter and the half ended June 30, 2016 and 2015 (in NIS millions):

	First Half			Second Quarter		
	2016	2015	% Chg	2016	2015	% Chg
Health & Wellness segment						
Net sales	965	928	*4.0*	491	474	*3.7*
Operating profit	99	78	*26.4*	48	33	*44.7*
% operating profit	10.2%	8.4%		9.7%	7.0%	
Fun & Indulgence segment						
Net sales	523	503	*4.1*	221	204	*8.8*
Operating profit	62	58	*6.3*	15	11	*30.8*
% operating profit	11.9%	11.6%		6.7%	5.5%	
Total Strauss Israel						
Net sales	**1,488**	**1,431**	***4.0***	**712**	**678**	***5.2***
Gross profit	**593**	**549**	***8.1***	**282**	**265**	***6.4***
% gross profit	**39.9%**	**38.4%**		**39.6%**	**39.1%**	
Operating profit	**161**	**136**	***17.8***	**63**	**44**	***41.2***
% operating profit	**10.8%**	**9.5%**		**8.8%**	**6.6%**	

Sales

In the first half of 2016 Strauss Israel's sales increased by approximately 4.0% (NIS 57 million). In the Health & Wellness segment the increase was approximately 4.0% (NIS 37 million), and in Fun & Indulgence sales growth amounted to 4.1% (NIS 20 million).

In the second quarter Strauss Israel's sales increased by approximately 5.2% (NIS 34 million). In Health & Wellness the increase was approximately 3.7% (NIS 17 million), and in Fun & Indulgence sales growth amounted to 8.8% (NIS 17 million).

The increase in sales in the half and quarter reflects volume growth, which was offset in part by price reductions in the various categories, particularly dairy products (in the first quarter the Company lowered its prices in a number of dairy categories by 5%-22%, in addition to a 4.4% reduction in the controlled prices of white cheese and sweet cream).

Gross profit

In the first half of 2016 Strauss Israel's gross profit increased by approximately NIS 44 million with 1.5% growth in the gross profit margin, compared to the corresponding period last year. In the second quarter the gross profit rose by NIS 17 million and the gross profit margin by 0.5% compared to the corresponding quarter of 2015. The increase in the gross profit is the result of sales growth, continued efficiency enhancing moves applied in production and packaging processes in a number of plants, and also reflects the favorable effect of a drop in the prices of some raw materials (raw milk, milk powders, tahini, hazelnuts and almonds) while the prices of other raw materials rose (cocoa, potatoes and olive oil). In addition, in the first half energy prices were reduced compared to the last year.

Operating profit

In the first half of 2016 Strauss Israel's EBIT increased by approximately NIS 25 million and the operating profit margin rose by 1.3% and amounted to 10.8% of sales. In the second quarter the operating profit increased by approximately NIS 19 million, as the operating profit margin rose by 2.2% and amounted to 8.8% of sales. The increase in operating profit mainly reflects the growth in sales and in the gross profit compared to the corresponding periods in 2015, which was partly offset by an increase in marketing expenses. Furthermore, in the second quarter last year a provision for doubtful debts was recorded in respect of Mega Retail.

The International Dips & Spreads Activity

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

Sabra is the largest refrigerated flavored dips and spreads company in the US. According to IRI, Sabra's value market share of the total refrigerated dips and spreads category in the 24 weeks ended on July 10, 2016 was 27.8% (Number 1 in the market), compared to 27.8% at the end of 2015 and 27.6% in the corresponding period last year. Sabra's value market share of the hummus category in the second quarter of 2016 was 62.4%, compared to 60.3% in the corresponding quarter.

Sale volumes in Australia and Mexico are immaterial. Nevertheless, it is noted that the company leads the hummus market in Australia in market share as well as in Mexico. In both countries growth in the company's sales volumes was recorded in the first half of 2016.

In June 2016 Obela entered into an agreement for the acquisition of 100% of the share capital of Florentin B.V. ("Florentin"). Florentin is a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread, and markets its products in Western Europe, particularly in the Netherlands, Germany and France. For further information, see Note 4.4 to the Consolidated Interim Financial Statements as at June 30, 2016 and the update of the chapter "Description of the Company's Business Affairs" as at June 30, 2016.

Sabra

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

	First Half		**Second Quarter**	
	2016	**2015**	**2016**	**2015**
Sales	724	694	374	347
Growth	4.3%	14.0%	7.9%	6.9%
Organic growth excluding foreign currency effect	5.7%	1.4%	9.4%	(4.3%)
Operating profit before other expenses	115	67	54	27
% operating profit	15.9%	9.7%	14.5%	7.9%

Sales by Sabra in the first half and second quarter of 2016 grew by approximately NIS 30 million and NIS 27 million, respectively, compared to the corresponding periods last year, despite the adverse effect of negative translation differences due to the weakening of the average exchange rate of the US Dollar against the Shekel (see also the foreign exchange rate table in the section "Changes in the Economic Environment"). In addition, sales in the second quarter last year reflected the negative effect of the recall of a hummus product manufactured by the company in the beginning of the second quarter of 2015.

The operating profit in the first half and second quarter of 2016 increased by NIS 48 million and NIS 27 million, with 6.2% and 6.6% growth, respectively, in the EBIT margin compared to last year. The increase in the operating profit in the half and quarter is the result of sales growth and operational efficiency enhancement. In addition, Sabra's results include an insurance payout as a result of the product recall, which amounted to approximately NIS 10 million in the first quarter of 2016 (approximately NIS 5 million reflect the Group's share (50%)).

Obela

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

Sales by Obela in the first half of 2016 totaled approximately NIS 40 million, compared to NIS 34 million in the corresponding period last year (17.7% growth). Excluding the foreign currency effect, growth in the half amounted to 28.7% compared to the first half of 2015.

Obela's sales in the second quarter totaled approximately NIS 19 million, compared to NIS 16 million in the corresponding quarter last year (17.6% growth). Excluding the foreign currency effect, growth in the quarter amounted to 26.8% compared to last year.

The operating loss in the first half totaled NIS 14 million, compared to NIS 21 million in the corresponding period last year.

In the second quarter of 2016 the operating loss amounted to NIS 7 million, compared to NIS 9 million last year.

Other Operations

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

Strauss Water

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

Commencing in the third quarter of 2015 the restructuring process of the operation in China is reflected in the Group's non-GAAP reports. Following this process the Company holds 34% of the Haier Strauss Water joint venture in China. For further information, see the Board of Directors' Report on the Company's Business Position for the year ended December 31, 2015.

Sales by Strauss Water in the first half of 2016 amounted to approximately NIS 238 million compared to NIS 240 million in the corresponding period last year, a decrease of 0.6%.

The decrease in sales in the half is mainly explained by the restructuring of the international operation in China. The change of structure led to a drop in sales due to the discontinuation of the proportionate consolidation of the Haier Strauss Water joint venture in China and a transition to accounting in the equity method as described above.

In the second quarter of the year Strauss Water's sales totaled NIS 124 million compared to NIS 120 million in the corresponding period in 2015, an increase of 3.7%.

Sales by the Haier Strauss Water joint venture in China in the first half and second quarter of 2016 amounted to approximately NIS 143 million and NIS 84 million, respectively (unaudited).

In the first half and second quarter of 2016 Strauss Water has posted an improvement in the operating profit compared to the corresponding periods in 2015.

Max Brenner

On the date of publication of the report, the Max Brenner chain comprises sixty-two "Chocolate Bars" in Israel and around the world, fifty-nine under franchise and three owned by the Company (in the US: New York, Philadelphia and Boston). The Max Brenner bars are located in Australia (41), Israel (8), Japan (5), the US (3), Russia (2), Singapore (1), South Korea (1) and China (1).

In the first half of 2016 Max Brenner's sales totaled approximately NIS 48 million compared to NIS 53 million last year, a decrease of 10.4%. The decrease in sales, excluding the foreign currency effect, amounted to approximately 9.6% compared to the corresponding period last year.

In the second quarter Max Brenner's sales totaled approximately NIS 23 million compared to NIS 25 million in the corresponding quarter last year, a decrease of 8.5%. Excluding the foreign currency effect, sales decreased by approximately 7.4% compared to the corresponding period last year.

ASPECTS OF CORPORATE GOVERNANCE

General

For information on the effectiveness of internal control over financial reporting and disclosure pursuant to Article 38C(a), see the attached report.

INFORMATION ON THE DEBENTURE SERIES

Following is information on the series of material capital notes with respect to the Company's liabilities as at June 30, 2016:

		Debentures Series B	Debentures Series D
A.	Nominal/par value	297	465
B.	Par value linked to the Consumer Price Index	355	465
C.	Book value of Debentures	355	476
D.	Book value of interest payable	6	5
E.	Market value	376	541

LIABILITY REPORT ACCORDING TO PAYMENT DATES

See Form T-126, published simultaneously with the financial statements.

MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see the update of the chapter "Description of the Company's Business Affairs" as at June 30, 2016 and Notes 4, 5 and 6 to the Consolidated Interim Financial Statements as at June 30, 2016.

POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

For a review of events occurring after the statement of financial position date, see Note 9 to the Consolidated Interim Financial Statements as at June 30, 2016.

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

Ofra Strauss Chairperson of the Board	Gadi Lesin Chief Executive Officer

August 17, 2016

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT JUNE 30, 2016

Strauss Group Ltd.

