



STRAUSS GROUP LTD.

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**STRAUSS GROUP LTD.
DESCRIPTION OF THE
CORPORATION'S BUSINESS**

**UPDATE TO THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS"
IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY")
FOR THE YEAR 2017¹ (HEREINAFTER: THE "PERIODIC REPORT")**

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, following is a description of material developments that occurred in the Company's business in the three months ended March 31, 2018 and through to the publication date of the report, which have not yet been disclosed in the Periodic Report. This update refers to several sections appearing in the chapter "Description of the Company's Business" as well as to a number of regulations in the chapter "Additional Information on the Company" in the Company's 2017 Periodic Report ("**Description of the Company's Business Report**" and "**Additional Information Report**", respectively), and is presented according to the order of the sections in said reports. It is noted that the terms appearing in this chapter shall have the meaning ascribed to them in the Periodic Report, unless expressly stated otherwise.

1. Section 2 in the Description of the Company's Business Report, Operating Segments

Commencing in the current reporting period, Strauss Water's activity is presented in the financial statements of the Company as a separate operating segment. For information on Strauss Water's business, see the Description of the Company's Business Report and also **Annex "A"** to this chapter.

2. Section 4 in the Description of the Company's Business Report, Dividend Distribution

On May 22, 2018 the Board of Directors of the Company approved the distribution of a cash dividend to the shareholders of the Company. For further information, see the Company's Immediate Report of May 23, 2018 (reference no. 2018-01-050464) and also Note 9 to the condensed consolidated interim financial statements of the Company as at March 31, 2018.

3. Section 21 in the Description of the Company's Business Report, Financing

Section 21.1, General: On May 9, 2018 the Company reported that the Securities Authority had decided to extend the period for the offering of securities under the Company's shelf prospectus until May 18, 2019. For further information, see the Company's Immediate Report of May 9, 2018 (reference no. 2018-01-046276).

Section 21.6, Credit rating: On March 28, 2018 the Company announced the reaffirmation of Standard & Poor's Maalot's iIAA+ rating with stable outlook. For further information, see the Company's Immediate Report of March 28, 2018 (reference no. 2018-01-025362).

On May 21, 2018 the Company announced the reaffirmation of Midroog's Aa2il rating for the Company's Series D and E debentures, with a revision of outlook to positive. For further information, see the Company's Immediate Report of May 21, 2018 (reference no. 2018-01-049858).

4. Section 22 in the Description of the Company's Business Report, Taxation

Section 22.2, Tax assessments issued to the Group companies in and outside Israel: On April 24, 2018, further to the contents of Note 35.7 in the Periodic Report with respect to negotiations pertaining to tax assessments for the years 2009-2013 under way between an investee and the local tax authorities, the Company reported that the subsidiary Strauss Romania had been issued with tax assessments for said years amounting to a total of approximately NIS 12.5 million (including interest and fines) and is expected to be issued with additional tax assessments amounting to approximately NIS 4 million, *inter alia* in respect of certain disallowed expenses; and that Strauss Romania intends to deposit the amount of the liability arising from the assessments in the course of May 2018, and accordingly, is expected to be granted a reduction in respect of interest and fines, thus reducing the accrued liability arising from the assessments to the sum of approximately NIS 13.3 million. For further information, see the Company's Immediate Report of April 24, 2018 (reference no. 2018-01-040429) and for updates see Note 4 to the condensed consolidated interim financial statements of the Company as at March 31, 2018.

¹ As published on March 14, 2018 (reference number 2018-01-019932).

5. Section 26 in the Description of the Company's Business Report, Legal Proceedings

For updates, see Note 6 to the condensed consolidated interim financial statements of the Company as at March 31, 2018.

6. Regulation 24 in the Additional Information Report

On April 1, 2018 the Company effectuated a partial redemption of its Series D debentures. For further information, see the Company's Immediate Report published on April 1, 2018 (reference no. 2018-01-027858).

7. Regulation 26A in the Additional Information Report, Senior Officers

On May 10, 2018 the Company reported that Strauss Group CEO Mr. Gadi Lesin will be taking medical leave for an anticipated period of three months, commencing on May 14, 2018. During his absence, Mr. Giora Bardea, Deputy CEO of Strauss Group, will serve as Interim CEO. For further information, see the Company's Immediate Report of May 10, 2018 (reference no. 2018-01-037134).

8. Regulation 29 in the Additional Information Report, Recommendations and Resolutions of the Board of Directors

On May 3, 2018 it was resolved to approve an allotment of 1,173,326 options of the Company to 15 senior managers in the Group, in accordance with the terms and conditions of option plan for senior employees of the Company. For further information, see the Company's Immediate Report published on May 6, 2018 (reference no. 2018-01-044578).

Date: May 22, 2018

Names and titles of signatories:

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Interim Chief Executive Officer

Strauss Group Ltd.

Annex “A”

The Strauss Water Segment²

1. General information on the Strauss Water segment

Through Strauss Water the Group is active in the water market in the development, assembly, sale, marketing and servicing of POU (point-of-use) systems for the filtration and purification of drinking water. The systems are mainly based on advanced technology developed by the Group that consists of the integration of innovative developments in engineering, chemistry and microbiology.

As at the reporting date, Strauss Water is active mainly in Israel, where operations began in 2009 following the acquisition of Tana Industries Ltd. (“Tami 4”). Strauss Water is also active in the UK in collaboration with Virgin Group (see section 15 below), and has insubstantial activities in a number of other countries, which are carried out through local franchisees.

In addition, Strauss Water has a material investment (49%) in an associate, which is a joint venture established by Strauss Water and Haier Group of China and is active in the filtration and purification of drinking water in China (see section 16 below).

Changes in the scope of the activity framework and its profitability: In recent years activities in this segment have grown. The Company estimates that this is due to increasing awareness of water quality and various forms of water pollution, which are liable to occur even in parts of the world where water quality is considered good. In addition, the health trend, which among other things is expressed in reduced sugar consumption and a switch to consuming water instead of sweetened beverages, has also supported increased consumption of bottled and filtered water.

Critical success factors in the activity framework and changes therein: There are several critical success factors in the water business, such as the development of technology and advanced products, an extensive distribution network, quick and efficient service, innovation and operational efficiency.

Major entry barriers to the activity framework and changes therein: The main entry barriers to the water business are the need for large-scale investments in product development and the development of infrastructure for sales, distribution and customer service, including shelf occupancy. The main barrier to exit is the warranty provided to customers as well as the obligation to provide spare parts for the appliances.

Substitutes for the products of the activity framework and changes therein: Substitutes for Strauss Water’s products include tap water, mineral water (in jugs and bottles), filtered water in bottles or jugs, and water filter pitchers (such as Brita).

2. Products and services

The Group’s products in the operating segment are water bars, which are connected to the under-sink water line (point-of-use – POU) in the customer’s home and filter and purify the water, including cooling and heating, and in Israel – carbonation as well.

The Group also provides services for its water filtration and purification appliances, including maintenance, the supply of filters and UV lamps, and technician services at the customer’s home.

The products are based on various filtration and purification technologies, the main one as at the reporting date being Strauss Water’s proprietary Maze technology, an innovative technology that improves filtration quality and the clarity and taste of the water.

Products include appliances for the in-home market (households) as well as away-from-home solutions – appliances tailored to the requirements of customers in the business and institutional sectors.

² The terms appearing in this chapter have the meaning ascribed to them in the Company’s 2017 Periodic Report (as published on March 14, 2018 (reference number 2018-01-019932), unless expressly stated otherwise (the “**2017 Periodic Report**”).

In Israel, the products are marketed under the Tami 4 brand, and in the UK – under the Virgin Pure brand. In other countries sales are made under the Strauss Water brand or in combination with the local distributor's brand.

It is noted that on May 3, 2018 the Company reported that on April 30, 2018, a claim against Strauss Water was filed with the Tel Aviv – Jaffa District Court together with a motion for its certification as a class action, pertaining to an alleged malfunction involving the spraying of boiling water in an appliance manufactured by the company. The amount sought in the claim is NIS 97 million. Strauss Water rejects the arguments enumerated in the claim and the motion and will take action for their withdrawal. For further information, see the Company's Immediate Report of May 3, 2018 (reference no. 2018-01-044044).

3. **Segmentation of income from products and services**

There is no group of similar products or services in the operating segment that accounts for 10% or more of the Company's total consolidated income.

4. **New products**

In early 2018 a new water purifier was launched, based on the Maze technology. The Maze purifier enhances purification capabilities compared to the carbon purifier by removing chemical contaminants resulting from personal use such as residue from pharmaceuticals, hormones and detergents that permeate drinking water; contaminants originating in industrial and agricultural chemical use; pesticides and asbestos; heavy metals such as lead and mercury; and improves the clarity, taste and smell of the water by filtering sand and rust, removing chlorine, eliminating aftertaste and reducing limescale buildup.

5. **Customers**

The Group's customers in the water segment are a very large number of households, businesses (offices and stores) and institutional customers (such as government ministries), which are characterized by great variance and are highly dispersed.

In Israel, filtration and purification appliances are sold to end customers in combination with a service agreement for perishable components. In the framework of these service agreements the Group provides a warranty for the duration of the term of the agreement, and the customer may terminate the engagement at any time (subject to the terms and conditions of the service agreement). Payment for the service is made on a monthly basis throughout the term of the agreement. Customer payments are generally made by credit card, and the Group has factoring arrangements with third parties for part of these payments.

6. **Marketing and distribution**

The Group's products are marketed and distributed to households and businesses by direct sale through call centers or the Group's websites. Marketing and distribution to institutional customers are carried out through sales agents and, if necessary, by submitting bids in tenders.

The major advertising channels in Israel are the mass media (radio, television and print) and online advertising.

7. **Order backlog**

The order backlog presented below contains projected revenue in respect of service agreements signed before March 31, 2018, which has not yet been accounted for as income on the income statement.

Projected revenue recognition period	Projected revenue in respect of signed service agreements (NIS millions)
Q2 2018	26.6
Q3 2018	24.0
Q4 2018	20.3
Total 2018	70.9
2019	51.2
2020	21.2
2021 and thereafter	4.7

The information presented in this section includes forward-looking information, which is based, *inter alia*, on current service agreements. Actual results may differ materially from those anticipated, among other things due to the cancellation of service agreements or defaults on payments by customers.

8. **Competition**

The Group's main competitors in Israel are companies selling water in bottles and jugs and companies selling POU water filtration devices. The major rivals are Mey Eden, Neviot, E-Bar, Brita and Maayanot, and there are also additional, smaller competitors. In 2017 the POU category grew, while other categories in the water market remained stable or decreased. The Group's share of the water market in Israel is about one-quarter of the market (some 601,000 water bars under active service agreements).

The Group has dealt with the competition by solidifying its brand (Tami 4) among new and existing customers and through technological improvements, product innovation and improving its services. Thanks to these efforts, the Group has succeeded in attracting new customers and in retaining existing ones.

9. **Seasonality**

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

	2017		2016	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	125	23.3%	114	23.0%
Q2	136	25.0%	124	25.0%
Q3	144	26.4%	133	26.8%
Q4	136	25.3%	125	25.2%
Total	541	100%	496	100%

The figures presented above are not indicative of a seasonal effect in the water business. In general, sales of the Company's products are higher in the summer months compared to the rest of the year.

10. **Fixed assets and real estate**

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

Nature of the Site	Location of the Site	Site Designation	Built-Up Area	Rights in and to the Site
Production plant	Industrial zone, Kibbutz Netiv Halamed Heh	Logistic center	3,500 m ²	Leased from a third party until June 30, 2018. As at the date of this report, the Company has exercised the option and extended the lease for three more years commencing on July 1, 2018.
Offices (in 2 adjacent buildings)	Or Yehuda Industrial Zone	Management offices, call center, service and sales	7,800 m ²	Leased from a third party until December 31, 2019
Subleased to a tenant and not in use by the Group	Henley Business Park, Guildford		1,412 m ²	Leased from a third party until May 2020

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

The Group has developed cutting-edge water purification technologies consisting of a combination of innovative developments in engineering, chemistry and microbiology, allowing for a broad variety of

applications in the domestic drinking water sector. In addition, the Group continues to develop technologies for treating drinking water for household consumer goods solutions. All these developments are supported by some 29 patents as well as additional patent applications filed in numerous countries.

Following are Strauss Water's substantial patents:

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

12. **Human capital**

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

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

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

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

(*) Employees in China who are not employees of the joint venture, as described in section 16 below.

13. **Raw materials and suppliers**

Strauss Water purchases water bars, filters, purifiers and UV lamps for use in water bars from a number of external vendors. Water bars are purchased from two vendors, ENG Electronic Co. Ltd. and Flextronics (Israel) Ltd. The water bar vendors are committed to exclusivity in production for the Group, and they manufacture the appliances in accordance with product specifications developed by the Group using production lines that serve exclusively for manufacturing the Group's products.

The Group is dependent on the suppliers of its water bars, since replacement of these suppliers will require several months' organization and will involve a substantial incremental cost to Strauss Water.