Financial Statements
As at June 30, 2016

Convenience Translation from Hebrew

Strauss Group Ltd.

Financial Statements as at June 30, 2016

Contents

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Review Report to the Shareholders of Strauss Group Ltd.

Introduction

We have reviewed the accompanying financial information of Strauss Group Ltd. and its subsidiaries (hereinafter– "the Group") comprising of the condensed consolidated interim statement of financial position as of June 30, 2016 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three month periods then ended. The board of directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting*", in addition management is responsible for the financial information to be prepared in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not reviewed the financial statements of equity accounted investees the investment in which amounted to approximately NIS 18.5 million as of June 30, 2016, and the Group's share in their profits amounted to approximately NIS 4.5 million and NIS 2.5 million for the six and three month periods then ended, respectively.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to the mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not follow, in all material respects, the disclosure directives of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

August 17, 2016

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Financial Position

	June 30 2016 (Unaudited)	June 30 2015 (Unaudited)	December 31 2015 (Audited)
		NIS Millions	
Current Assets			
Cash and cash equivalents	555	512	560
Marketable securities and deposits	54	59	60
Trade receivables	935	853	926
Income tax receivables	26	65	20
Other receivables and debit balances	184	239	183
Inventory	587	711	581
Assets held for sale	36	36	62
Total current assets	2,377	2,475	2,392
Investments and non-current assets			
Investment in equity-accounted investees	1,231	1,049	1,018
Other investments and long-term debit balances	195	215	208
Fixed assets	1,585	1,599	1,612
Intangible assets	864	928	853
Deferred expenses	36	13	41
Investment property	7	29	7
Deferred tax assets	13	27	16
Total investments and non-current assets	3,931	3,860	3,755
Total assets	6,308	6,335	6,147

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

Date of approval of the interim financial statements: August 17, 2016

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Financial Position (cont'd)

	June 30 2016 (Unaudited)	June 30 2015 (Unaudited)	December 31 2015 (Audited)
	NIS Millions		
Current liabilities			
Current maturities of debentures	196	179	178
Short terms credit and current maturities of long term credit and loans	201	186	181
Trade payables	674	675	713
Income tax payables	20	9	80
Other payables and credit balances	593	575	531
Provisions	32	34	34
Total current liabilities	1,716	1,658	1,717
Non-current liabilities			
Debentures	635	837	834
Long-term loans and credit	1,004	1,006	943
Long-term payables and credit balances	70	95	88
Employee benefits, net	55	60	55
Deferred taxes	204	180	202
Total non-current liabilities	1,968	2,178	2,122
Equity and reserves			
Share capital	244	244	244
Share premium	622	622	622
Reserves	(875)	(828)	(965)
Retained earnings	1,985	1,764	1,804
Total equity attributable to the Company's shareholders	1,976	1,802	1,705
Non-Controlling interests	648	697	603
Total equity	2,624	2,499	2,308
Total liabilities and equity	6,308	6,335	6,147

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
		(Unaudited)			(Audited)
			NIS millions		
Sales	2,594	2,516	1,273	1,208	5,183
Cost of sales	1,534	1,549	747	700	3,228
Gross profit	1,060	967	526	508	1,955
Selling and marketing expenses	597	607	305	323	1,198
General and administrative expenses	173	162	86	79	329
	770	769	391	402	1,527
Share of profits of equity accounted investees	103	83	52	34	198
Operating profit before other income (expenses)	393	281	187	140	626
Other income	4	8	1	5	16
Other expenses	(22)	(14)	(17)	(8)	(57)
Other expenses, net	(18)	(6)	(16)	(3)	(41)
Operating profit	375	275	171	137	585
Financing income	5	10	6	5	21
Financing expenses	(61)	(63)	(32)	(47)	(122)
Financing expenses, net	(56)	(53)	(26)	(42)	(101)
Profit before income taxes	319	222	145	95	484
Income taxes	(88)	(55)	(46)	(19)	(139)
Profit for the period	231	167	99	76	345
Attributable to:					
The Company's shareholders	173	124	69	52	257
Non-Controlling interests	58	43	30	24	88
Profit for the period	231	167	99	76	345
Earnings per share for the Company's shareholders					
Basic earnings per share (in NIS)	1.61	1.15	0.65	0.47	2.40
Diluted earnings per share (in NIS)	1.61	1.14	0.65	0.47	2.39

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

Strauss Group Ltd.

Consolidated Interim Statements of Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Profit for the period	231	167	99	76	345
Other comprehensive income (loss) components that will be transferred in the future to the statement of income:					
Foreign currency translation differences	29	(78)	9	(23)	(168)
Changes in fair value of available for sale financial assets, net of tax	-	4	-	(2)	3
Other comprehensive income (loss) from equity-accounted investees	95	(121)	83	(25)	(219)
Total other comprehensive income (loss) components that will be transferred in the future to the statement of income	124	(195)	92	(50)	(384)
Comprehensive income (loss) for the period	355	(28)	191	26	(39)
Attributable to:					
The Company's shareholders	263	(28)	140	9	(32)
Non-controlling interests	92	-	51	17	(7)
Comprehensive income (loss) for the period	355	(28)	191	26	(39)

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

Strauss Group Ltd.

Consolidated Interim Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
For the six month period ended June 30, 2016 - unaudited:									
Balance as at January 1, 2016 - Audited	244	622	(951)	(20)	6	1,804	1,705	603	2,308
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	173	173	58	231
Other comprehensive income:									
Foreign currency translation differences	-	-	20	-	-	-	20	9	29
Other comprehensive income from equity accounted investees	-	-	70	-	-	-	70	25	95
Total other comprehensive income for the Period, net of tax	-	-	90	-	-	-	90	34	124
Total comprehensive income for the period	-	-	90	-	-	173	263	92	355
Share-based payment	-	-	-	-	-	6	6	-	6
Transaction with non-controlling interests	-	-	-	-	-	2	2	(5)	(3)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(42)	(42)
Balance as at June 30, 2016 - unaudited	244	622	(861)	(20)	6	1,985	1,976	648	2,624

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders								
	Share capital	**Share premium**	**Translation reserve**	**Treasury stock**	**Reserve in respect of available for sale financial assets**	**Retained earnings**	**Total**	**Non-Controlling interests**	**Total equity**
	NIS millions								
For the six-month period ended June 30, 2015 - Unaudited:									
Balance as at January 1, 2015 -Audited	244	622	(661)	(20)	5	1,633	1,823	717	2,540
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	124	124	43	167
Other comprehensive income (loss):									
Foreign currency translation differences	-	-	(59)	-	-	-	(59)	(19)	(78)
Other comprehensive loss from equity-accounted investees	-	-	(94)	-	-	-	(94)	(27)	(121)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1	-	1	3	4
Other comprehensive income (loss) for the period, net of tax	-	-	(153)	-	1	-	(152)	(43)	(195)
Total comprehensive income (loss) for the period	-	-	(153)	-	1	124	(28)	-	(28)
Share-based payment	-	-	-	-	-	7	7	-	7
Share-based payment to Non-Controlling interests in subsidiary	-	-	-	-	-	-	-	1	1
Dividend to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(21)	(21)
Balance as at June 30, 2015 – Unaudited	**244**	**622**	**(814)**	**(20)**	**6**	**1,764**	**1,802**	**697**	**2,499**

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

Convenience Translation from Hebrew

Strauss Group Ltd.

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

	Attributable to the Company's shareholders								
	Share capital	**Share premium**	**Translation reserve**	**Treasury stock**	**Reserve in respect of available for sale financial assets**	**Retained earnings**	**Total**	**Non-Controlling interests**	**Total equity**
	NIS millions								
For the three month period ended June 30, 2016 - unaudited:									
Balance as at April 1, 2016 - unaudited	244	622	(932)	(20)	6	1,913	1,833	618	2,451
Comprehensive income for the period									
Profit for the period	-	-	-	-	-	69	69	30	99
Other comprehensive income:									
Foreign currency translation differences	-	-	6	-	-	-	6	3	9
Other comprehensive loss from equity-accounted investees	-	-	65	-	-	-	65	18	83
Other comprehensive income for the period, net of tax	-	-	71	-	-	-	71	21	92
Total comprehensive income for the period	-	-	71	-	-	69	140	51	191
Share-based payment	-	-	-	-	-	3	3	-	3
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(21)	(21)
Balance as at June 30, 2016 - unaudited	244	622	(861)	(20)	6	1,985	1,976	648	2,624

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

Convenience Translation from Hebrew

Strauss Group Ltd.

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

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
For the three month period ended June 30, 2015 - Unaudited:									
Balance as at April 1, 2015 – Unaudited	244	622	(772)	(20)	7	1,709	1,790	700	2,490
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	52	52	24	76
Other comprehensive loss:									
Foreign currency translation differences	-	-	(18)	-	-	-	(18)	(5)	(23)
Other comprehensive income from equity-accounted investees	-	-	(24)	-	-	-	(24)	(1)	(25)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	(1)	-	(1)	(1)	(2)
Total other comprehensive loss for the period, net of tax	-	-	(42)	-	(1)	-	(43)	(7)	(50)
Total comprehensive income (loss) for the period	-	-	(42)	-	(1)	52	9	17	26
Share-based payment	-	-	-	-	-	3	3	-	3
Share-based payment to Non-Controlling interests in subsidiary	-	-	-	-	-	-	-	1	1
Dividend to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(21)	(21)
Balance as at June 30, 2015 – Unaudited	**244**	**622**	**(814)**	**(20)**	**6**	**1,764**	**1,802**	**697**	**2,499**

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

Strauss Group Ltd.

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
For the year ended December 31, 2015 – audited									
Balance as at January 1, 2015 – audited	244	622	(661)	(20)	5	1,633	1,823	717	2,540
Comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	257	257	88	345
Other comprehensive income (loss):									
Foreign currency translation differences	-	-	(126)	-	-	-	(126)	(42)	(168)
Other comprehensive loss from equity-accounted investees	-	-	(164)	-	-	-	(164)	(55)	(219)
Changes in fair value of available-for-sale financial assets, net of tax	-	-	-	-	1	-	1	2	3
Total other comprehensive income (loss) for the year, net of tax	-	-	(290)	-	1	-	(289)	(95)	(384)
Total comprehensive income (loss) for the year	-	-	(290)	-	1	257	(32)	(7)	(39)
Share-based payment	-	-	-	-	-	14	14	-	14
Share-based payment to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	1	1
Dividend	-	-	-	-	-	(100)	(100)	-	(100)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(108)	(108)
Balance as at December 31, 2015 - audited	244	622	(951)	(20)	6	1,804	1,705	603	2,308

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

Strauss Group Ltd.

Consolidated Interim Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Income for the period	**231**	**167**	**99**	**76**	**345**
Adjustments:					
Depreciation	69	62	35	32	132
Amortization of intangible assets and deferred expenses	22	25	11	13	51
Impairment of fixed assets and intangible assets	3	19	3	16	29
Other expenses (income), net	5	(16)	5	(15)	(14)
Expenses in respect of share based payment	6	9	3	5	15
Financing expenses, net	56	53	26	42	101
Income tax expenses	88	55	46	19	139
Share of profits of equity accounted investees	(103)	(83)	(52)	(34)	(198)
Change in inventory	4	(40)	19	(57)	62
Change in trade and other receivables	(11)	35	94	206	(56)
Change in long-term receivables	(2)	2	(2)	2	9
Change in trade and other payables	14	(216)	1	(145)	(204)
Change in employee benefits	(1)	1	-	(1)	(3)
Interest paid	(52)	(49)	(9)	(6)	(99)
Interest received	3	9	2	6	26
Income tax received (paid), net	(153)	(42)	(49)	(15)	14
Net cash flows provided by (used in) operating activities	**179**	**(9)**	**232**	**144**	**349**
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	6	62	(1)	44	61
Proceeds from sale of fixed assets, intangible assets and investment property	25	23	18	18	24
Acquisition of fixed assets	(65)	(101)	(31)	(45)	(182)
Acquisition of subsidiary	-	(4)	-	(2)	(4)
Investments in intangible assets	(13)	(16)	(8)	(9)	(30)
Repayment of deposits and loans granted	33	20	19	7	50
Long-term loans granted	(10)	(13)	(3)	(7)	(21)
Taxes received due to the sale of investment property	-	-	-	-	5
Dividends from investee companies	21	2	21	2	48
Investment in investee companies	(36)	-	(36)	-	(32)
Net cash flows provided by (used in) investing activities	**(39)**	**(27)**	**(21)**	**8**	**(81)**

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

Strauss Group Ltd.

Consolidated Interim Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	Unaudited				Audited
	NIS millions				
Cash flows from financing activities					
Short-term bank credit, net	5	34	(28)	7	43
Receipt of long-term loans	115	5	15	5	38
Repayment of long-term loans and debentures	(221)	(218)	(18)	(17)	(329)
Dividends paid	-	-	-	-	(100)
Acquisition of non-controlling interest	(2)	-	-	-	-
Dividend paid to non-controlling interests in a subsidiary	(42)	(20)	(21)	(20)	(108)
Net cash flows used in financing activities	**(145)**	**(199)**	**(52)**	**(25)**	**(456)**
Increase (Decrease) in cash and cash equivalents	**(5)**	**(235)**	**159**	**127**	**(188)**
Cash and cash equivalents as at beginning of period	560	767	395	389	767
Effect of exchange rate fluctuations on cash balances	-	(20)	1	(4)	(19)
Cash and cash equivalents as at end of period	**555**	**512**	**555**	**512**	**560**

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

Note 1 - Reporting Rules and Accounting Policies

1.1 General

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

The Company and its subsidiaries (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active in the development, manufacture, marketing and sale of a broad variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration and purification products. The consolidated interim financial statements of the Company as at June 30, 2016 and for the six and three-month periods then ended (hereinafter: the "Interim Financial Statements") comprise those of the Company and its subsidiaries, as well as the Group's rights in joint arrangements.
The Company's controlling shareholders are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: the "Parent Company" or "Strauss Holdings") and Ms. Ofra Strauss, who is considered a joint holder of the Company's shares with Mr. Strauss.

1.1.2. The Interim Financial Statements were prepared in accordance with IAS 34 with respect to interim financial reporting and in accordance with the provisions of Chapter 4 of the Securities Regulations (Periodic and Immediate Reports), 1970.
These Interim Financial Statements should be read in context with the audited consolidated financial statements of the Company and its consolidated subsidiaries as at December 31, 2015 and for the year then ended, and their accompanying notes (hereinafter: the "Annual Financial Statements"). The accounting policies applied in the Interim Financial Statements are consistent with those applied in preparing the Annual Financial Statements.

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

1.1.4. The consolidated Interim Financial Statements were approved for publication by the Company's board of directors on August 17, 2016.

Note 2 - Seasonality

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

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

The international coffee sales are usually higher in the fourth quarter of the year. The seasonality is mainly affected by the timing of the Christian holidays and the end of the calendar year in the fourth quarter of the year, a time characterized by higher purchases of coffee products.

Note 3 - Segments

Details by operating segments and reconciliation to the consolidated report:

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	965	928	491	474	1,898
Fun & Indulgence	523	503	221	204	968
Total Israel	1,488	1,431	712	678	2,866
Coffee Israel	347	333	153	137	647
Coffee Abroad	1,310	1,348	724	698	2,785
Total Coffee	1,657	1,681	877	835	3,432
International dips and spreads	382	364	197	182	752
Other	286	293	147	144	592
Sales to other segments:					
Health & Wellness	3	3	1	1	8
Fun & Indulgence	6	4	3	2	9
Total Israel	9	7	4	3	17
Coffee Israel	1	1	-	-	1
Coffee Abroad	-	-	-	-	-
Total Coffee	1	1	-	-	1
Total revenues of the segments	3,823	3,777	1,937	1,842	7,660
Cancellation of inter-segment sales	(10)	(8)	(4)	(3)	(18)
Total revenues of the segments excluding the inter-segment sales	3,813	3,769	1,933	1,839	7,642
Adjustments to the equity method	(1,219)	(1,253)	(660)	(631)	(2,459)
Total consolidated revenues	2,594	2,516	1,273	1,208	5,183

Note 3 - Segments (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Profit					
Health & Wellness	99	78	48	33	188
Fun & Indulgence	62	58	15	11	93
Total Israel	161	136	63	44	281
Coffee Israel	52	46	17	7	84
Coffee Abroad	111	90	66	43	184
Total Coffee	163	136	83	50	268
International dips and spreads	51	23	24	9	80
Other	21	14	13	9	30
Total profit of reportable segments	396	309	183	112	659
Unallocated income (expenses):					
Valuation of commodities hedging transactions as at the end of the period	27	5	21	44	22
Other expenses, net (1)	(19)	(6)	(17)	(3)	(42)
Share based payment	(6)	(9)	(3)	(5)	(15)
Total operating profit of reportable segments	398	299	184	148	624
Adjustments to the equity method	(23)	(24)	(13)	(11)	(39)
Total consolidated operating profit	375	275	171	137	585
Financing expenses, net	(56)	(53)	(26)	(42)	(101)
Income before taxes On income	319	222	145	95	484

(1) For the three month period ended June 30 2016, also including reorganization expenses amounting to approximately NIS 14 million and the derecognition of intangible assets amounting to approximately NIS 3 million.

Note 4 - Material Events during the Reported Period

4.1 On January 4, 2016 the Knesset plenum approved the Law for the Amendment of the Israeli Tax Ordinance (Amendment 216), 2016 (the "Amendment"), which determines, inter alia, that the corporate tax rate will be reduced commencing in 2016 and thereafter, by 1.5%, i.e. from 26.5% to 25%. Deferred tax balances as at June 30, 2016 were calculated according to the new tax rates as determined in the Law for the Amendment of the Israeli Tax Ordinance, on the basis of the expected tax rate at the time of reversal. The impact of the change on the financial statements as at June 30, 2016 is expressed in the reduction of the deferred tax liability by approximately NIS 8 million against revenue generated by deferred taxes.

4.2 In February 2016 the subsidiary, Strauss Coffee, distributed a dividend by way of a capital reduction, expressed in the payment of NIS 21 million to the non-controlling interest.

4.3 In March 2016 the Três Corações joint venture, an equity-accounted investee in Brazil (jointly held by the Group (50%) and by São Miguel Holding e Investimentos S.A. (50%)), signed an agreement with the coffee company Cia Iguaçu de Café Soluvel for the acquisition of the operation attributed to Cia Iguaçu's retail coffee brands in South America, including Brazil. Três Corações is to pay approximately NIS 77 million for the acquisition (the Group's share is NIS 38 million). In June, the agreement was approved by the regulatory authorities in Brazil. According to the final acquisition agreement, an additional sum of NIS 2 million (the Group's share – NIS 1 million) will be added to the consideration, reflecting interest accrued on funds deposited in a trust account.