According to the terms and conditions of engagement with the water bar vendors, termination of the agreement is subject to advance notice of 6 months by the Group, and 18 months by the vendors.

In the reporting period, there was no single Strauss Water supplier from which the scope of the Group's purchases exceeded 10% of total purchases of raw and packaging materials in this segment, with the exception of purchases of filters and purifiers from a single supplier (KX Technologies). However, the Group is not dependent on KX Technologies in light of the possibility of replacing it with other vendors, at no substantial incremental cost to Strauss Water.

14. **Restrictions and supervision**

The Group's products are required to comply with local and international standards applying, *inter alia*, to systems for the treatment of drinking water for home use, tests of products that are in contact with drinking water, safety of household electrical appliances and others.

See also section 24 in the 2017 Periodic Report.

15. **Material agreements**

Joint venture agreement with Virgin Group

In November 2011 Strauss Water contracted in an investment agreement (which was updated in August 2012) with a number of investment funds, members of Virgin Group, for the establishment of a joint venture, Virgin Strauss Water UK Ltd. (hereinafter: "VSW UK"), which would be active in the marketing, sale and servicing of Strauss Water products in England. The parties also contracted in a series of accompanying agreements for the operation of the venture (including a licensing agreement, service

agreements and a supply agreement). As at the date of this report, Strauss Water holds approximately 72% of the shares of VSW UK, and investment funds of the Virgin Group (indirectly) hold the remaining shares (approximately 28%). The Company's products are sold in the UK under the Virgin Pure brand.

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

Shareholders' agreement: According to a shareholders' agreement of 2012 between Strauss Water, VSW UK and investment funds belonging to Virgin Group, five directors hold office in VSW UK, three appointed by the Group and two appointed by Virgin Group, and the Group has management control of VSW UK. In addition, Strauss Water has undertaken not to compete with VSW UK in the territories where it is active. The agreement will remain in effect other than upon the occurrence of the causes for cancellation enumerated in the agreement.

16. **Material investment in an associate**

As at the date of the report (and after Strauss Water exercised its right to acquire an additional 15% in August 2017), Strauss Water holds 49% of the shares of Qingdao HSW Health Water Appliance Co. Ltd. ("HSW") and the remaining 51% of the shares are held by Haier Group of China.

HSW's business focuses on the home water market in China, and it mainly offers devices based on reverse-osmosis or nanofiltration technology, as well as products based on the Maze technology purifier. The products are marketed in China under the Haier and Haier Strauss Water brands through a variety of channels such as retail chains, direct marketing and ecommerce, and service is provided by a local distributor. Sales are made to retailers and end customers and generally do not include service agreements. Various components (such as filters and purifiers) are sold as required.

As part of a series of agreements signed in May 2015 between Strauss Water and companies of Haier Group, the businesses of the joint venture (in the framework of which the parties initiated the operation in 2011³) were transferred to HSW. Pursuant to the agreements, Haier transferred its reverse-osmosis water purification operation (until then owned by Haier) to HSW, and Strauss Water granted the jointly owned company an exclusive license to use the Maze technology in the China territory.

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

³ The joint venture initiated operations in 2011, focusing on the Maze purification technology. Upon its establishment the joint venture was equally owned by the Group and Haier. The joint venture purchased the products from Strauss Water and received distribution and sales services as well as servicing from companies in Haier Group.



**STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT
TO THE SHAREHOLDERS
AS AT MARCH 31, 2018**

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED MARCH 31, 2018

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

1. PRINCIPAL INFORMATION FROM THE DESCRIPTION OF THE COMPANY'S BUSINESS

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"**) hereby respectfully submits the Board of Directors' Report for the first quarter of 2018 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 in the Periodic Report as at December 31, 2017, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 14, 2018 (reference no. 2018-01-019932) (the "2017 Periodic Report").

Strauss Group Ltd. and the companies it controls, including joint ventures (hereinafter: the **"Group"**), 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 and purification systems.

The Group is active in seven segments, as follows: **Strauss Israel**, which comprises two activity segments (Health & Wellness and Fun & Indulgence); **Strauss Coffee**, which comprises two segments (Israel Coffee (which includes the coffee company's headquarters) and the International Coffee operation); the **International Dips & Spreads** segment; the **Strauss Water** segment; and other activities that are included in the financial statements as the **"Other Operations"** segment, which comprises other activities that are immaterial.

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 quarter of 2018 the Group held a 12.2% share of the domestic food and beverage market (in value terms¹) compared to 12% at the end of 2017, and it has the highest sales turnover among Israeli food companies (according to the Company's sales turnover in its non-GAAP reports, as defined below).

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 and Strauss Water's activity 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 venture² 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's³ activity in the Netherlands and Germany and the Florentin brand; and **the operation in the US and Canada**, which includes Sabra's⁴ operations. The Group is also active in Australia, New Zealand and Mexico through 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 through a variety of sales channels including large food chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, e-commerce, etc.

¹ According to StoreNext figures. StoreNext is engaged in the measurement of the fast-moving consumer goods (FMCG) market in the barcoded retail market (hereinafter: **"StoreNext"**).

² Três Corações (3C) – The Três Corações joint venture in Brazil – a company jointly held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

³ A joint venture with PepsiCo in the dips and spreads business. See also section 3.2.3 below.

⁴ The Company's brand in the dips and spreads business in the United States and Canada, in partnership with PepsiCo. See also section 3.2.3 below.

The controlling shareholders of the Company are Mr. Michael Strauss (indirectly) through his holdings in Strauss Holdings Ltd. (hereinafter: the “**Parent Company**” or “**Strauss Holdings**”) and through a direct holding in the Company, and Ms. Ofra Strauss, who is considered a joint holder of the Company’s shares with Mr. Michael Strauss.

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

2. CHANGES IN THE ECONOMIC ENVIRONMENT

2.1 Prices of raw materials and other production inputs – A substantive part of the raw materials used to manufacture the Group’s products are traded on the commodities markets. In the first quarter of 2018 the average market prices of part of the Company’s raw materials dropped, whereas the average market prices of other raw materials rose, compared to the corresponding period last year. On the one hand, green coffee prices dropped, as did the prices of sugar and cocoa (a decrease that was partly offset by the devaluation of the Shekel against the Pound Sterling), while on the other, the prices of raw milk (the “target price”), sesame, honey and polystyrene (used in packaging) rose.

The Group applies measures to reduce the impacts of commodity price volatility, including hedging, making changes in the raw materials mix in its products and operational efficiency enhancement. The Company’s green coffee procurement center in Switzerland provides for all companies in the Group (except for the operation in Brazil). To manage exposure to market risks, the Group uses transactions in derivatives traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the COO of Strauss Coffee and convenes from time to time according to established procedures.

The procurement of green coffee in Brazil is carried out by the local management of the Três Corações joint venture¹ according to internal procedures determined by the Três Corações joint venture’s board of directors, and is the responsibility of the procurement, export and financial managers of the Três Corações joint venture.

The Group also has a committee for the management of commodities exposure for its operation in Israel. The committee is managed by the CFO of Strauss Israel.

Gains or losses arising from the economic hedging of commodities are included in the income statement on the date of sale of the inventory to outside parties.

2.2 Energy prices – In the first quarter of 2018, average energy prices were approximately 25% higher than in the corresponding quarter last year.

2.3 Exchange rate fluctuations – The impact of the revaluation of the Shekel on the basis of average exchange rates against most of the Group’s functional currencies, including the Brazilian Real, the Russian Ruble and the US Dollar, led to negative translation differences on the income statement for the first quarter of 2018. In terms of quarterly change (based on closing prices) the Shekel weakened slightly against the major currencies, which positively affected the Group’s equity in the quarter; however, this effect was not substantial. In the first quarter, the currencies in Strauss Coffee’s countries of operations appreciated against the US Dollar compared to the corresponding period (with the exception of the Ukrainian Hryvnia and the Brazilian Real).

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

The following table presents the average exchange rates versus the Shekel in the first quarter of 2018 compared to the corresponding period last year:

Currency		Average Exchange Rate in the First Quarter		% change
		2018	2017	
United States Dollar	USD	3.463	3.734	(7.3)
Euro	EUR	4.258	3.976	7.1
Ukrainian Hryvnia	UAH	0.127	0.138	(8.0)
Russian Ruble	RUB	0.061	0.063	(4.1)
Serbian Dinar	RSD	0.036	0.032	12.0
Romanian Leu	RON	0.914	0.880	3.9
Polish Zloty	PLN	1.018	0.920	10.7
Brazilian Real	BRL	1.067	1.188	(10.2)
Chinese Renminbi	CNY	0.545	0.542	0.4
Canadian Dollar	CAD	2.742	2.821	(2.8)
Australian Dollar	AUD	2.722	2.829	(3.8)
Mexican Peso	MXN	0.185	0.184	0.6

The following table presents the average exchange rates versus the Dollar in the first quarter of 2018 compared to the corresponding period last year:

Currency		Average Exchange Rate in the First Quarter		% change
		2018	2017	
New Israeli Shekel	ILS	0.289	0.268	7.8
Ukrainian Hryvnia	UAH	0.037	0.037	(0.8)
Russian Ruble	RUB	0.018	0.017	3.4
Serbian Dinar	RSD	0.010	0.009	20.8
Romanian Leu	RON	0.264	0.236	12.0
Polish Zloty	PLN	0.294	0.246	19.3
Brazilian Real	BRL	0.308	0.318	(3.2)
Chinese Renminbi	CNY	0.157	0.145	8.3

2.4 Regulatory developments in input prices – On April 1, 2018 the extension order shortening the work week in Israel from 43 to 42 hours with no reduction in pay entered into force. The Company has implemented the provisions of the order in its operations in Israel and is complying with its guidelines. In the Company's estimate, as at the date of this report, the extension order will not have a material impact on its business results.

3. ANALYSIS OF FINANCIAL RESULTS

The Group has a number of jointly controlled companies in which the Company and/or subsidiaries hold 50%: the Três Corações joint venture (in Brazil)¹, Sabra Dipping Company (an investee company in North America), Strauss Frito-Lay Ltd. (the salty snack operation in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela). To clarify, the above companies are included in the management (non-GAAP) reports of the Company according to the holdings of the Company and/or the subsidiaries therein (50%).

Since 2013 the 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 cash flows of businesses which are jointly controlled by the companies in the Group and other partners are no longer stated according to the Group companies' relative holding in the entity as was the practice until the publication of the standard, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section) (hereinafter: the "**Financial Statements**").

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

The reporting method does not alter the Group's profit and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no managerial change in the jointly held businesses.

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

In view of the fact that the Group's non-GAAP reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies have remained unchanged, the Group has continued to present the activity segments in the same manner in which they were presented before IFRS 11 was applied, i.e. presentation of the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%) (hereinafter: the "**Management (Non-GAAP) Reports**" or the "**Non-GAAP Reports**"). Presentation of the data in this manner is different to the manner of their presentation in the Financial Statements of the Company as described.

The next pages present the Non-GAAP Reports, the GAAP Reports and the various adjustments made by the Company in making the transition from the Company's GAAP reports to its Non-GAAP Reports.

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarters ended March 31, 2018 and 2017 (in NIS millions)*:

	First Quarter		
	2018	2017	% Chg
Sales	2,167	2,083	4.0
Organic growth excluding foreign currency effect	7.8%	7.4%	
Cost of sales	1,334	1,303	2.4
Gross profit – non-GAAP	833	780	6.8
% of sales	38.4%	37.4%	
Selling and marketing expenses	457	444	3.0
General and administrative expenses	124	116	6.4
Total expenses	581	560	
Company's share of profit of equity-accounted investees	2	3	(42.8)
Operating profit – non-GAAP	254	223	14.0
% of sales	11.7%	10.7%	
Financing expenses, net	(17)	(34)	(49.6)
Income before taxes on income	237	189	25.5
Taxes on income	(76)	(42)	81.6
Effective tax rate	32.0%	22.1%	
Income for the period – non-GAAP	161	147	9.6
Attributable to:			
The Company's shareholders	146	116	26.9
Non-controlling interests	15	31	(53.6)
EPS (NIS)	1.28	1.08	18.8

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarters ended March 31, 2018 and 2017 (in NIS millions)*:

	First Quarter		
	2018	2017	% Chg
Israel			
Net sales	866	818	5.8
Operating profit	109	105	3.4
Coffee			
Net sales	986	961	2.5
Operating profit	119	91	30.1
International Dips & Spreads			
Net sales	180	160	13.0
Operating profit	11	17	(29.6)
Water**			
Net sales	135	125	7.6
Operating profit	10	6	52.2
Other**			
Net sales	-	19	(100.0)
Operating profit	5	4	42.5
Total			
Net sales	2,167	2,083	4.0
Operating profit	254	223	14.0

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

** Commencing in the current quarter, Company Management has elected to report the results of the Strauss Water segment separately. Comparative figures have been restated.