4.4 On June 30, 2016 PepsiCo-Strauss Fresh Dips & Spreads International (hereinafter: "Obela"), an equity-accounted investee that is jointly controlled by Strauss and PepsiCo, entered into an agreement for the acquisition of 100% of the share capital of Florentin B.V. (hereinafter: "Florentin"). Florentin is a Dutch company engaged in the development and manufacture of organic hummus, falafel, spreads and pita bread products and markets its products in Western Europe, particularly in the Netherlands, Germany and France. Florentin employs a staff of forty employees and operates a production site in Holland. According to Florentin's financial statements, its sales turnover in 2015 is estimated at €5 million (approximately NIS 22 million). Obela is to pay the sum of NIS 38.5 million in consideration for the acquisition of Florentin, plus an additional performance-contingent payment of NIS 7.5 million (approximately €1.75 million) over a three-year period. The acquisition will be equally financed by Strauss and PepsiCo.

Note 5 - Share-Based Payment

During the reported period, 109,042 share options that were granted to employees were exercised into 32,233 shares in consideration for their par value.

Note 6 - Contingent liabilities

6.1 For information on claims and contingent liabilities against the Company and its investees as at December 31, 2015, see Note 24.1.1 to the Annual Financial Statements.

Following is information on claims filed with the court against the Company in the reporting period through to the date of approval of the financial statements, for class action certification. Based on the opinion of legal counsel, at this time Company management is of the view that the claims are not expected to be certified as class actions:

Date on which claim was filed	Court in which claim is itigated	Defendant	Subject of claim	Claim amount (NIS millions)
June 2016	Haifa District Court	The Company, Uri Horazo Yotvata Dairies Ltd. and the subsidiary, Strauss Health	Sale of products alleged to be defective	915
June 2016	Central District Court	Uri Horazo Yotvata Dairies Ltd.	Sale of products alleged to be defective	150

6.2 Following is information on claims filed with the court against the Company in the reporting period through to the date of approval of the financial statements, for class action certification. As at the date of approval of the report, the Company is unable, at this preliminary stage, to assess the chances of the claims being accepted and their impact, if accepted, on the financial statements of the Company:

Date on which claim was filed	Court in which claim is litigated	Defendant	Subject of claim	Claim amount (NIS millions)
May 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing of Elite cocoa powder by a monopoly	38
May 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing of the Milky dairy dessert by a monopoly	100
July 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing of an instant coffee product by a monopoly	80

6.3 In March 2016 the Lod Central District Court approved the notice of withdrawal by the claimant of a monetary claim and a motion for its certification as a class action, brought against the subsidiary Strauss Water Ltd., with no order for costs (see Note 24.1.2 to the Annual Financial Statements).

Note 7 - Equity-Accounted Investees

7.1 Concise information on material equity-accounted investees:

	Sabra Dipping Company			Três Corações Alimentos S.A		
	June 30		December 31	June 30		December 31
	2016	2015	2015	2016	2015	2015
	(Unaudited)		(Audited)	(Unaudited)		(Audited)
	NIS Millions					
Current assets	374	288	336	773	773	773
Of which:						
Cash and cash equivalents	127	53	99	132	23	158
Non-current assets	699	659	691	450	547	468
Total assets	1,073	947	1,027	1,254	1,320	1,241
Current liabilities	219	274	257	500	520	405
Of which:						
Financial liabilities except Trade and other payables and provisions	102	166	140	263	225	192
Non-current liabilities	14	42	29	220	153	312
Of which:						
Financial liabilities except Trade and other payables and provisions	13	37	26	188	111	182
Total liabilities	233	316	286	720	673	717

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

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

	Sabra Dipping Company					Três Corações Alimentos S.A				
	For the six months ended June 30		For the three months ended June 30		For the year ended December 31	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2016	2015	2016	2015	2015	2016	2015	2016	2015	2015
	(Unaudited)		(Unaudited)		(Audited)	(Unaudited)		(Unaudited)		(Audited)
	NIS Millions									
Income	724	694	374	347	1,422	1,453	1,552	821	789	2,982
Profit for the period	64	36	30	14	102	77	111	47	48	202
Other comprehensive income (loss)	(6)	(20)	22	(34)	2	130	(141)	94	(3)	(293)
Total comprehensive income (loss)	58	16	52	(20)	104	207	(30)	141	45	(91)
Of which										
Depreciation and amortization	22	21	11	10	42	15	17	8	8	31
Interest income	-	-	-	-	-	8	5	5	2	10
Interest expenses	3	5	1	3	9	16	11	9	5	25
Income tax expenses (1)	48	27	23	11	76	27	17	17	11	18

(1) Taxable income of Sabra Dipping Company is assessed in the holding company. S.E USA, Inc.

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

7.2 The Group is enclosing to these interim consolidated financial statements the condensed interim consolidated financial statements of Tres Coracoes Alimentos S.A, a joint venture in Brazil (50% ownership), accounted for under the equity method.

The investee's presentation currency is the Brazilian real.

7.3 The real-shekel exchange rate was 1.19 as of June 30, 2016.

The following are the average exchange rates and rates of change in the real exchange rates during the reporting period:

	Real Exchange Rate	
	Average for the period	**Change in %**
For the six-month period ending on:		
June 30, 2016	1.05	21.2
June 30, 2015	1.33	(17.1)
For the three month period ending on:		
June 30, 2016	1.09	14.7
June 30, 2015	1.26	(0.5)
For the year ending December 31, 2015	1.19	(32.9)

Note 8 - Financial Instruments

8.1 Financial instruments measured at fair value for disclosure purposes only

The carrying amount of the cash and cash equivalents, short and long term investments, trade receivables, other receivables and debit balances, trade payables and other payables and credit balances. There was no material change in the fair value (as stated in the annual financial statements) of long term loans.

Presented below are the carrying amounts (including accrued interest) and fair values of the Company's debentures, based on the prices of the Tel Aviv Stock Exchange:

	June 30, 2016		June 30, 2015		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)				(Audited)	
	NIS millions					
Series B Debentures	361	376	546	580	544	562
Series D Debentures	481	541	484	520	483	537

8.2 Fair value hierarchy of financial instruments measured at fair value

The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active market for similar instruments.
- Level 2: Inputs other than quoted prices within level 1.
- Level 3: inputs that are not based on observable market data.

	June 30, 2016			June 30, 2015			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	Unaudited						Audited		
	NIS million								
Financial assets (liabilities)									
Marketable securities	47	-	-	45	-	-	45	-	-
Receivables- derivatives	28	5	-	3	7	-	9	6	-
Payables- derivatives	(1)	(39)	-	(19)	(28)	-	(9)	(36)	-
Available for sale financial asset	26	-	-	27	-	-	26	-	-
Option to purchase shares (1)	-	-	3	-	-	-	-	-	5
	100	(34)	3	56	(21)	-	71	(30)	5

(1) Option to purchase shares in an equity-accounted investee. The fair value of the option is measured using the Monte Carlo simulation technique based, inter alia, on the investee's value and projected income as well as on Peer Company's volatility. The revaluation is included in the statement of income under financing income.

For details regarding the determination of the fair value of derivative financial instruments measured at level 2, see Note 28.7.2.1 to the Annual Financial Statements.

Note 9 - Subsequent Events

9.1 For information on the termination of legal proceedings in an action brought against the Company after the statement of financial position date, see Note 6.2.

9.2 On July 7, 2016 the board of directors of the Company approved a dividend for shareholders in the amount of NIS 150 million (NIS 1.40 per share). The dividend was paid on July 26, 2016

9.3 After the date of the statement of financial position, the remuneration committee and the board of directors of the Company approved the grant of 524,613 options and 164,634 performance share units (PSUs) (the "Restricted Shares") to the Company CEO, exercisable for ordinary shares of the Company of NIS 1 par value each. The CEO's entitlement to receive the shares arising from the options offered will crystallize in four tranches, as follows: approximately 50% of all options on July 27, 2018, and approximately 16.667% on July 27 of each of the years 2019, 2020 and 2021. The terms and conditions of the options granted to the CEO include a ceiling defined for the possible benefit, in such manner that if the market price of the share on the exercise date is higher by 60% or more than the average adjusted closing price of the Company's share on the Stock Exchange in the 30 trading days preceding the date of approval of the allotment by the board of directors, the exercise price shall increase such that the difference between the share price on the exercise date and the price on the date of the grant shall be added to the original exercise price, plus 60%. The fair value of the options on the date of approval of the allotment by the board of directors was calculated according to the binomial model and estimated at NIS 12.87 per warrant. The main assumptions that were used in determining the fair value of the options granted are the following: share price NIS 61.50; annual standardized deviation 22.8%-25.2%; risk-free interest rate 1.34%-1.70%; exercise price NIS 63.13; projected dividend rate 0%; and life of the warrants 7-9 years. The CEO's entitlement to exercise the Restricted Shares will crystallize in four tranches, as follows: approximately 50% of all PSUs on August 30, 2018, and approximately 16.667% on August 30 of each of the years 2019, 2020 and 2021. Exercise of the Restricted Shares is conditional on the CEO being employed by the Company on the vesting date and adherence to at least 90% of the cumulative quarterly sales budget from the first full quarter after the grant date until the last full quarter before the vesting date (inclusive). The fair value of the Restricted Shares was estimated at NIS 61.50 per share and was calculated on the basis of the share price on the date of approval of the allotment by the board of directors. The grant to the CEO is conditional upon approval by the meeting of shareholders.