Following are the condensed financial accounting (GAAP) statements of income for the quarters ended March 31, 2018 and 2017 (in NIS millions)*:

	First Quarter		
	2018	2017	% Chg
Sales	1,446	1,408	2.7
Cost of sales excluding impact of commodity hedges	856	831	2.9
Adjustments for commodity hedges**	(11)	9	
Cost of sales	845	840	0.5
Gross profit	601	568	5.9
% of sales	41.6%	40.3%	
Selling and marketing expenses	315	318	(0.9)
General and administrative expenses	95	93	3.0
Total expenses	410	411	
Share of profit of equity-accounted investees	58	44	31.5
Operating profit before other income, net	249	201	23.6
% of sales	17.2%	14.3%	
Other income, net	2	7	
Operating profit after other income, net	251	208	20.1
Financing expenses, net	(16)	(29)	(45.7)
Income before taxes on income	235	179	30.8
Taxes on income	(67)	(30)	121.6
Effective tax rate	28.3%	16.7%	
Income for the period	168	149	12.6
Attributable to:			
The Company's shareholders	153	107	43.0
Non-controlling interests	15	42	(64.9)

* 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, and all adjustments necessary to delay recognition of gains and losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

Following are the adjustments to the Company's Management (Non-GAAP) 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 (Non-GAAP) and internal reports):

	First Quarter 2018			First Quarter 2017		
	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)
Sales	1,446	721	2,167	1,408	675	2,083
Cost of sales excluding impact of commodity hedges	856	478	1,334	831	472	1,303
Adjustments for commodity hedges	(11)	-	(11)	9	-	9
Cost of sales	845	478	1,323	840	472	1,312
Gross profit	601	243	844	568	203	771
% of sales	41.6%		39.0%	40.3%		37.0%
Selling and marketing expenses	315	142	457	318	126	444
General and administrative expenses	95	33	128	93	27	120
Company's share of profit of equity-accounted investees	58	(56)	2	44	(41)	3
Operating profit before other expenses, net	249	12	261	201	9	210
% of sales	17.2%		12.1%	14.3%		10.1%
Other expenses, net	2	-	2	7	1	8
Operating profit after other expenses, net	251	12	263	208	10	218
Financing expenses, net	(16)	(1)	(17)	(29)	(5)	(34)
Income before taxes on income	235	11	246	179	5	184
Taxes on income	(67)	(11)	(78)	(30)	(5)	(35)
Effective tax rate	28.3%		31.7%	16.7%		18.6%
Income for the period	168	-	168	149	-	149
Attributable to:						
The Company's shareholders	153	-	153	107	-	107
Non-controlling interests	15	-	15	42	-	42

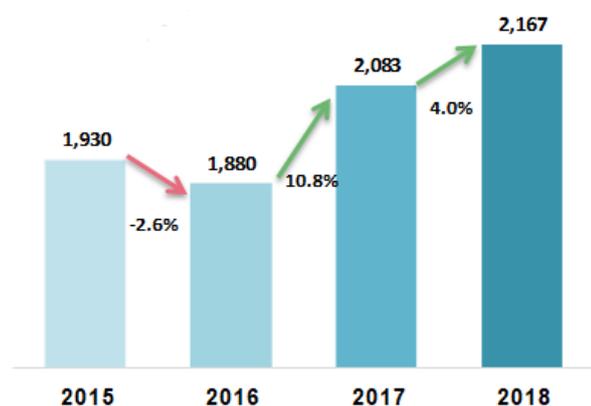
* Financial data were rounded to NIS millions. Profit margin percentages were calculated on the basis of the exact figures in NIS thousands.

Additional adjustments to the Management (Non-GAAP) Reports (share-based payment and liability plans, valuation of hedging transactions, other expenses and taxes referring to these adjustments)*:

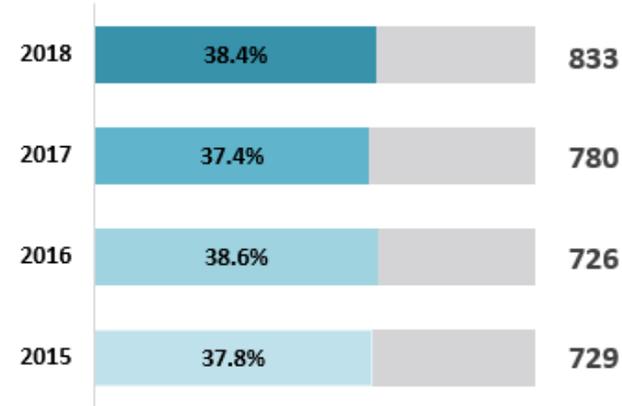
	First Quarter		
	2018	2017	% Chg
Operating profit (according to proportionate consolidation method) after other expenses	263	218	20.9
Share-based payment	4	4	
Adjustments for commodity hedges	(11)	9	
Other expenses, net	(2)	(8)	
Operating profit – non-GAAP	254	223	14.0
Financing expenses, net	(17)	(34)	
Taxes on income	(78)	(35)	
Taxes in respect of adjustments to the above non-GAAP operating profit	2	(7)	
Income for the period – non-GAAP	161	147	9.6
Attributable to:			
The Company's shareholders	146	116	26.9
Non-controlling interests	15	31	(53.6)

First Quarter Group Financial Dashboard – Non-GAAP (NIS millions):

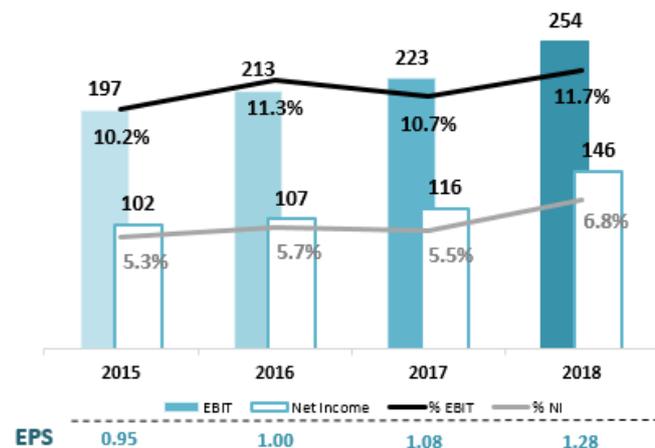
Net Sales



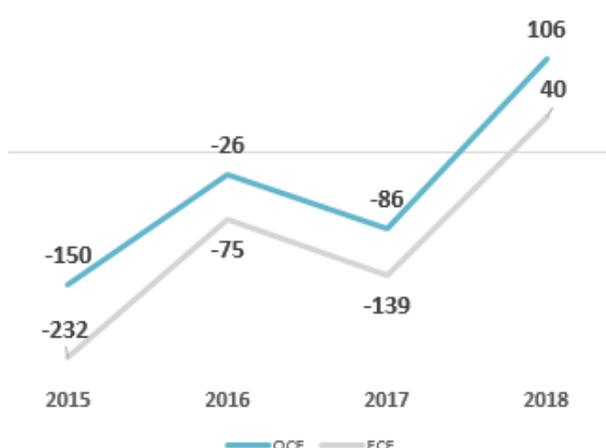
Gross Profit



EBIT & Net Income



OCF, FCF



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

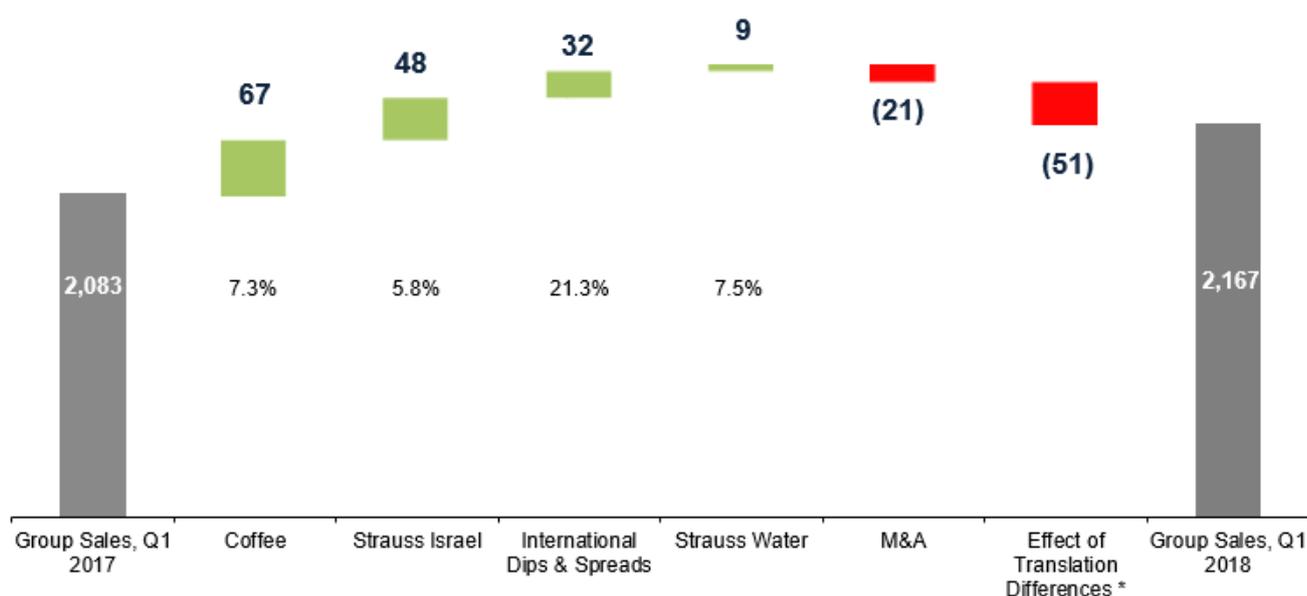
3.1 Analysis of the Business Results of the Group

3.1.1 Sales – non-GAAP

	First Quarter	
	2018	2017
Sales	2,167	2,083
Growth	4.0%	10.8%
Organic growth excluding foreign currency effect	7.8%	7.4%

Organic growth of the Group's sales in the first quarter of 2018, excluding the foreign currency effect, amounted to 7.8% compared to the corresponding period last year.

Following are the components of the change in sales in the period 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.

The Group's sales in the first quarter of 2018 were impacted by negative translation differences amounting to approximately NIS 51 million, of which NIS 46 million are due to the erosion of the average exchange rate of the Brazilian Real against the Shekel and NIS 11 million to the erosion of the average exchange rate of the Dollar against the Shekel compared to the corresponding period last year. Conversely, there was a positive impact of NIS 8 million due to the appreciation of the Polish Zloty against the Shekel compared to the corresponding period last year (see also the foreign exchange rate table in section 2.3 in this report).

The change in the Group's sales in local currency was the result of the following factors:

- Inorganic growth in the Group's sales (a decrease of approximately NIS 21 million), primarily as a result of the realization of the Max Brenner operation.
- See section 3.2.1.1 below for further explanations on organic growth in sales by the Coffee segment.
- See section 3.2.2.1 below for further explanations on organic growth in sales by the Strauss Israel segment.
- See section 3.2.3 below for further explanations on organic growth in sales by the International Dips & Spreads segment.
- See section 3.2.4.1 below for further explanations on organic growth in sales by the Strauss Water segment.

3.1.2 Gross Profit – Non-GAAP

	First Quarter			% chg less translation differences effect
	2018	2017	% Chg	
Gross profit	833	780	6.8	8.5
Gross profit margin	38.4%	37.4%		

The Group's non-GAAP gross profit in the first quarter of 2018 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 12 million. Most of the translation differences were the result of the depreciation of the Brazilian Real against the Shekel compared to the corresponding period last year (approximately NIS 11 million). (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the first quarter of the year rose by approximately NIS 53 million compared to the corresponding period last year:

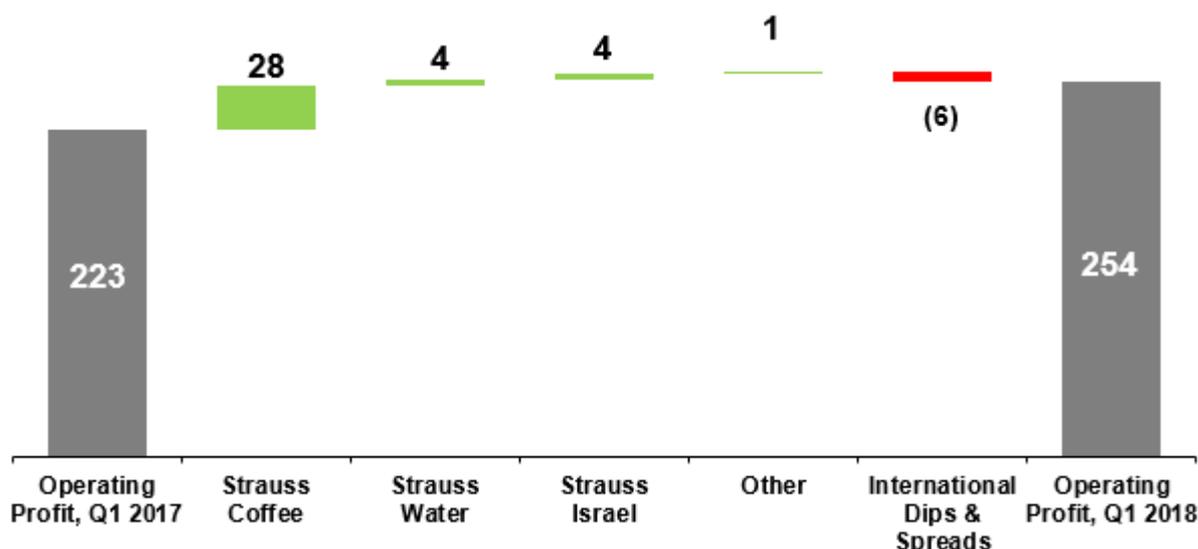
- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments rose by approximately NIS 2 million in the first quarter of 2018 compared to the corresponding period last year. The increase in gross profit in the quarter is mainly the result of the implications of the voluntary recall by Sabra in the fourth quarter of 2016, which impacted the results of the corresponding quarter last year, as well as the realization of the Max Brenner operation at the end of the second quarter of 2017.
- See section 3.2.1.2 below for further explanations on the change in gross profit in the Coffee segment.
- See section 3.2.2.2 below for further explanations on the change in gross profit in the Strauss Israel segment.

3.1.3 Operating Profit before Other Expenses – Non-GAAP

	First Quarter			% chg less translation differences effect
	2018	2017	% Chg	
Operating profit (EBIT)	254	223	14.0	16.0
Operating profit margin	11.7%	10.7%		

The Group's non-GAAP operating profit (EBIT) in the first quarter of 2018 increased by approximately NIS 31 million and was adversely influenced by negative translation differences into Shekels, which amounted to approximately NIS 4 million (see also the exchange rate table in section 2.3 in this report).

Following are the components of the change in the operating profit compared to the corresponding period last year, according to the Company's major activity segments:



The change in the Group's EBIT in the first quarter of 2018 was the result of the following:

- An increase in the EBIT of the Other Operations segment ("Other") amounting to approximately NIS 1 million in the first quarter compared to the corresponding period last year, primarily due to the sale of the Max Brenner operation.
- See section 3.2.1.3 below for further explanations on the change in operating profit in the Coffee segment.
- See section 3.2.2.3 below for further explanations on the change in operating profit in the Strauss Israel segment.
- See section 3.2.3 below for further explanations on the change in operating profit in the International Dips & Spreads segment.
- See section 3.2.4.2 below for further explanations on the change in operating profit in the Strauss Water segment.

3.1.4 Financing Expenses, Net – Non-GAAP

Net financing expenses in the first quarter of 2018 amounted to approximately NIS 17 million compared to expenses of approximately NIS 34 million in the corresponding period last year.

The decrease in financing expenses in the first quarter of 2018 compared to the corresponding period last year is primarily the result of income recorded on foreign currency derivatives and income arising from exchange differences as a result of the appreciation of the Dollar, Euro and Pound Sterling against the Shekel in the current quarter, as opposed to the depreciation of the Dollar, Euro and Pound Sterling against the Shekel in the corresponding quarter in 2017.

The net outstanding debt (according to the proportionate consolidation method) as at March 31, 2018 totaled NIS 2,082 million, compared to NIS 2,080 million on December 31, 2017. The gross outstanding debt as at March 31, 2018 was NIS 2,584 million, compared to NIS 2,778 million on December 31, 2017.

The net outstanding debt (according to the equity method) as at March 31, 2018 totaled NIS 1,892 million compared to NIS 1,897 million on December 31, 2017. The gross outstanding debt as at March 31, 2018 was NIS 2,271 million, compared to NIS 2,469 million on December 31, 2017.

3.1.5 Taxes on Income – Non-GAAP

In the first quarter of 2018 income tax (non-GAAP) amounted to NIS 76 million, reflecting an effective tax rate of 32.0%, whereas in the corresponding period last year income tax amounted to NIS 42 million and the effective tax rate was 22.1%.

The increase in the effective tax rate in the first quarter this year is the result of the profit mix for tax purposes between the companies in the various countries as well as nonrecurring provisions for income tax in Romania (for further information, see Note 4 to the Condensed Consolidated Interim Financial Statements as at March 31, 2018) and other countries. By contrast, there was an offsetting effect of a reduction in the corporate tax rate in Israel and the US.

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

	First Quarter		
	2018	2017	% Chg
Income attributable to the Company's shareholders	146	116	26.9
% of sales	6.8%	5.5%	

Non-GAAP income attributable to the Company's shareholders in the first quarter of 2018 rose by approximately NIS 30 million compared to the corresponding period last year, mainly as a result of growth in the operating profit in the quarter and an increase in the contribution of the coffee business's profits following the acquisition of the non-controlling interest in Strauss Coffee; this was countered by the offsetting impact of nonrecurring tax expenses. For further information on the acquisition of the non-controlling interest in the coffee company, see section 1.7 in the Description of the Company's Business report as at December 31, 2017.

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

In the first quarter of 2018 the GAAP comprehensive income amounted to approximately NIS 210 million, compared to comprehensive income of NIS 79 million in the corresponding period last year. In the reporting period gains from translation differences, which are the main component of other comprehensive income, amounted to approximately NIS 42 million (of which approximately NIS 37 million were the result of Strauss Coffee's operations) compared to foreign currency translation losses of NIS 52 million in the corresponding period last year.

3.1.8 Liquidity, Sources of Finance and Financial Position (According to the GAAP Report)

Cash flows from (used in) operating activities amounted to a positive cash flow of approximately NIS 78 million, compared to a negative cash flow of approximately NIS 58 million in the corresponding period last year. The change is mainly due to the increase in income for the period and the change in working capital compared to the corresponding period, primarily as a result of a change in trade payables and inventory balances compared to the corresponding period last year

Cash flows from (used in) investing activities amounted to a positive cash flow of approximately NIS 101 million compared to a negative cash flow of approximately NIS 127 million in the corresponding period last year. The change is primarily due to the realization of a deposit in the current quarter as well as the acquisition of an operation after deduction of the realization of an available-for-sale asset in the corresponding quarter last year.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 227 million compared to a negative cash flow of approximately NIS 269 million in the corresponding period last year.

On February 1, 2018 the Company effectuated a full and final redemption of its Series B debentures.

Unofficial Translation from Hebrew

Following is information on average credit volumes:

	Year	
	2018	2017
Average volume of long-term credit according to the equity method	2,337	1,835
Average volume of short-term credit according to the equity method	26	257
Average volume of long-term credit according to the Non-GAAP Report	2,593	2,070
Average volume of short-term credit according to the Non-GAAP Report	74	430

The change is primarily the result of the buyback of TPG's holding (25.1%) in Strauss Coffee. For further information, see Note 6.4 to the Consolidated Financial Statements as at December 31, 2017.

Following is the change in net working capital:

	First Quarter	
	2018	2017
Change in net working capital, equity method	(106)	(197)
Change in net working capital, non-GAAP Report	(157)	(278)

The Company's cash and cash equivalents as at March 31, 2018 totaled approximately NIS 346 million compared to approximately NIS 390 million on December 31, 2017. In accordance with Company policy, these assets are held mainly in liquid deposits.

The Company's liquidity ratio as at March 31, 2018 is 1.30 compared to 1.28 on December 31, 2017. On March 31, 2018 liabilities in respect of long-term loans and credit (including current maturities) amounted to approximately NIS 2,246 million compared to NIS 2,430 million on December 31, 2017. On March 31, 2018 short-term credit (excluding current maturities) totaled approximately NIS 25 million compared to NIS 39 million on December 31, 2017. On March 31, 2018 supplier credit totaled NIS 752 million, compared to approximately NIS 715 million on December 31, 2017.

Total assets in the Company's Consolidated Statement of Financial Position on March 31, 2018 amounted to approximately NIS 6,273 million, compared to NIS 6,183 million on December 31, 2017.

Reportable credit – further to Note 20.6 to the Consolidated Financial Statements as at December 31, 2017 – Financial Covenants – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at March 31, 2018 is 32.1%, compared to 29.4% on December 31, 2017. The net financial debt-to-EBITDA ratio as at March 31, 2018 is 2.2, compared to 2.3 on December 31, 2017. The equity attributable to the shareholders of the Company on March 31, 2018 is NIS 2,013 million. As at the date of this report, the Company is in compliance with the required covenants.

On May 22, 2018 the Board of Directors approved a dividend to shareholders in the amount of NIS 160 million (approximately NIS 1.39 dividend per share), which shall be paid on June 10, 2018. For information on the dividend distribution, see the update of the chapter "Description of the Company's Business Affairs" as at June 30, 2018.

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

In March 2018 the Company announced the reaffirmation of Standard & Poor's Maalot Ltd.'s iIAA+ rating with a revision of outlook to stable from negative.

In May 2018 the Company announced the reaffirmation of Midroog Ltd.'s Aa2il rating with a revision of outlook to positive from stable.

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 Quarter		Year Ended December 31
	2018	2017	2017
Cash flow from operating activities (according to the non-GAAP Report)	106	(86)	622
Acquisition of fixed assets and investment in intangibles (according to the Non-GAAP Report)	70	61	268
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,082	2,689	2,080
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	57	55	238
Strauss Israel:			
Health & Wellness	13	14	55
Fun & Indulgence	10	8	36
Strauss Coffee:			
Israel Coffee	3	3	13
International Coffee	14	12	53
International Dips & Spreads	7	6	32
Strauss Water	5	6	28
Other	5	6	21

The Group's EBITDA (non-GAAP) totaled approximately NIS 311 million in the first quarter of 2018 compared to NIS 278 million in the corresponding period last year, an increase of 12%.

3.2 Analysis of the Business Results of the Group's Major Business Units

3.2.1 Strauss Coffee

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reported segments for the quarters ended March 31, 2018 and 2017 (in NIS millions)*:

	First Quarter		
	2018	2017	% Chg
Israel Coffee			
Net sales	217	212	2.0
Operating profit	41	40	3.1
% operating profit	19.0%	18.9%	
International Coffee			
Net sales	769	749	2.7
Operating profit	78	51	51.2
% operating profit	10.1%	6.8%	
Total Strauss Coffee			
Net sales	986	961	2.5
Organic growth excluding foreign currency effect	7.3%	13.2%	
Gross profit	352	309	14.0
% gross profit	35.7%	32.1%	
Operating profit	119	91	30.1
% operating profit	12.0%	9.5%	

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

3.2.1.1 Sales

In the first quarter of 2018 organic growth in the coffee business, excluding the foreign currency effect, amounted to 7.3% compared to the corresponding period last year.

Growth in coffee sales in local currency in the first quarter mainly reflects volume growth of the Três Corações joint venture in Brazil¹, Poland, Ukraine and Israel, as well as the effect of price increases implemented in some countries in the course of 2017 in light of the rising cost of green coffee last year. In Brazil, prices were lowered following the decline in green coffee prices and profit margins expanded. For further information, see “Strauss Coffee Sales by Major Geographical Regions” in section 3.2.1.4 below.

In the first quarter of 2018 Strauss Coffee’s Shekel sales increased by approximately NIS 25 million compared to the corresponding period last year. Translation differences into Shekels in the quarter had a negative impact on sales by the coffee company and amounted to approximately NIS 40 million, of which a negative impact of the change in the average exchange rate of the Brazilian Real against the Shekel amounted to approximately NIS 46 million. Conversely, a change in the average exchange rate of the Polish Zloty and the Shekel contributed to a positive impact of approximately NIS 8 million.

For further explanations on sales by the coffee operation, see section 3.2.1.4 below.

3.2.1.2 Gross profit

In the first quarter of 2018 the gross profit rose by approximately NIS 43 million compared to the corresponding period last year. The gross profit margin rose 3.6% and amounted to 35.7% in the quarter.

The increase in the gross profit is explained by price increases introduced during 2017 in some of the countries where the Company is active, the drop in green coffee prices, and as a result of the depreciation of the Dollar against the relevant currencies, since the Dollar is the currency in which green coffee is purchased in all countries of operations, excluding Brazil.

3.2.1.3 Operating profit

In the first quarter of 2018 the operating profit of the coffee operation increased by approximately NIS 28 million compared to the corresponding period last year. The operating profit margin in the quarter was 12% (an increase of 2.5% compared to the first quarter of 2017).

The change in Strauss Coffee’s EBIT in the first quarter reflects:

- An increase in the operating profit of the Três Corações joint venture in Brazil in the first quarter of 2018 as a result of an increase in quantities sold and a drop in the cost of green coffee. Três Corações’ operating profit (before other expenses) in Brazilian Reals rose in the first quarter of 2018 by 136.3% (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).
- An increase in the operating profit in the CEE countries in the first quarter of 2018, mainly as a result of sales growth in Poland and Serbia and a positive foreign currency effect resulting from a depreciation in the average exchange rate of the Shekel against the relevant currencies.
- In Russia, the operating profit and operating profit margin fell in the first quarter of 2018 compared to the corresponding period last year as a result of a drop in sales volumes in light of the challenging competitive environment.
- An increase in the operating profit of Israel Coffee in the first quarter 2018, mainly as a result of growth in sales quantities due to the timing of Passover and a drop in green coffee prices.