Strauss Group Ltd.
Annex "B"

SEPARATE FINANCIAL INFORMATION AS AT June 30, 2016

Table of Contents:

Somekh Chaikin

KPMG Millennium Tower

17 Ha'arba'a Street, PO Box 609

Tel Aviv 61006, Israel

+972 3 684 8000

To the Shareholders of Strauss Group Ltd.

Special Auditors' Report on Separate Financial Information According to Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have reviewed the separate financial information presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Strauss Group Ltd. (hereinafter – the "Company") as of June 30, 2016 and for the six and three month periods then ended .The separate financial information is the responsibility of the Company's Board of Directors and its Management. Our responsibility is to express an opinion on the separate financial information based on our review.

We did not reviewed the financial statements of equity accounted investees the investment in which amounted to approximately NIS 18.5 million as of June 30, 2016, and the Group's share in their profits amounted to approximately NIS 4.5 million and NIS 2.5 million for the six and three month periods then ended, respectively.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not follow, in all material respects, the disclosure directives of Section D of the Securities Regulations (Periodic and Immediate Reports),1970.

Somekh Chaikin

Certified Public Accountants (Isr.)

August 17, 2016

Strauss Group Ltd.

INFORMATION PERTAINING TO FINANCIAL POSITION

	June 30 2016 (Unaudited)	June 30 2015 (Unaudited)	December 31 2015 (Audited)
		NIS Millions	
Assets			
Cash and cash equivalents	193	162	232
Securities and deposits	23	29	30
Trade receivables	178	158	180
Income tax receivables	16	29	4
Other receivables and debit balances	44	44	28
Investee receivables	240	174	330
Inventory	126	144	142
Assets held for sale	36	36	62
Total current assets	856	776	1,008
Non-current assets			
Investments in investees	1,810	1,859	1,565
Other investments and long-term debit balances	641	655	618
Fixed assets	944	937	959
Intangible assets	54	62	56
Investment property	-	23	-
Total non-current assets	3,449	3,536	3,198
Total assets	4,305	4,312	4,206

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

Date of approval of the separate financial information: August 17, 2016

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

	June 30 2016 (Unaudited)	June 30 2015 (Unaudited)	December 31 2015 (Audited)
		NIS Millions	
Current liabilities			
Current maturities of debentures	196	179	178
Short-term credit and current maturities of long-term loans and other long term liabilities	28	32	37
Trade payables	198	211	203
Other payables and credit balances	227	210	202
Investee payables	134	104	115
Provisions	4	5	6
Total current liabilities	787	741	741
Non-current liabilities			
Debentures	635	837	834
Long-term loans and other long term liabilities	804	830	812
Long-term payables and credit balances	16	33	32
Employee benefits, net	25	21	23
Deferred tax liabilities	62	48	59
Total non-current liabilities	1,542	1,769	1,760
Total equity attributable to the Company's shareholders	1,976	1,802	1,705
Total liabilities and equity	4,305	4,312	4,206

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

INFORMATION PERTAINING TO STATEMENTS OF INCOME

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Sales	523	417	222	160	904
Cost of sales	311	255	130	94	555
Gross profit	212	162	92	66	349
Selling and marketing expenses	131	104	64	59	226
General and administrative expenses	24	13	12	4	36
	155	117	76	63	262
Operating profit before other expenses	57	45	16	3	87
Other income	1	1	-	-	5
Other expenses	(7)	(8)	(6)	(5)	(18)
Other expenses, net	(6)	(7)	(6)	(5)	(13)
Operating profit (loss)	51	38	10	(2)	74
Financing income	17	17	14	8	36
Financing expenses	(47)	(55)	(23)	(47)	(99)
Financing expenses, net	(30)	(38)	(9)	(39)	(63)
profit (loss) before taxes on income	21	-	1	(41)	11
Taxes on income	(23)	(13)	(14)	1	(28)
Loss after taxes on income	(2)	(13)	(13)	(40)	(17)
Share in profit of investees	175	137	82	92	274
Income for the year attributable to the shareholders of the Company	173	124	69	52	257

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

INFORMATION PERTAINING TO COMPREHENSIVE INCOME

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Income for the period attributable to the shareholders of the Company	173	124	69	52	257
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Other comprehensive income (loss) from investees	90	(152)	71	(43)	(289)
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	90	(152)	71	(43)	(289)
Comprehensive income (loss) for the period attributable to the shareholders of the Company	263	(28)	140	9	(32)

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Cash flows from operating activities					
Income for the year attributable to the shareholders of the Company	173	124	69	52	257
Adjustments:					
Depreciation	28	19	14	11	46
Amortization of intangible assets and deferred expenses	7	7	4	4	18
Other expenses (income), net	(1)	1	-	-	(4)
Expenses in respect of share-based payment	6	6	4	3	12
Share in gain of investees	(175)	(137)	(82)	(92)	(274)
Financing expenses, net	30	38	9	39	63
Income tax expense (Income)	23	13	14	(1)	28
Change in inventory	16	10	(4)	(25)	12
Change in trade and other receivables	(9)	32	66	105	24
Change in investee receivables	97	(31)	22	(36)	(118)
Change in long-term receivables	-	5	-	14	(7)
Change in trade and other payables	21	(28)	(11)	(56)	(51)
Change in investee payables	19	(41)	(19)	-	(30)
Change in employee benefits	1	(1)	-	(1)	1
Interest paid	(41)	(45)	(3)	(3)	(89)
Interest received	-	1	-	-	20
Income tax received (paid), net	(31)	(7)	(14)	(4)	16
Net cash flows from (used in) operating activities	164	(34)	69	10	(76)
Cash flows from investing activities					
Sale (purchase)of marketable securities and deposits, net	6	50	(1)	29	49
Proceeds from sale of fixed assets	24	4	18	1	4
Acquisition of fixed assets	(27)	(44)	(11)	(17)	(90)
Investment in intangible assets	(4)	(8)	(3)	(6)	(13)
Repayment of deposits and long-term loans	4	2	2	1	5
Long-term loans granted	(6)	(2)	(1)	(1)	(3)
Dividends from investees	65	44	2	44	340
Cash received in respect of investing activities with investees	3	6	3	-	35
Cash paid in respect of investing activities with investees	(76)	(37)	(54)	(21)	(82)
Net cash flows from (used in) investing activities	(11)	15	(45)	30	245

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2016	June 30 2015	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)				(Audited)
	NIS millions				
Cash flows from financing activities					
Repayment of debentures and long-term loans	(192)	(193)	(4)	(5)	(211)
Dividends paid	-	-	-	-	(100)
Net cash flows used in financing activities	(192)	(193)	(4)	(5)	(311)
Net increase (decrease) in cash and cash equivalents	(39)	(212)	20	35	(142)
Cash and cash equivalents as at January 1	232	374	173	127	374
Cash and cash equivalents as at end of period	193	162	193	162	232

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

Note 1 - Reporting Rules and Accounting Policies

1.1 General

1.1.1 The Company's business comprises the activity of the Group Headquarters and the Group's confectionery operation in Israel, which includes the development, manufacture and marketing of branded candy products. In addition, since the third quarter of 2015, the company operations also include the operations of the Group's salads in Israel.

1.1.2 The Interim Separate Financial Information of Strauss Group Ltd. (hereinafter: the "Company") is presented in accordance with Regulation 38d of the Securities Regulations (Periodic and Immediate Reports), 1970 and the Tenth Addendum to the said regulations with respect to the separate financial information of the corporation. This financial information should be read in conjunction with the Financial Information as at and for the year ended on December 31, 2015, and in conjunction with the interim consolidated financial statements as at June 30, 2016 (hereinafter: the "Interim Consolidated Financial Statements").

The accounting policy applied in this Condensed Interim Separate Financial Information is in accordance with the accounting policy rules described in the Separate Financial Information as at December 31, 2015.

1.1.3 In this Separate Financial Information – the Company and investee companies as defined in Note 1 to the Consolidated Financial Statements of the Company as at December 31, 2015.

1.1.4 The Interim Separate Financial Information is presented in Shekels, which is the Company's functional currency. The financial information is presented in NIS millions and rounded to the nearest million.

Note 2 - Seasonality

Confectionery sales in Israel are characterized by seasonality and are generally higher in the first quarter of the year. Seasonality is mainly affected by the winter months, when greater consumption of chocolate products is typical, as well as by increased consumption of confectionery products as Passover approaches.

Note 3 - Material Events during the Reported Period

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

Note 4 – Contingent liabilities

For information on contingent liabilities, see Note 6 to the Consolidated Interim Financial Statements.

Note 5 - Financial Instruments

5.1 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 8.1 to the Consolidated Interim Financial Statements.

Note 5 - Financial Instruments (cont'd)

5.2 Fair value hierarchy

For information on the Fair value hierarchy of financial instruments, see Note 8.2 to the Consolidated Interim Financial Statements.

Note 6 – Events after the Reporting Date

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

STRAUSS GROUP LTD.