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

3.2.1.4 Strauss Coffee sales by major geographical regions

Following is the scope of sales of the coffee business in the major geographical regions (not including intercompany sales) and growth rates for the quarters ended March 31, 2018 and 2017 (in NIS millions)*:

Geographical region	First Quarter			% change in local currency**
	2018	2017	% chg	
Israel Coffee	217	212	2.0	2.0
International Coffee				
Brazil (Três Corações joint venture) ^{(1) (2)} - 50%	472	450	4.7	16.6
Russia and Ukraine	133	148	(9.8)	(5.0)
Poland	84	74	14.7	3.6
Romania	50	51	(2.9)	(6.7)
Serbia	30	26	15.1	2.1
Total International Coffee	769	749	2.7	8.5
Total Coffee	986	961	2.5	7.0

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

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

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

(2) Três Corações' sales – excluding intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee.

3.2.1.4.1 The Três Corações (3C) joint venture (Brazil) – A company jointly held by the Group (50%) and the São Miguel Group (50%); (Data reflect Strauss Coffee's share (50%))

In the first quarter of 2018 the Três Corações joint venture's¹ average value market share in roast and ground (R&G) coffee amounted to approximately 27.1%, compared to 25% in the corresponding period last year (value market share reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures). In the GAAP report, the Group's share of the joint venture is accounted for in the equity method.

In the first quarter of 2018 the Três Corações joint venture's sales in local currency grew by approximately 16.6% (16.4% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee), despite a challenging economic and political environment.

Most of the growth originates in R&G sales as a result of volume growth in sales of most of the products sold by the Três Corações joint venture.

Growth in the Três Corações joint venture's Shekel sales in the first quarter of 2018 was negatively influenced by the strengthening of the average exchange rate of the Shekel against the Brazilian Real, which amounted to approximately NIS 46 million compared to the corresponding quarter.

The Três Corações joint venture's gross profit in domestic currency rose 40.2% in the first quarter and amounted to approximately 127 million BRL. Três Corações' gross profit margin rose 4.9% in the quarter and amounted to 28.7%. The increase in the gross profit margin primarily reflects a reduction in the cost of green coffee at a rate exceeding the decrease in the Três Corações joint venture's sales prices. EBIT (before other expenses) in BRL rose 136.3% in the first quarter of 2018, reflecting an increase in gross profit, which was partly offset by selling expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

The Company markets and distributes coffee capsules and machines under the TRES brand. On the reporting date, the user base is approximately one million countrywide.

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

In April 2017 a manufacturing site for the production of coffee capsules designated for the domestic market began operating in Brazil. The plant is a joint venture between the Três Corações joint venture¹ and the Italian company, Caffitaly. The plant is currently operating at full capacity.

The overall impact of the TRES solution on Três Corações' EBIT in the first quarter of the year amounted to an operating loss of approximately NIS 1.7 million (approximately 1.6 million BRL), compared to a loss of NIS 3 million (2.5 million BRL) in the corresponding period last year (figures reflect Strauss Coffee's share (50%)).

In April 2018 Três Corações acquired the activity attributed to the retail coffee brands of the company Tapajós Indústria de Café Ltda. The agreement between the companies includes the acquisition of the retail coffee brands (Manaus, Tapajós, Betânia) as well as additional products in the R&G category in northern Brazil in consideration for approximately NIS 23 million (reflecting 100%).

3.2.1.4.2 Russia and Ukraine

In 2017 and in the first quarter of 2018 the Ruble began to appreciate against the US Dollar following a period of devaluation that began at the end of 2014. Nevertheless, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency dropped in the first quarter of 2018 by approximately 5% compared to the corresponding period last year, primarily due to a drop in sales volumes as a result of the challenging competition. Sales quantities rose during the quarter, and prices in Ukraine were raised to compensate for the rise in raw material prices following the devaluation of the Ukrainian Hryvnia against the US Dollar.

The Company's Shekel sales in the region fell by approximately NIS 15 million in the quarter compared to the corresponding period last year. The Company's sales were affected by negative translation differences of the Russian Ruble and the Ukrainian Hryvnia against the Shekel, amounting to approximately NIS 7 million, compared to the corresponding period last year.

3.2.1.4.3 Poland

The Company's sales in Poland in local currency increased by approximately 3.6% in the first quarter of 2018 compared to the corresponding period in 2017. The growth in sales is the result of an improvement in the sales mix and growth in sales volumes in the quarter compared to the corresponding period last year.

The Company's Shekel sales in Poland grew by approximately NIS 10 million in the quarter compared to the corresponding period last year. The Company's sales were positively affected by the appreciation of the Polish Zloty against the Shekel, which amounted to approximately NIS 8 million, compared to the corresponding period in 2017.

3.2.1.4.4 Romania

The Company's sales in Romania in local currency fell by approximately 6.7% in the first quarter of 2018 compared to the corresponding period last year. The drop in sales in local currency is primarily due to growing competition, which led to a drop in quantities sold.

Shekel sales in Romania decreased by approximately NIS 1 million in the quarter compared to the corresponding period in 2017. Sales were affected by positive translation differences following the appreciation of the Romanian Leu against the Shekel.

3.2.1.4.5 Serbia

The Company's sales in Serbia in local currency rose by 2.1% in the first quarter of the year compared to the corresponding period last year. Sales were influenced by increases in sales prices implemented in the course of 2017, despite a consumer trend of preferring cheaper coffee brands and the harshening competitive environment.

The Company's Shekel sales in Serbia rose by approximately NIS 4 million in the quarter compared to the corresponding period last year. In the first quarter of 2018 the Company's sales were influenced by positive translation differences of the Serbian Dinar against the Shekel compared to the corresponding period.

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

3.2.1.4.6 Israel

The Company's sales in Israel rose by approximately NIS 5 million in the first quarter of 2018 compared to the corresponding period last year. The increase in the quarter is primarily the result of growth in sales volumes following the timing of Passover. The increase in the operating profit in the first quarter is the result of sales growth as mentioned and erosion of raw material costs following gains by the Shekel against the US Dollar.

3.2.2 The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first quarter of 2018, according to StoreNext figures¹, held a 12.2% share of the total domestic retail food and beverage market in value terms (compared to 12% in the corresponding period last year), an increase of 0.2% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew 5.8% in value terms, whereas according to StoreNext, in the first quarter of 2018 the Israeli food and beverage market rose 4.6% in 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 and Strauss Water Israel (Tami 4). Sales in 2017 include Max Brenner figures until the sale of the business in May 2017.

In the first quarter of the year Strauss Group's Israel sales totaled approximately NIS 1,211 million versus NIS 1,151 million last year, an increase of 5.2%.

Organic growth in the first quarter, excluding the effect of the sale of Max Brenner activity, amounted to 5.6% compared to the corresponding period in 2017.

Strauss Israel

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments for the quarters ended March 31, 2018 and 2017 (in NIS millions)*:

	First Quarter		
	2018	2017	% Chg
Health & Wellness segment			
Net sales	532	486	9.4
Operating profit	54	53	2.0
% operating profit	10.2%	10.9%	
Fun & Indulgence segment			
Net sales	334	332	0.6
Operating profit	55	52	4.8
% operating profit	16.4%	15.8%	
Total Strauss Israel			
Net sales	866	818	5.8
Gross profit	341	333	2.3
% gross profit	39.4%	40.7%	
Operating profit	109	105	3.4
% operating profit	12.6%	12.9%	

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

¹ The Strauss Water business is not included in StoreNext's market share measurements.

3.2.2.1 Sales

In the first quarter of 2018 Strauss Israel's sales increased by approximately 5.8% (NIS 48 million). In Health & Wellness the increase was approximately 9.4% (NIS 46 million), and in Fun & Indulgence sales growth amounted to 0.6% (NIS 2 million). The increase in sales in the quarter reflects volume growth, which was the result of the launch of new products in the yogurt, enriched milk, chocolate tablet and packaged salad categories, as well as new distribution agreements, which were implemented after the first quarter last year.

3.2.2.2 Gross profit

In the first quarter of 2018 Strauss Israel's gross profit rose by approximately NIS 8 million with a decrease of 1.3% in the gross profit margin, compared to the corresponding period last year.

The gross profit margin erosion in the quarter is the result of an increase in the prices of key raw materials (raw milk and sugar) combined with the appreciation of major currencies (Euro and Pound Sterling). Additionally, production inputs such as the minimum wage increased compared to the corresponding period. These increases were offset by growth in sales volumes and continued efficiency enhancing moves applied in production and packaging processes.

3.2.2.3 Operating profit

In the first quarter of 2018 Strauss Israel's EBIT increased by approximately NIS 4 million, and the operating profit margin dropped 0.3% and amounted to 12.6% of sales.

The growth in the operating profit mainly reflects growth in sales volumes compared to the corresponding period last year, which was offset in part by an increase in selling and marketing expenses (partially as a result of the increase in the minimum wage in December 2017).

3.2.3 The International Dips & Spreads Activity

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

Sabra is the largest refrigerated flavored dips and spreads company in the US. According to IRI, Sabra's value market share of the total refrigerated dips and spreads category in the 12 weeks ended March 31, 2018 was 25.8% (Number 1 in the market), compared to 24.2% at the end of 2017 and 21.9% in the corresponding period last year. Sabra's value market share of the hummus category in the above period was 59.4%, compared to 51.4% in the corresponding period last year.

In Australia, significant growth of approximately 29.7% was recorded in domestic currency sales in the first quarter of the year compared to the corresponding period; these figures include the start of sales in New Zealand, which are immaterial. In Mexico and Holland, sales volumes are immaterial. Obela is leader of the hummus market in Australia and Mexico in terms of market share.

In the third quarter of 2017 Obela began marketing refrigerated dips and spreads products in Germany through Florentin under the Obela brand.

3.2.3.1 Sabra

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

	First Quarter	
	2018	2017
Sales	322	288
Growth	11.8%	(17.7%)
Organic growth excluding foreign currency effect	20.8%	(13.6%)
Operating profit before other expenses	29	38
% operating profit	8.9%	13.0%

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

Sales by Sabra in the first quarter of 2018 increased by approximately NIS 34 million compared to the corresponding period last year due to the implications of the voluntary recall by the company in November 2016 on the results for the first quarter of 2017.

On November 19, 2016 Sabra announced a voluntary recall in North America of some of its hummus products, manufactured and marketed in the US and Canada, due to concerns of possible Listeria contamination. The bacteria were detected in Sabra's production site in Virginia, but not in the end products. Sabra's sales were also adversely impacted by translation differences, which amounted to NIS 21 million (of which the Company's share is NIS 11 million) in the first quarter of 2018.

In 2017 and in the first quarter of 2018 Sabra focused on regaining its market share in the US and Canada prior to the voluntary recall in the fourth quarter of 2016, on continued growth, and on maintaining its market share in its other countries of operations.

In the first quarter of 2018 EBIT dropped by NIS 9 million (of which the Company's share is NIS 5 million) compared to last year. The drop in EBIT in the quarter is the result of intensified marketing effort to regain Sabra's pre-recall market shares, high distribution costs as a result of domestic regulatory requirements and a rise in raw material prices.

3.2.3.2 Obela

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

Sales by Obela in the first quarter of 2018 totaled approximately NIS 40 million, compared to NIS 32 million in the corresponding period last year (24% growth). Excluding the foreign currency effect, growth in the period amounted to 25.9% compared to the corresponding period in 2017.

The operating loss in the first quarter amounted to NIS 6 million, compared to NIS 5 million in the corresponding period last year.

3.2.4 Strauss Water

Commencing in the current quarter, Company Management has elected to report the results of the Strauss Water segment separately, although it does not meet the quantitative thresholds for disclosure as a reportable segment. In prior periods, Strauss Water's results were presented within the Other Operations segment. Through Strauss Water the Group is active in the water market in the development, assembly, sale, marketing and servicing of POU (point-of-use) systems for the filtration and purification of drinking water, mainly in Israel, China and the UK. Strauss Water also has insubstantial activities in a number of other countries, which are carried out through local franchisees. In addition, Strauss Water has a material investment (49%) in an associate which is a joint venture established by Strauss Water and Haier Group of China and is active in the filtration and purification of drinking water in China.

On 28 May, 2017, Strauss Water Ltd. exercised the right reserved to it in accordance with the joint venture agreement to purchase an additional 15% of Qingdao HSW Health Water Appliance Co. Ltd. (the "**Joint Venture**" and the "**Acquisition**"). On August 30, 2017 (the "**Acquisition Date**"), Strauss Water paid 150 million Yuan (approximately NIS 81 million) (hereinafter: the "**Consideration**"). On the Acquisition Date ownership of the additional shares was transferred, such that following the Acquisition the Joint Venture is 51% owned by companies of the Haier Group and 49%, by Strauss Water.