ISOX DECLARATION

Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure Pursuant to Regulation 38c(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. Gadi Lesin, President & CEO;
2. Giyora Bar Dea, Deputy Chief Executive Officer;
3. Shahar Florence, EVP & CFO;
4. Mike Avner, EVP, CLO, Company Secretary;
5. Nurit Tal Shamir, SVP HR;

Internal control over financial reporting and disclosure includes controls and procedures existing within the Corporation, which were planned by or under the supervision of the CEO and the most senior financial officer, or by anyone actually performing such functions, under the supervision of the Board of Directors of the Corporation, which are designed to provide a reasonable level of assurance regarding the reliability of financial reporting and preparation of the reports according to the provisions of the law, and to ensure that information which the Corporation is required to disclose in reports released thereby according to the law is gathered, processed, summarized and reported within the time frames and in the format set forth in the law.

Internal control includes, *inter alia*, controls and procedures which were planned to ensure that information which the Corporation is required to disclose as aforesaid, is gathered and transferred to the Management of the Corporation, including the CEO and the most senior financial officer, or anyone actually performing such functions, in order to enable timely decision-making in reference to the disclosure requirements.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide full assurance that misrepresentation or omission of information in the reports is prevented or discovered.

In the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure, which was attached to the Periodic Report for the period ended December 31, 2015 (hereinafter: the "Latest Annual Report on Internal Control"), the Board of Directors and Management evaluated internal control in the Corporation.

Based on this evaluation, the Board of Directors and Management of the Corporation reached the conclusion that the above mentioned internal control as at December 31, 2015 is effective.

Until the reporting date the Board of Directors and Management were not informed of any event or matter that are able to alter the evaluation of the effectiveness of financial control, as presented in the Latest Annual Report on Internal Control.

As at the reporting date, based on the evaluation of the effectiveness of internal control in the Latest Annual Report on Internal Control, and based on information brought to the knowledge of Management and the Board of Directors as mentioned above, internal control is effective.

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

Managers' Statement

Statement of the Chief Executive Officer

I, Gadi Lesin, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the second quarter of 2016 (hereinafter: the "Reports").

(2) To my knowledge, the Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which is required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone directly subordinate to him or which involves other employees who play a significant role in the internal control over financial reporting and disclosure.

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and –

b. Have determined controls and procedures or confirmed the determination and existence of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2015) and the date of the

Reports, which could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person pursuant to any law.

August 17, 2016

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Gadi Lesin, President & CEO

<u>Statement of the Most Senior Financial Officer Pursuant to Regulation 38c(d)(2):</u>

Managers' Statement

Statement of the Most Senior Financial Officer

I, Shahar Florence, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the second quarter of 2016 (hereinafter: the "Reports" or the "Interim Reports").

(2) To my knowledge, the Interim Financial Statements and other financial information contained in the Interim Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which is required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Interim Reports adequately reflect, from all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure to the extent that it relates to the Interim Financial Statements and to the other financial information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and –

b. Any fraud, either material or immaterial, which involves the CEO or anyone directly subordinate to him or which involves other employees who play a significant role in the internal control over financial reporting and disclosure.

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under our supervision, which are designed to ensure that material information in reference to the Corporation, including companies thereof as defined in the Securities Regulations (Annual Financial Statements), 2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2015) and the date of the Reports that refers to the Interim Financial Statements and to any other financial information included in the Interim Report, which I estimate could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person pursuant to any law.

August 17, 2016

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Shahar Florence, EVP & CF

STRAUSS GROUP LTD.

Inclusion of the financial statements of an investee pursuant to Regulation 44 of the Securities Regulations, 1970

Três Corações Alimentos S.A.

Condensed consolidated interim financial statements as of and for the three and six month periods ended on 30 June 2016 and 2015 and independent auditors' limited review report on condensed consolidated interim financial statements

KPDS 157917

Conteúdo

KPMG Auditores Independentes
Rua Desembargador Leite Albuquerque, 635
Sala 501 e 502 - Aldeota
60150-150 - Fortaleza/CE - Brasil
Telefone +55 (85) 3307-5100, Fax +55 (85) 3307-5101
www.kpmg.com.br

Independent auditors' report on review of interim financial information

To
Directors and shareholders of Três Corações Alimentos S.A.
Eusébio - Ceará

Introduction

We have reviewed the accompanying 30 June, 2016 condensed consolidated interim financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise: the consolidated statement of financial position as at 30 June, 2016; the consolidated statement of income and other comprehensive income for the three and six month periods ended 30 June, 2016; the consolidated statement of changes in equity for the three and six month periods ended 30 June, 2016; the consolidated statement of cash flows for the three and six month period ended 30 June, 2016; and condensed notes to the interim financial statements.

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June, 2016 condensed consolidated interim financial statements do not give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, 29 July, 2016

KPMG Auditores Independentes
CRC 2SP014428/O-6

João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

Três Corações Group

Consolidated Interim Statements of Financial Position as of 30 June 2016 and 31 December 2015

(In thousand of Brazilian Reais)

Assets	**30 June 2016**	**31 December 2015 (Reclassified)**
Current		
Cash and cash equivalents	60.144	159.996
Deposits	5.728	3.478
Trade receivables	378.795	304.652
Inventories	285.759	277.283
Recoverable taxes	20.991	18.813
Income tax receivable	413	6.594
Other current assets	13.846	14.117
	765.676	784.933
Non-current		
Judicial deposits	8.242	8.799
Other non-current assets	5.810	10.135
Deferred tax assets	22.006	23.324
Investments	4.602	-
Fixed assets	231.500	231.134
Intangible assets	268.725	195.219
	540.885	468.611
	1.306.561	1.253.544

Liabilities	**30 June 2016**	**31 December 2015 (Reclassified)**
Current		
Short term loans	158.537	194.222
Trade payables	119.901	101.180
Income tax payables	9.309	1.056
Employees and other payroll related liabilities	45.994	33.876
Proposed dividends	100.001	100.001
Payable taxes	21.132	16.371
Other current liabilities	36.186	23.239
	491.060	469.945
Non-current		
Long term loans	173.927	184.567
Proposed dividends	-	34.548
Other non-current liabilities	2.400	-
Deferred tax liabilities	8.382	11.424
Provision for legal proceedings	19.470	20.688
	204.179	251.227
Equity		
Share capital	272.370	272.370
Translation reserve	(98.210)	(105.500)
Retained earnings	437.162	365.502
	611.322	532.372
	1.306.561	1.253.544

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

Três Corações Group

Consolidated Interim Statements of Income

Six and three month periods ended 30 June 2016 and 2015

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2016	**2015**	**2016**	**2015**
Revenue	1.383.148	1.177.717	753.322	625.897
Cost of sales	(1.016.186)	(821.887)	(550.630)	(444.769)
Gross profit	366.962	355.830	202.692	181.128
Selling and marketing expenses	(221.539)	(210.139)	(121.399)	(111.706)
General and administrative expenses	(41.067)	(37.145)	(20.501)	(19.891)
Equity method	(3)	-	(3)	-
Other income (expenses), net	228	79	188	(213)
Operating profit	104.581	108.625	60.977	49.318
Finance income	7.623	3.139	4.760	1.352
Finance expenses	(13.393)	(14.803)	(7.578)	(3.974)
Profit before income tax	98.811	96.961	58.159	46.696
Income tax expenses	(25.706)	(12.960)	(15.373)	(8.467)
Profit for the period	73.105	84.001	42.786	38.229

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

Três Corações Group

Consolidated Interim Statements of Comprehensive Income

Six and three month periods ended 30 June 2016 and 2015

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2016	**2015**	**2016**	**2015**
Profit for the period	73.105	84.001	42.786	38.229
Foreign currency translation differences	7.290	(13.302)	2.753	1.262
Comprehensive income for the period	80.395	70.699	45.539	39.491

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

Três Corações Group

Consolidated Interim Statements of Changes in Equity

Three month periods ended 30 June 2016 and 2015

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Accumulated profit**	**Total**
Balance as of 31 March, 2015	271.669	26.315	130.597	151.222	(83.138)	-	496.665
Dividends distributed relative to 2014	-	-	-	(2.726)	-	-	(2.726)
Profit for the period	-	-	-	-	-	38.229	38.229
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	1.262	-	1.262
Total other comprehensive gain:	-	-	-	-	1.262	38.229	39.491
Internal equity changes							
Capitalization of tax incentive	701	-	(701)	-	-	-	-
State VAT and Federal tax incentives	-	-	9.088	-	-	(9.088)	-
Profit destination:							
Legal reserve	-	1.911	-	-	-	(1.911)	-
Reserve for profit to be distributed	-	-	-	27.230	-	(27.230)	-
	701	1.911	8.387	27.230	-	(38.229)	-
Balance as of 30 June, 2015	272.370	28.226	138.984	175.726	(81.876)	-	533.430
Balance as of 31 March, 2016	272.370	34.232	165.288	175.004	(100.963)	21.297	567.228
Dividends distributed relative to 2015	-	-	-	(1.445)	-	-	(1.445)
Profit for the period	-	-	-	-	-	42.786	42.786
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	2.753	-	2.753
Total other comprehensive gain:	-	-	-	-	2.753	42.786	45.539
Internal equity changes							
State VAT and Federal tax incentives	-	-	11.837	-	-	(11.837)	-
Profit destination:							
Legal reserve	-	2.139	-	-	-	(2.139)	-
Reserve for profit to be distributed	-	-	-	50.107	-	(50.107)	-
	-	2.139	11.837	50.107	-	(64.083)	-
Balance as of 30 June, 2016	272.370	36.371	177.125	223.666	(98.210)	-	611.322