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Water for the quarters ended March 31, 2018 and 2017 (in NIS millions)*:

	First Quarter		
	2018	2017	% Chg
Net sales	135	125	7.6
Operating profit	10	6	52.2
% operating profit	7.2	5.2	

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

3.2.4.1 Sales

In the first quarter of 2018 sales by Strauss Water totaled approximately NIS 135 million compared to NIS 125 million in the corresponding period in 2017, reflecting 7.6% growth, which mainly originates in the operation in Israel and is primarily the result of growth in sales of new appliances and in the customer base.

Sales by the Haier Strauss Water joint venture in China, which are not included in the Non-GAAP Report, totaled NIS 121 million in the first quarter of 2018 compared to NIS 118 million in the corresponding period last year, an increase of 3%. Sales growth in the quarter, excluding the foreign currency effect, amounted to 2.7% compared to the corresponding period last year (unaudited, reflecting 100%). The low growth achieved in the quarter is the result of a delay in the launch of new products for 2018 and the decision to phase out products with low contribution, as well as the restructuring of the sales organization and placing focus on new marketing channels for the joint venture.

3.2.4.2 Operating profit

In the first quarter of the year Strauss Water's operating profit increased by NIS 4 million, with the operating profit margin rising 2% and amounting to 7.2% of sales.

The increase in operating profit mainly reflects growth in the customer base as well as volume growth in sales versus the corresponding period, as well as steps applied to streamline operating costs.

The net profit of the joint venture amounted to approximately NIS 7 million in the first quarter compared to NIS 10 million in the corresponding period last year, a decrease of 35.7% (unaudited, reflecting 100%).

3.2.5 Other Operations

The Group has activities that are included in the financial statements as the "Other Operations" segment, which include, among others, Strauss Group's FoodTech incubator - The Kitchen Hub, and other Group Headquarters activities.

4. DISCLOSURE RELATING TO THE EXAMINATION OF WARNING SIGNS IN RESPECT OF A WORKING CAPITAL DEFICIENCY PURSUANT TO REGULATION 10(B)(14)(a)

In the Company's separate financial statements ("solo report") for the first quarter of 2018 there is a working capital deficiency of approximately NIS 19 million, whereas there is no such deficiency in the Consolidated Financial Statements of the Company for the first quarter. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 66 million. In light of the working capital deficiency in the solo report, on May 22, 2018 the Board of Directors of the Company examined the Company's liquidity as described below, and determined that said working capital deficiency is not indicative of a liquidity issue in the Company. This decision is based on a review, *inter alia*, of the Company's financial results as reported in the Financial Statements of the Company as at March 31, 2018, and is also based on data regarding the Company's projected cash flow for the next two years given the Company's existing and anticipated liabilities, including the Company's liabilities to the holders of its debentures (Series D and Series E) and to banking corporations and their maturity dates, and on an inspection of existing and anticipated sources for the repayment of these liabilities and the resources arising from the Company's holdings in its major investees, including the receipt of dividends, repayment of loans made available to investees, raising capital from banking corporations and/or other sources if necessary; as well as on the financial strength of the major investees of the Company and their leading competitive position in the markets where these companies operate. The Board of Directors also reviewed sensitivity analyses of the Company's projected cash flow for the next two years, and determined that the working capital deficiency is not indicative of a liquidity issue in the Company.

It is emphasized that the abovementioned assessment by the Board of Directors is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts and on its analysis of its actual cash flows in the period since the end of the quarter and its future cash flows, its existing and anticipated liabilities, its existing assets, its expectations as to future profits and dividend distributions by investees, etc. There can be no assurance that these assessments, in whole or in part, will, in fact, occur, or that they will not occur in a different form, including materially, than estimated, among other things as a result of market behavior and occurrence of the risk factors set forth in section 29 in the Description of the Company's Business report as at December 31, 2017.

5. ASPECTS OF CORPORATE GOVERNANCE

5.1 Directors

As at the date of this report, the Company has not adopted a provision in its Articles of Association pertaining to the number of independent directors as they are defined in the Companies Law, 1999.

On March 13, 2018 the Board of Directors appointed Prof. Joshua (Shuki) Shemer as an independent director of the Company. For further information, see the Company's Immediate Report of March 14, 2018 (reference no. 2018-01-019926).

6. GENERAL

See the attached report for information on the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 38C(a).

7. INFORMATION ON DEBENTURE SERIES

		Debentures Series D	Debentures Series E
A.	Nominal/par value	446	403
B.	Carrying value of debentures	454	399
C.	Carrying value of interest payable	10	3
D.	Market value	469	421

8. LIABILITY REPORT ACCORDING TO PAYMENT DATES

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

9. MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see the update to the chapter Description of the Company's Business as at March 31, 2018 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at March 31, 2018.

10. 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 Condensed Consolidated Interim Financial Statements as at March 31, 2018.

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

Giora Bardea
Interim Chief Executive Officer

May 22, 2018



STRAUSS GROUP LTD.
FINANCIAL STATEMENTS
AS AT MARCH 31, 2018

Unofficial Translation from Hebrew

Strauss Group Ltd.



Condensed Consolidated Interim Financial Statements as at March 31, 2018

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Condensed Consolidated Interim Statements of Financial Position

	March 31 2018	March 31 2017	December 31 2017
	Unaudited		Audited
	NIS Millions		
Current assets			
Cash and cash equivalents	346	242	390
Securities and deposits	33	47	182
Trade receivables	1,121	1,033	955
Income tax receivables	22	37	34
Other receivables and debit balances	106	126	92
Inventory	559	580	543
Assets held for sale	24	51	22
Total current assets	2,211	2,116	2,218
Investments and non-current assets			
Investment in equity-accounted investees	1,273	1,138	1,200
Other investments and long-term debt balances	82	84	82
Fixed assets	1,718	1,646	1,710
Intangible assets	959	973	944
Investment property	11	7	11
Deferred tax assets	19	18	18
Total investments and non-current assets	4,062	3,866	3,965
Total assets	6,273	5,982	6,183

Ofra Strauss
Chairperson of the Board of
Directors

Giora Bardea
Interim Chief Executive Officer

Shahar Florence
Chief Financial Officer

Date of approval of the interim financial statements: May 22, 2018

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

Strauss Group Ltd.



Condensed Consolidated Interim Statements of Financial Position (cont'd)

	March 31 2018	March 31 2017	December 31 2017
	Unaudited	Unaudited	Audited
	NIS Millions		
Current liabilities			
Current maturities of debentures	56	205	206
Short-term credit and current maturities of long-term loans and other liabilities	190	1,029	104
Trade payables	752	721	715
Income tax payables	40	16	33
Other payables and credit balances	637	691	639
Provisions	31	31	32
Liabilities associated with assets held for sale	-	12	-
Total current liabilities	1,706	2,705	1,729
Non-current liabilities			
Debentures	797	428	826
Long-term loans and other liabilities	1,228	975	1,333
Long-term payables and credit balances	97	58	76
Employee benefits, net	49	49	46
Deferred tax liabilities	231	227	218
Total non-current liabilities	2,402	1,737	2,499
Equity and reserves			
Share capital	252	244	252
Share premium	1,051	622	1,051
Reserves	(1,578)	(1,557)	(1,621)
Retained earnings	2,288	2,055	2,135
Total equity attributable to the Company's shareholders	2,013	1,364	1,817
Non-controlling interests	152	176	138
Total equity	2,165	1,540	1,955
Total liabilities and equity	6,273	5,982	6,183

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

Strauss Group Ltd.



Condensed Consolidated Interim Statements of Income

	For the three months ended		For the year ended
	March 31 2018	March 31 2017	December 31 2017
	Unaudited		Audited
	NIS millions		
Sales	1,446	1,408	5,480
Cost of sales	845	840	3,354
Gross profit	601	568	2,126
Selling and marketing expenses	315	318	1,259
General and administrative expenses	95	93	388
	410	411	1,647
Share of profit of equity-accounted investees	58	44	162
Operating profit before other income (expenses)	249	201	641
Other income	3	23	27
Other expenses	(1)	(16)	(36)
Other income (expenses), net	2	7	(9)
Operating profit	251	208	632
Financing income	10	2	6
Financing expenses	(26)	(31)	(123)
Financing expenses, net	(16)	(29)	(117)
Profit before income taxes	235	179	515
Taxes on income	(67)	(30)	(99)
Profit for the period	168	149	416
Attributable to:			
The Company's shareholders	153	107	342
Non-Controlling interests	15	42	74
Income for the period	168	149	416
Earnings per share			
Basic earnings per share (in NIS)	1.34	1.00	3.05
Diluted earnings per share (in NIS)	1.33	0.99	3.04

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

Strauss Group Ltd.



Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended		For the year ended
	March 31 2018	March 31 2017	December 31 2017
	Unaudited		Audited
	NIS millions		
Income for the period	168	149	416
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:			
Foreign currency translation differences	29	(17)	(13)
Reclassification of translation reserve in respect of realization of an operation to profit or loss	-	-	7
Changes in fair value of available-for-sale financial assets, net	-	3	3
Available for sale financial assets reclassified to profit or loss	-	(21)	(21)
Other comprehensive income (loss) from equity-accounted investees	13	(35)	(108)
Total other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods, net	42	(70)	(132)
Comprehensive income for the period	210	79	284
Attributable to:			
The Company's shareholders	196	57	231
Non-controlling interests	14	22	53
Comprehensive income for the period	210	79	284

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

Strauss Group Ltd.



Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings			
	NIS millions								
Balance as at January 1, 2018 - audited	252	1,051	(20)	(392)	(1,209)	2,135	1,817	138	1,955
<i>Impact of first-time adoption of IFRS 9*</i>	-	-	-	-	-	(4)	(4)	-	(4)
Balance as at January 1, 2018 after first-time adoption	252	1,051	(20)	(392)	(1,209)	2,131	1,813	138	1,951
Changes in the three-month period ended March 31, 2018 - unaudited:									
Total comprehensive income (loss) for the period						153	153	15	168
<i>Income for the period</i>	-	-	-	-	-	153	153	15	168
<i>Components of other comprehensive income (loss):</i>									
Foreign currency translation differences	-	-	-	-	30	-	30	(1)	29
Other comprehensive income from equity-accounted investees	-	-	-	-	13	-	13	-	13
<i>Other comprehensive income (loss) for the period, net</i>	-	-	-	-	43	-	43	(1)	42
Total comprehensive income for the period, net	-	-	-	-	43	153	196	14	210
Share-based payment	-	-	-	-	-	4	4	-	4
Balance as at March 31, 2018 - unaudited	252	1,051	(20)	(392)	(1,166)	2,288	2,013	152	2,165

* See Note 1.2 with regard to the first-time adoption of IFRS 9, Financial Instruments

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

Strauss Group Ltd.



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

Attributable to the Company's shareholders

	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2017	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543
Changes in the three-month period ended March 31, 2017 – unaudited:										
Total comprehensive income (loss) for the period										
<i>Income for the period</i>	-	-	-	-	-	-	107	107	42	149
<i>Components of other comprehensive income (loss):</i>										
Foreign currency translation differences	-	-	-	-	(11)	-	-	(11)	(6)	(17)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(32)	-	-	(32)	(3)	(35)
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Available-for-sale financial assets reclassified to profit or loss	-	-	-	-	-	(8)	-	(8)	(13)	(21)
<i>Other comprehensive loss for the period, net</i>	-	-	-	-	(43)	(7)	-	(50)	(20)	(70)
Total comprehensive income (loss) for the period, net	-	-	-	-	(43)	(7)	107	57	22	79
Share-based payment	-	-	-	-	-	-	4	4	-	4
Acquisition of non-controlling interest in a subsidiary	-	-	-	(308)	(224)	-	-	(532)	(554)	(1,086)
Balance as at March 31, 2017 - unaudited	<u>244</u>	<u>622</u>	<u>(20)</u>	<u>(389)</u>	<u>(1,148)</u>	<u>-</u>	<u>2,055</u>	<u>1,364</u>	<u>176</u>	<u>1,540</u>

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



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

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2017	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543
Changes in 2017 – audited:										
Total comprehensive income (loss) for the year										
<i>Income for the year</i>	-	-	-	-	-	-	342	342	74	416
<i>Components of other comprehensive income (loss):</i>										
Foreign currency translation differences	-	-	-	-	(6)	-	-	(6)	(7)	(13)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(105)	-	-	(105)	(3)	(108)
Reclassification of translation reserve in respect of realization of an operation to profit or loss	-	-	-	-	7	-	-	7	-	7
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Available-for-sale financial assets reclassified to profit or loss	-	-	-	-	-	(8)	-	(8)	(13)	(21)
<i>Total other comprehensive loss for the year, net</i>	-	-	-	-	(104)	(7)	-	(111)	(21)	(132)
Total comprehensive income (loss) for the year	-	-	-	-	(104)	(7)	342	231	53	284
Issue of share capital, net of issue costs	7	429	-	-	-	-	-	436	-	436
Exercise of options granted to employees	1	-	-	-	-	-	-	1	-	1
Acquisition of non-controlling interests	-	-	-	(311)	(224)	-	-	(535)	(554)	(1,089)
Share-based payment	-	-	-	-	-	-	9	9	-	9
Derecognition of non-controlling interests due to loss of control in subsidiaries	-	-	-	-	-	-	-	-	(1)	(1)
Dividends	-	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(68)	(68)
Balance as at December 31, 2017	252	1,051	(20)	(392)	(1,209)	-	2,135	1,817	138	1,955

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

Strauss Group Ltd.**Condensed Consolidated Interim Statements of Cash Flows**

	For the three months ended		For the year ended
	March 31 2018	March 31 2017	December 31 2017
	Unaudited		Audited
	NIS millions		
Cash flows from operating activities			
Income for the period	168	149	416
Adjustments:			
Depreciation	35	33	139
Amortization of intangible assets and deferred expenses	9	8	42
Impairment (reversal of impairment) loss of fixed assets and intangible assets, net	(2)	7	10
Other income, net	(1)	(20)	(14)
Expenses in respect of share-based payment	4	4	17
Financing expenses, net	16	29	117
Income tax expenses	67	30	99
Share of profit of equity-accounted investees	(58)	(44)	(162)
Change in inventory	(12)	(42)	(7)
Change in trade and other receivables	(172)	(173)	(81)
Change in long-term trade receivables	1	-	(1)
Change in trade and other payables	75	17	(7)
Change in employee benefits	2	1	(2)
Interest paid	(29)	(36)	(102)
Interest received	1	2	4
Income tax paid, net	(26)	(23)	(100)
Net cash flows from (used in) operating activities	78	(58)	368
Cash flows from investing activities			
Sale (purchase) of marketable securities and deposits, net	149	6	(127)
Proceeds from sale of fixed assets, intangible assets and investment property	5	7	16
Investment in fixed assets and investment property	(36)	(33)	(141)
Investment in intangible assets	(10)	(10)	(43)
Proceeds from sale of operations, net cash sold	-	-	12
Acquisition of operations, net cash acquired	(1)	(119)	(119)
Realization of available-for-sale asset	-	31	31
Repayment of deposits and loans granted	4	9	32
Loans granted	(9)	(9)	(17)
Dividends from investee companies	-	-	70
Investment in investee companies	(1)	(9)	(100)
Net cash flows from (used in) investing activities	101	(127)	(386)

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

Strauss Group Ltd.



Condensed Consolidated Interim Statements of Cash Flows (cont'd)

	For the three months ended		For the year ended
	March 31 2018	March 31 2017	December 31 2017
	Unaudited		Audited
	NIS millions		
Cash flows from financing activities			
Proceeds from issue of share capital, net of issue costs	-	-	436
Acquisition of non-controlling interests in a subsidiary	(18)	(694)	(1,094)
Short-term bank credit, net	(16)	541	24
Proceeds from issue of debentures, net of issue costs	-	-	399
Receipt of long-term loans	-	100	536
Repayment of long-term loans and debentures	(186)	(216)	(371)
Redemption of share options in a subsidiary	(7)	-	-
Proceeds from exercise of share options	-	-	1
Dividends	-	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	(68)
Net cash flows used in financing activities	(227)	(269)	(297)
Net decrease in cash and cash equivalents	(48)	(454)	(315)
Cash and cash equivalents as at beginning of period	390	711	711
Effect of exchange rate fluctuations on cash balances	4	(15)	(6)
Cash and cash equivalents as at end of period	346	242	390

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



Note 1 - Reporting Principles and Accounting Policy

1.1 General

- 1.1.1 The reporting entity, Strauss Group Ltd (hereinafter: the “Company” or “Strauss Group”) is an Israeli resident company. The address of the Company’s registered office is 49 Hasivim St. Petach Tikva.

The Company and its investee companies (hereinafter: the “Group”) are a group of industrial and commercial companies operating in Israel and abroad and active mainly in the development, manufacture, marketing and sale of a broad variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration and purification products. The condensed consolidated interim financial statements as at March 31, 2018 and for the three-month period then ended (hereinafter - the “Interim Statements”) comprise the Company and its subsidiaries and the Group’s rights in joint arrangements.

The Company’s controlling shareholders are Mr. Michael Strauss (indirectly) through his holdings in Strauss Holdings Ltd. (hereinafter: the “Parent Company” or “Strauss Holdings”) and through a direct holding in the Company, and Ms. Ofra Strauss, who is considered a joint holder of the Company’s shares with Mr. Strauss.

- 1.1.2 The Interim Statements were prepared in accordance with IAS 34 with respect to interim financial reporting and Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2017 and for the year then ended together with their accompanying notes (hereinafter: the “Annual Financial Statements”). Other than as described in sections 1.2 and 1.3 below, the accounting principles applied in preparing these Interim Statements were applied consistently with the Annual Financial Statements.

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

- 1.1.4 These Interim Statements were approved by the Board of Directors of the Group on May 22, 2018.

1.2 First-time adoption of IFRS 9 (2014), *Financial Instruments*

Since the first quarter of 2018, the Group has applied IFRS 9 (2014), *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*.

The Group has elected to apply the standard commencing on January 1, 2018 without restating comparative figures, with the required adjustments to opening retained earnings and other components of equity on January 1, 2018 (the date of initial application of the standard). Further to an examination by the Group, adoption of the standard does not have a material impact on its financial statements.

See the statement of changes in shareholders’ equity for the impact of the adoption of the standard on the date of initial application.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.2 First-time adoption of IFRS 9 (2014), Financial Instruments (cont'd)

Following are the principal changes to accounting policy following the adoption of IFRS 9 commencing on January 1, 2018:

1.2.1 Financial assets – classification and subsequent measurement

At initial recognition, financial assets are classified to one of the following measurement categories: amortized cost; fair value through other comprehensive income (FVTOCI) – investments in debt instruments; FVTOCI – investments in equity instruments; or fair value through profit or loss (FVTPL).

Financial assets are reclassified in subsequent periods if, and only if, there is a change in the Group's business model for managing financial assets, and in such case the relevant debt instruments will be reclassified from the start of the first reporting period following the change.

A financial asset that is a debt instrument is measured at amortized cost if it satisfies the following two cumulative conditions and is not designated for measurement at fair value through profit or loss:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the undischarged principal.

A financial asset that is a debt instrument is measured at fair value through other comprehensive income if it satisfies the following two cumulative conditions and is not designated for measurement at fair value through profit or loss:

- It is held within a business model whose objective is accomplished by collecting contractual cash flows as well as by selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the undischarged principal.

All financial assets that are not classified for measurement at amortized cost or FVTOCI as described above are measured at fair value through profit or loss.

The Group has short-term and long-term trade and other receivables and deposits that are held within a business model whose objective is to collect contractual cash flows. Contractual cash flows in respect of these financial assets are SPPI, which represent compensation for the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.2 First-time adoption of IFRS 9 (2014), *Financial Instruments* (cont'd)

1.2.1 Financial assets – classification and subsequent measurement (cont'd)

Assessment of the business model

The Group assesses the objective of the business model within which the financial assets are held, and considers factors that include the manner of reporting the performance of the financial assets to key people in management, risks impacting the business model, the frequency and timing of sales of financial assets in prior periods, etc.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for the purpose of assessing the business model, in conformity with the Group's continued recognition of those financial assets.

Assessment if cash flows are solely payments of principal and interest

When assessing whether cash flows are SPPI, "principal" is the fair value of the financial asset at initial recognition, and "interest" comprises compensation for the time value of money and credit risk attributed to the undischarged principal within a certain time period, and for other lending risks and administrative costs.

When assessing if contractual cash flows meet the SPPI criterion, the Group examines the contractual terms of the instrument and if the financial asset includes a contractual term that is likely to change the timing or amount of contractual cash flows such that it will not satisfy that term.

1.2.2 Insubstantial modification of the terms of a financial liability

In the case of a modification of the terms (or the exchange of debt instruments) that is not substantial, the new cash flows are discounted at the original effective interest rate, and the difference between the present value of the financial instrument with the new terms and the present value of the original financial liability is recognized in profit or loss.

1.2.3 Impairment of investments in debt instruments

The Group recognizes a loss allowance for expected credit losses (ECL) pertaining to financial assets measured at amortized cost. The Group measures the loss allowance for ECL at an amount equal to full lifetime ECL, with the exception of allowances measured at an amount equal to the 12-month ECL in respect of the following instruments: debt instruments defined as having a low credit risk on the reporting date, and debt instruments on which the credit risk has not increased significantly since initial recognition.

For trade and other receivables classified as current assets (that do not include a significant financing component), the Groups examines the ECL (or their elimination) throughout the life of the instrument.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.2 First-time adoption of IFRS 9 (2014), *Financial Instruments* (cont'd)

1.2.3 Impairment of investments in debt instruments (cont'd)

When assessing if the credit risk of a financial asset has increased significantly since initial recognition and the estimation of ECL, the Group considers reasonable and supportable information that is available without undue cost or effort. Such information includes quantitative and qualitative information and an analysis based on the Group's past experience and includes forward-looking information.

Measurement of expected credit losses

ECL is the probability weighted estimate of credit losses. The impairment loss is calculated as the difference between the carrying value of the financial asset and the present value of estimated cash flows expected to be received by the Company, discounted at the original effective interest rate of the financial asset, if relevant, and is accounted for in the statement of income within selling and marketing expenses.

A loss allowance for ECL pertaining to a financial asset measured at amortized cost is presented as a reduction from the gross carrying amount of the financial asset.

1.2.4 Derivative financial instruments including hedge accounting

The Group holds derivative financial instruments for hedging purposes. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and if a number of additional criteria are met.

Derivatives are initially recognized at fair value and are subsequently measured at fair value, with changes recognized in profit or loss.

The Group has chosen to apply the fair value hedge model in IFRS 9 (in the current quarter, the model is applied only by a jointly controlled entity).

According to the principles of fair value hedge accounting, changes in the fair value of a derivative financial instrument serving to hedge fair value are recognized in profit or loss. Fair value changes of the hedged item that are attributable to the risk being hedged are simultaneously recognized in profit or loss with a corresponding adjustment in the carrying value of the hedged item.

1.3 IFRS 15, *Revenue from Contracts with Customers*

The Group is applying IFRS 15 for the first time commencing January 1, 2018. IFRS 15 replaces the current guidance for the recognition of revenue. The Group has chosen to apply the standard in the aggregate effect method, adjusting retained earning balances as at January 1, 2018, without restatement of prior period information, only for contracts that are not completed on the transition date.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.3 IFRS 15, Revenue from Contracts with Customers (cont'd)

The standard presents a new model for the recognition of revenue from contracts with customers, which consists of five steps:

1. Identify the contract with the customer.
2. Identify separate performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to separate performance obligations.
5. Recognize revenue when the entity satisfies a performance obligation.

Further to an examination by the Group, adoption of the standard does not have a material impact on its financial statements.

Following are the main changes in accounting policy subsequent to the adoption of the standard commencing on January 1, 2018:

1.3.1 Identify the contract

The Group accounts for a contract with a customer only when all of the following conditions are met:

- a. The contract has been approved by the parties to the contract (written or verbal contract or in accordance with other business practices) and they are committed to fulfilling their obligations;
- b. The Group is able to identify each party's rights in relation to the goods or services to be transferred;
- c. The Group is able to identify the payment terms for the goods or services to be transferred;
- d. The contract has commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- e. It is probable that the Group will collect the consideration to which it is entitled in exchange for the goods or services to be transferred to the customer.

To comply with paragraph 'e' above, the Group examines, *inter alia*, the credit rating of every new customer and the collateral in place.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.3 IFRS 15, Revenue from Contracts with Customers (cont'd)

1.3.2 Identify the separate performance obligations in the contract

On the contract inception date the Group assesses the goods or services promised in the contract with the customer and identifies each promise to transfer to the customer one of the following as a performance obligation:

- (a) A good or service (or a bundle of goods or services) that is distinct; or
- (b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies a good or service promised to the customer as distinct if the customer can benefit from the good or service on its own or in conjunction with other readily available resources and if the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. In assessing whether a promise to transfer goods or services to a customer is separately identifiable, the Group considers whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into a combined deliverable for the receipt of which the customer entered into the contract.

When identifying the performance obligations in the contract, the Group also takes the two following topics into account:

Warranty

To assess whether a warranty represents a separate service to the customer and is therefore a distinct performance obligation, the Group examines the following factors among others:

Whether the customer has the option to purchase the warranty separately, whether the warranty is required by law, the length of coverage under the warranty period, and the nature of the services that the Group promises to perform. In cases where warranty services are provided only to assure the quality of the work and compliance with the technical specifications that were agreed upon by the parties, and they do not constitute a service in addition to the assurance, the Group does not recognize a warranty as a separate performance obligation, but accounts for warranties in accordance with the guidance in IAS 37 and recognizes a provision for the warranty according to the estimated cost of the services in question.