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

Três Corações Group

Consolidated Statements of Changes in Equity

Six month periods ended 30 June 2016 and 2015

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Accumulated profit**	**Total**
Balance as of 31 December, 2014	271.669	24.026	115.667	122.669	(68.574)	-	465.457
Dividends distributed relative to 2014	-	-	-	(2.726)	-	-	(2.726)
Profit for the period	-	-	-	-	-	84.001	84.001
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	(13.302)	-	(13.302)
Total other comprehensive gain:	-	-	-	-	(13.302)	84.001	70.699
Internal equity changes							
Capitalization of tax incentive	701	-	(701)	-	-	-	-
State VAT and Federal tax incentives	-	-	24.018	-	-	(24.018)	-
Profit destination:							
Legal reserve	-	4.200	-	-	-	(4.200)	-
Reserve for profit to be distributed	-	-	-	55.783	-	(55.783)	-
	701	4.200	23.317	55.783	-	(84.001)	-
Balance as of 30 June, 2015	272.370	28.226	138.984	175.726	(81.876)	-	533.430
Balance as of 31 December, 2015	272.370	32.716	157.782	175.004	(105.500)	-	532.372
Dividends distributed	-	-	-	(1.445)	-	-	(1.445)
Profit for the period	-	-	-	-	-	73.105	73.105
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	7.290	-	7.290
Total other comprehensive loss:	-	-	-	-	7.290	73.105	80.395
Internal equity changes							
State VAT and Federal tax incentives	-	-	19.343	-	-	(19.343)	-
Profit destination:							
Legal reserve	-	3.655	-	-	-	(3.655)	-
Reserve for profit to be distributed	-	-	-	50.107	-	(50.107)	-
	-	3.655	19.343	50.107	-	(73.105)	-
Balance as of 30 June, 2016	272.370	36.371	177.125	223.666	(98.210)	-	611.322

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

Três Corações Group

Consolidated Interim Statements of Cash Flows

Six and three month periods ended 30 June 2016 and 2015

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2016	**2015 (Reclassified)**	**2016**	**2015 (Reclassified)**
Cash flows from operating activities				
Profit for the period	73.105	84.001	42.786	38.229
Adjustments for:				
Depreciation and amortization	14.318	12.389	7.274	6.233
Provision for legal proceedings	(1.218)	86	(1.232)	427
Equivalence	3	-	3	-
Other expenses, net	(228)	(79)	(188)	213
Financing expenses, net	5.770	11.664	2.818	2.622
Income tax expenses	25.706	12.960	15.373	8.467
Interest paid, net	(8.616)	(5.006)	(4.551)	(3.563)
Income tax paid	(12.996)	(12.940)	(9.134)	(6.379)
	95.844	103.075	53.149	46.249
Change in:				
Trade receivables	(76.377)	(28.150)	(59.551)	(33.668)
Inventories	(2.175)	(16.118)	13.269	44
Recoverable and payable taxes, net	2.583	(3.709)	8.312	1.101
Derivatives, net	-	-	-	(347)
Judicial deposits	557	(291)	631	(260)
Trade payables	8.634	16.591	27.808	38.699
Employees and other payroll related liabilities	12.118	10.506	7.693	4.557
Other current and non-current assets and liabilities, net	1.450	(9.769)	(2.165)	(12.154)
Net cash flows provided by operating activities	42.634	72.135	49.146	44.221
Cash flows from investing activities				
Change in deposits	(2.542)	2.659	52.012	487
Payment for acquisition of operations	(53.582)	(1.980)	(53.582)	-
Share capital increase in joint-venture	(4.605)	-	(4.605)	-
Proceeds from sales of fixed assets	1.168	1.969	571	668
Acquisition of fixed assets	(19.705)	(19.184)	(7.506)	(13.046)
Investments in intangible assets	(2.361)	(1.804)	(1.790)	(588)
Long-term loans to related parties	-	(33)	-	-
Net cash flows used in investing activities	(81.627)	(18.373)	(14.900)	(12.479)
Cash flows from financing activities				
Proceeds from loans	165.958	43.638	64.061	19.007
Repayment of loans	(190.824)	(163.178)	(63.006)	(57.647)
Dividend paid	(35.993)	(2.726)	(35.993)	(2.726)
Net cash flows used in financing activities	(60.859)	(122.266)	(34.938)	(41.366)
Net decrease in cash and cash equivalents	(99.852)	(68.504)	(692)	(9.624)
Net decrease in cash and cash equivalents				
Cash and cash equivalents as of beginning of period	159.996	87.775	60.836	28.895
Cash and cash equivalents as of end of period	60.144	19.271	60.144	19.271
	(99.852)	(68.504)	(692)	(9.624)

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

Notes to the condensed consolidated interim financial statements

(Amounts in thousands of Brazilian reals, unless otherwise stated)

1 Reporting entity

Três Corações Alimentos S.A. and its controlled entities are an industrial and commercial group of companies, which operates in Brazil, in producing and selling branded coffee products, multibeverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports, lending away-from-home machines and operation of cafeterias.

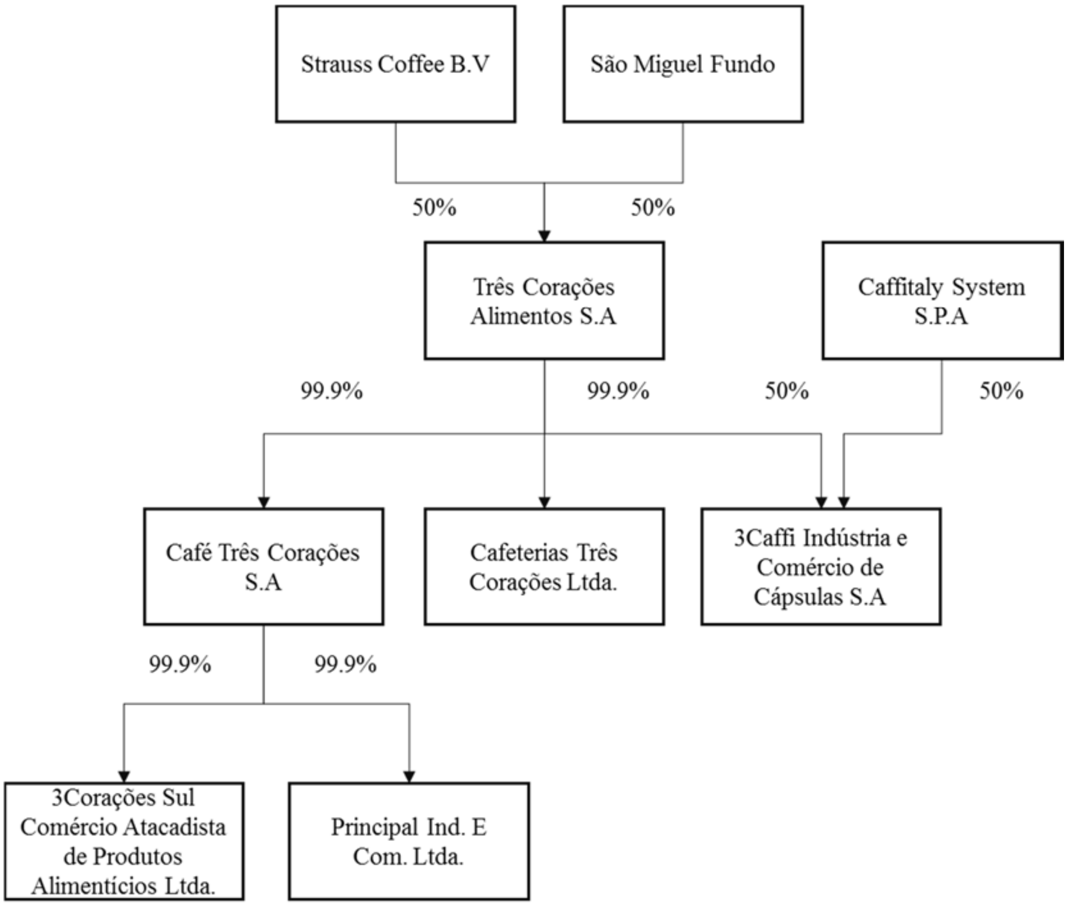
The Company controls the entities Cafeterias Três Corações Ltda., and Café Três Corações S.A., which controls the entities 3Corações Sul Comércio Atacadista de Produtos Alimentícios Ltda. (former Polo Participações Ltda.) and Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company is a 50% shareholder in a joint-venture denominated 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi"), together with Caffitaly System S.p.A, which is not consolidated in this report, since the Company does not control it.

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

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

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais and Rio de Janeiro, and its distribution centers are located in all states of Brazil. In addition to that, the Group owns green coffee processing plants in the states of Minas Gerais and Bahia. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in this report, since it is not part of the Group structure presented below. Três Corações Imóveis Armazéns Gerais e Serviços Ltda. is owned by São Miguel Holding e Investimentos S.A. (50%) and Strauss Coffee B.V. (50%).

As of 30 June 2016, the Group had the following structure:



2 Basis of preparation

a. Statement of compliance

These consolidated interim financial statements have been prepared in accordance with IAS 34 regarding interim financial reporting. These consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the IFRS audited financial statements of the Company as of 31 December 2015 and for the year then ended, together with its accompanying notes (hereinafter - the "Annual Financial Statements").

These condensed consolidated interim financial statements were authorized for issue by the Company's Management on 29 July 2016.

3 Significant accounting policies

The accounting principles applied by the Company in preparing these consolidated interim financial statements are consistent with the principles applied by the Company in preparing its audited Annual Financial Statements as of 31 December 2015 and have been applied consistently to all entities of the Group.

4 Reclassification

(i) Reclassification of 30 June 2015 financial statements exchange rate variation gains and losses

Exchange rate variations gains and losses were presented in the 30 June 2015 statements of income separately, according to their nature, as finance income and finance expenses, respectively.

When preparing these 30 June 2016 condensed consolidated interim financial statements, Management decided to present exchange rate variation in its net position, as finance income if positive or finance expense if negative. Management understands that the net presentation is more understandable and relevant for the users of financial information. The reclassification effect in the consolidated interim statements of income for the six and three-month periods ended 30 June 2015 is presented below:

	Originally presented six month period ended 30 June, 2015	**Exchange rate variation reclassification**	**Reclassified six month period ended 30 June, 2015**
Finance income	58,188	(55,049)	3,139
Finance expenses	(69,852)	55,049	(14,803)
Finance expenses, net	(11,664)	-	(11,664)

	Originally presented three month period ended 30 June, 2015	**Exchange rate variation reclassification**	**Reclassified three month period ended 30 June, 2015**
Finance income	23,945	(22,593)	1,352
Finance expenses	(26,567)	22,593	(3,974)
Finance expenses, net	(2,622)	-	(2,622)

(ii) Reclassification of 30 June 2015 financial statements of fixed assets acquired through loans and borrowings

Fixed assets purchased through loans and borrowings were presented in the financial statements as of 30 June 2015 as a cash outflows in the cash flows from investment activities, while cash inflows were presented as cash flows from financing activities, following the new loans or borrowings contracted.

When preparing these 30 June 2016 condensed consolidated interim financial statements, Management decided to treat these acquisitions as non-cash activities, once the funds raised with the loans or borrowings are directly transferred by the banks to the supplier. The reclassification effect in the consolidated interim statement of cash flows for the three and six-month periods ended 30 June 2015 is presented below:

	Originally presented six month period ended 30 June, 2015	**Fixed assets purchased with through loans and borrowings reclassification**	**Reclassified six month period ended 30 June, 2015**
Cash flows from investing activities			
Change in deposits	2,659	-	2,659
Payment for acquisition of operations	(1,980)	-	(1,980)
Proceeds from sales of fixed assets	1,969	-	1,969
Acquisitions of fixed assets	(25,776)	6,592	(19,184)
Investments in intangible assets	(1,804)	-	(1,804)
Long-term loans to related parties	(33)	-	(33)
Net cash flows used in investing activities	(24,965)	6,592	(18,373)
Cash flows from financing activities			
Proceeds from loans	52,216	(8,578)	43,638
Repayment of loans	(165,164)	1,986	(163,178)
Dividend paid	(2,726)	-	(2,726)
Net cash flows used in financing activities	(115,674)	(6,592)	(122,266)

	Originally presented three month period ended 30 June, 2015	**Fixed assets purchased with through loans and borrowings reclassification**	**Reclassified three month period ended 30 June, 2015**
Cash flows from investing activities			
Change in deposits	487	-	487
Proceeds from sales of fixed assets	668	-	668
Acquisitions of fixed assets	(12,974)	(72)	(13,046)
Investments in intangible assets	(588)	-	(588)
Net cash flows used in investing activities	(12,407)	(72)	(12,479)
Cash flows from financing activities			
Proceeds from loans	19,977	(970)	19,007
Repayment of loans	(58,689)	1,042	(57,647)
Dividend paid	(2,726)	-	(2,726)
Net cash flows used in financing activities	(41,438)	72	(41,366)

(iii) Reclassification of 31 December 2015 financial statements judicial deposit

The Group is has a legal obligation to pay the Accident Prevention Factor (FAP), but in accordance with its assessment of the assigned FAP percentage, Management understands the applied percentage should be lower.

Due to the above, the amount paid in excess was recorded as judicial deposit, and a provision was made as employees and other payroll related liabilities. Both the provision and the deposit will be settled on a net basis when the legal issue is concluded, and therefore Management decided to present both in the net position.

The amount reclassified from judicial deposits to employees and other payroll related liabilities is R$ 6,605.

5 Material events during the reported period

5.1 Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi")

On May 10, 2016, Caffitaly System S.p.A. purchased 50% of the Company's existing shares in 3Caffi, in the amount of R$ 5, then subscribed new shares issued by 3Caffi in the amount of R$ 4,995, of which it paid-in the amount of R$ 4,600. On the same date, the Company increased its participation in 3Caffi share capital subscribing new shares in the amount of R$ 4,995, of which it paid-in the amount of R$ 4,600 through capitalization of the Advance for Future Increase of Share Capital made by the Company on February 18, 2016. This way, as of the same date, the remaining amount that was subscribed but not paid-in was R$ 790, corresponding to R$ 395 for each shareholder, which may be paid in accordance with capital requirements within 10 years.

As a result of the operation above, share capital had the following structure as of June 30, 2016:

	Changes in Share Capital (R$ 000)				
	Share Capital on December 31, 2015	**Share Capital After Purchase Agreement on May 10, 2016**	**Subscribed Share Capital as of June 30, 2016**	**Paid-in Share Capital as of June 30, 2016**	**%**
Caffitaly System S.p.A	-	5	5,000	4,605	50%
Três Corações Alimentos S.A	10	5	5,000	4,605	50%
Other	-				
Total	10	10	10,000	9,210	100%

As a result of the above, 3Caffi became a joint controlled entity, and therefore is no more part of the consolidation.

5.2 Iguaçu acquisition

In June 2016, the agreement for business acquisition related to instant coffee and related product brands with Companhia Iguaçu de Café Solúvel was approved by the Administrative Council for Economic Defense (CADE). The official announcement was published on 8 June 2016. As a result of the acquisition, the brands added to the portfolio of the Group are Iguaçu, Cruzeiro and Amigo, increasing Company´s market share mainly in the South of Brazil and providing an entry into the Latin American markets outside of Brazil with the brands of Iguaçu and Cruzeiro.

According to the agreement, the transaction closing date was 28 June 2016, at the total purchase value of R$ 73,582. The amount of R$ 53,582 has been paid by means of an escrow deposit amount transferred to Companhia Iguaçu de Café Solúvel and R$ 20,000 is to be paid as follows:

- R$ 17,000 to be paid in March 2017, with interest; and
- R$ 3,000 to be paid in 5 annual instalments, with interests, in June each year starting 2017

There were no liabilities transferred in the business combination and in the opinion of the Company´s legal advisers, there were also no contingent liabilities. All identifiable assets transferred are listed below:

	R$
Intangible assets:	
Brands and trademarks	11,000
List of customers	34,400
Net identifiable assets	45,400

The amounts above represent the best Management's estimate of the fair value of the identifiable assets transferred at the time of the acquisition and initial recognition of the purchase. The Group will reflect the impact of the fair value of all assets, including goodwill, from new information obtained, including an independent valuation now in course, regarding conditions existing at the time of the acquisition within the measurement period of 12 months, in accordance with IFRS 3.

As a result of the total valuation of the transaction and that of the above identifiable assests as performed by the Management, the Goodwill from the business combination can been estimated at R$ 28,182.

5.3 Dividend paid

On 7 June 2016, additional dividends declared from the 2015 results in the amount of R$ 1,445, were approved by the ordinary shareholders' meeting. These additional dividends were paid in June 2016.

The amount of R$ 34,548, representing 50% of dividends declared from the 2014 results, was paid together with the above additional dividend.

6 Net debt

	30 June 2016 (Unaudited)	**31 December 2015 (Audited)**
Short term loans	158,537	194,222
Long term loans	173,927	184,567
Cash and cash equivalents	(60,144)	(159,996)
Net debt	272,320	218,793

The increase in net debt presented above is mainly due to decrease in deposits as a result of dividends payment on June 30, 2016 and transfer from cash and cash equivalents to escrow deposits of R$ 55,000 related to the amount to be paid for Iguaçu business combination (Note 5).

7 Contingent liabilities

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

8 Financial instruments

a. Fair value of financial instruments

The carrying amounts of the cash and cash equivalents, short and long term financial investments, trade receivables, other receivables and debit balances, credit from banks and others, trade payables and other payables and credit balances are the same or close to their fair value, except as mentioned below.

Presented below are the carrying amounts and fair values of financial liabilities that are not presented in the financial statements at fair value or close to it:

	30 June2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Audited)	
Financial liabilities				
Short term loans	158,537	142,415	194,222	184,171
Long term loans	173,927	130,783	184,567	174,216

The fair value is based on the contractual cash flow discounted to each reporting date, based on the market interest rates as of each reporting date. The carrying amount includes interest accrued as of each reporting date.

b. Fair value hierarchy

The table below illustrates an analysis of financial instruments carried at fair value, using valuation methods. Three different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active market.
- Level 2: inputs other than quoted prices within level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of 30 June 2016 and 31 December 2015, the Group did not have financial instruments balances carried at fair value using valuation methods.

* * *

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