Option to acquire additional goods or services

An option that grants the customer the right to acquire additional goods or services is considered a separate performance obligation in the contract only if the option confers a material right that the customer would not have received had it not entered into the original contract. For an option that confers a material right, the Group recognizes income when the future goods or services are transferred or when the option expires.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.3 IFRS 15, Revenue from Contracts with Customers (cont'd)

1.3.3 Determine the transaction price

The transaction price is the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. When determining the transaction price, the Group takes the effects of all of the following into account:

Variable consideration

The transaction price includes amounts that are likely to vary as a result of discounts, rebates, refunds, credits, incentives, bonuses and claims, as well as contract modifications in which respect the consideration has not yet been agreed upon by the parties. When measuring the transaction price, the Group includes the amount of all or part of the variable consideration only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future. At the end of each reporting period, if necessary, the Group adjusts the estimated amount of the variable consideration that was included in the transaction price.

Existence of a significant financing component

To measure the transaction price, the Group adjusts the amount of the consideration for the time value of money in cases where the timing of payments provides a significant financing benefit to the customer or to the Group. When the contract contains a significant financing component (in cases where the Company is paid the consideration more than 12 months after the date of the sale), the Group recognizes the amount of the consideration using the discount rate that would have been reflected in a separate financing transaction between the Group and the customer on the contract inception date. The financing component is recognized as financing income/expenses using the effective interest rate method.

When the interval between the receipt of the consideration and the transfer of the goods or services to the customer is one year or less, the Group applies the practical expedient in the standard and does not separate a significant financing component.

Consideration payable to the customer

In certain cases, the Group pays or expects to pay a consideration to its customers (for example, a commission for arranging its products in-store), as well as credits or other items such as coupons and vouchers. These amounts are accounted for as a reduction of the transaction price, unless they are related to a distinct good or service received by the Group from the customer, in which case the consideration paid to the customer is accounted for as a separate transaction in the same manner as other purchases from suppliers.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.3 IFRS 15, Revenue from Contracts with Customers (cont'd)

1.3.4 Recognize revenue when the performance obligation is satisfied

The Group recognizes revenue when the performance obligation is satisfied and control is transferred. In recognizing revenue from the sale of goods, the Group takes the following considerations into account when deciding if control of the asset has been transferred at a point in time: the Group has a present right to payment for the asset; the customer has legal title to the asset; the Group has transferred physical possession of the asset; the customer has the significant risks and rewards related to the ownership of the asset; and the customer has confirmed acceptance of the asset.

For revenue from the provision of services, the customer simultaneously receives and consumes the benefits from the services as the Company performs, and therefore, revenue in respect of this performance obligation is recognized over time concurrently with the provision of the services.

1.3.5 Sale with a right of return

For contracts granting the customer the right to return goods purchased, revenue is recognized at an amount in which respect it is highly probable that a significant revenue reversal will not occur. Therefore, revenue that is recognized is adjusted for expected returns, which are estimated on the basis of historical information and past experience. In cases where returned goods are exchanged for new goods, i.e. there is no cash refund, a liability for returns is recognized with a corresponding adjustment to the income item, and an asset is recognized in respect of the right to accept the returns with a corresponding adjustment to the cost of sales.

1.3.6 Customer acquisition costs

The incremental costs of obtaining a contract with a customer are capitalized as an asset only when the Company expects to recover those costs. Accordingly, direct sales commissions paid to sales agents are capitalized as an asset in respect of obtaining a contract and are amortized on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates. The Group has also chosen to apply the practical expedient in the standard and recognizes the incremental costs of obtaining a contract as an expense when incurred when the amortization period of the asset is one year or less.

Costs to obtain a contract that are incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless these costs are chargeable to the customer.



Note 1 - Reporting Principles and Accounting Policy (cont'd)

1.3 IFRS 15, Revenue from Contracts with Customers (cont'd)

1.3.7 Principal versus agent considerations

When another party is involved in providing goods or services to a customer, the Group determines which party is the principal supplier in the transaction. The Group is the principal when it acquires control of the goods or services before they are transferred to the customer. Indicators that the Group controls the goods or services prior to their transfer include, inter alia, the following: the Group is primarily responsible for fulfilling the contract; the Group has an inventory risk before the goods are transferred to the customer; and the Group has discretion in determining the prices.

When the Group is the principal in the transaction, revenue is recognized at the gross amount of the consideration. When the Group is the agent, revenue is recognized at the net amount.

Note 2 – Seasonality

Sales of Fun & Indulgence products are characterized by seasonality, and are usually higher in the first quarter of the year. Seasonality is mainly affected by the winter, which is characterized by greater consumption of chocolate products, as well as by increased consumption as Passover approaches.

In the Israel Coffee segment there is no clear trend of seasonality. However, total revenues are usually high in the first quarter of the year, due to increased consumption of coffee products prior to Passover.

In Health and Wellness products there is no clear trend of seasonality. However, total revenues are usually relatively high in the third quarter of the year in the hot summer months, which are characterized by increased consumption of dairy products.

International coffee sales are usually higher in the fourth quarter of the year. Seasonality is mainly affected by the timing of the Christian holidays and the end of the calendar year in the fourth quarter, a period characterized by higher purchases of coffee products.


Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
Note 3 - Operating Segments

Segment information and reconciliation to the consolidated financial statements:

	For the three months ended		For the year ended
	March 31	March 31	December 31
	2018	2017	2017
	Unaudited		Audited
	NIS millions		
Revenues			
Sales to external customers:			
Health & Wellness	532	486	2,068
Fun & Indulgence	334	332	1,063
Total Israel	866	818	3,131
Israel Coffee	217	212	704
International Coffee	769	749	3,396
Total Coffee	986	961	4,100
International Dips and Spreads	180	160	692
Water	135	125	541
Other (*)	-	19	28
Sales to other segments:			
Health & Wellness	2	2	7
Fun & Indulgence	3	3	11
Total Israel	5	5	18
Israel Coffee	1	-	2
International Coffee	1	1	2
Total Coffee	2	1	4
International Dips and Spreads	-	-	-
Water	-	-	-
Other (*)	-	-	-
Total segment revenues	2,174	2,089	8,514
Elimination of intersegment sales	(7)	(6)	(22)
Total segment revenues excluding intersegment sales	2,167	2,083	8,492
Adjustment to the equity method	(721)	(675)	(3,012)
Total consolidated revenues	1,446	1,408	5,480

(*) Commencing in the current quarter, Company Management has elected to report the results of the Strauss Water segment, formerly presented within the "Other" segment, separately. Comparative figures have been restated.


Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
Note 3 - Operating Segments (cont'd)

	For the three months ended		For the year ended
	March 31 2018	March 31 2017	December 31 2017
	Unaudited		Audited
	NIS millions		
Profit			
Health & Wellness	54	53	222
Fun & Indulgence	55	52	106
Total Israel	109	105	328
Israel Coffee	41	40	104
International Coffee	78	51	289
Total Coffee	119	91	393
International Dips and Spreads	11	17	19
Water	10	6	36
Other (*)	5	4	4
Total profit of reportable segments	254	223	780
Unallocated income (expenses):			
Adjustments for commodity hedges (1)	11	(9)	(31)
Other income (expenses), net	2	8	(52)
Share-based payment	(4)	(4)	(17)
Total operating profit of operating segments	263	218	680
Adjustment to the equity method	(12)	(10)	(48)
Total operating profit in the consolidated financial statements	251	208	632
Financing expenses, net	(16)	(29)	(117)
Profit before taxes on income	235	179	515

(*) Commencing in the current quarter, Company Management has elected to report the results of the Strauss Water segment, formerly presented within the "Other" segment, separately. Comparative figures have been restated.

(1) Reflects accounting revaluation (mark-to-market) as at end-of-period of open positions in the Group in respect of derivative financial instruments used to hedge commodity prices, and all adjustments necessary to delay recognition of gains and losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

Note 4 - Material Events in the Reporting Period

- 4.1** Further to Note 35.7 to the Annual Financial Statements, in the reporting period the subsidiary Strauss Romania (hereinafter: the "Subsidiary") was involved in negotiations with the local tax authorities pertaining to tax assessments. In May 2018 the Subsidiary was issued with final tax assessments amounting to approximately NIS 15.6 million. The Subsidiary disputes the position of the tax authority and is of the view, *inter alia* in reliance on its professional consultants, that it has strong counterarguments, and accordingly, it intends to appeal the assessments. In the



Note 4 - Material Events in the Reporting Period (cont'd)

Company's estimate and in reliance on its professional consultants, the provision that was recognized is sufficient.

Furthermore, the Subsidiary was informed that in parallel to the issue of the assessments, the Romanian tax authority sent findings to the Romanian attorney general for review as to whether these findings amount to a criminal offense. The Company was informed by the Subsidiary's legal counsel that referral to the attorney general is a standard procedure adopted by the Romanian tax authority in order to create a procedural advantage in its favor.

Note 5 - Share-Based Payment

Options exercised in the reporting period:

In the reporting period 67,750 options warrants granted to employees were exercised into 12,606 shares in consideration for their nominal value.

The number of shares (in thousands) of NIS 1 nominal value as at March 31, 2018 is 114,740.

Note 6 - Contingent Liabilities

- 6.1** For information on claims and contingent liabilities pending as at December 31, 2017 against the Company and its investees, see Note 24.1.1 to the Annual Financial Statements.
- 6.2** On April 30, 2018 a monetary claim was filed with the Tel Aviv – Jaffa District Court, together with a motion for its certification as a class action, against the subsidiary Strauss Water Ltd., pertaining to an alleged malfunction in appliances manufactured by Strauss Water. The amount sought in the action is approximately NIS 97 million. At the present stage, the Company is unable to estimate the chances of the claim.

The Company did not recognize a provision for pending claims as at March 31, 2018, which, in the opinion of its legal counsel, are not expected to be accepted, or the chances of which cannot be estimated.


Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)
Note 7 – Investment in Equity-Accounted Investees
7.1 Concise information on material equity-accounted investees:

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	March 31		December 31	March 31		December 31
	2018	2017	2017	2018	2017	2017
	Unaudited		Audited	Unaudited		Audited
NIS millions						
Current assets	276	318	269	1,114	994	1,073
Of which:						
Cash and cash equivalents	57	55	67	123	26	118
Non-current assets	553	655	551	688	656	647
Total assets	829	973	820	1,802	1,650	1,720
Current liabilities	172	371*	318	687	681	675
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	39	263*	168	249	315	234
Non-current liabilities	128	11*	7	188	190	189
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	123	9*	-	157	155	158
Total liabilities	300	382	325	875	871	864

* Reclassified of outstanding balance of the loan as at March 31, 2018 from long-term to short-term due to non-compliance with a financial covenant.

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	March 31		December 31	March 31		December 31
	2018	2017	2017	2018	2017	2017
	Unaudited		Audited	Unaudited		Audited
NIS millions						
Income	322	288	1,244	943	902	4,179
Profit (loss) for the period	20	20	(19)	72	30	285
Other comprehensive income (loss)	7	(34)	(61)	9	(16)	(89)
Total comprehensive income (loss)	27	(14)	(80)	81	14	196
Of which:						
Depreciation and amortization	11	11	122	10	10	39
Interest income	-	-	-	4	2	13
Interest expenses	1	2	7	5	11	41
Income tax income (expense)	(8)*	(16)*	15*	(16)	(3)	(42)

* Tax in respect of an equity-accounted investee assessed in the holding company, S.E. USA, Inc.



Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

Note 7 – Investment in Equity-Accounted Investees (cont'd)

- 7.2 The Group has attached to these condensed consolidated interim financial statements the condensed consolidated interim financial statements of Três Corações 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 Following are the average exchange rates and rates of change in the Real to Shekel exchange rates during the reporting period:

	Real Exchange Rate		
	Closing exchange rate for the period	Average for the period	% change
For the three-month period ending on:			
March 31, 2018	1.06	1.07	1.2
March 31, 2017	1.15	1.19	(2.6)
For the year ending December 31, 2017	1.05	1.13	(11.3)

Note 8 - Financial Instruments

8.1 Financial instruments measured at fair value

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 is the same as or proximate to their fair value. 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:

	March 31, 2018		March 31, 2017		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited				Audited	
	NIS millions					
Series B Debentures	-	-	178	184	181	182
Series D Debentures	464	469	456	501	460	508
Series E Debentures	402	421	-	-	399	423



Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

Note 8 - Financial Instruments (cont'd)

8.2 Fair value hierarchy of financial instruments measured at fair value

The table below presents an analysis of the financial instruments measured at fair value using an evaluation method. 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.

	March 31, 2018		March 31, 2017		December 31, 2017	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	Unaudited				Audited	
	NIS millions					
Financial assets (liabilities)						
Marketable securities	31	-	46	-	31	-
Trade receivables-derivatives	4	9	1	1	3	3
Trade payables- derivatives	(15)	(2)	(5)	(26)	(23)	(3)
	<u>20</u>	<u>7</u>	<u>42</u>	<u>(25)</u>	<u>11</u>	<u>-</u>

As at March 31, 2018 and December 31, 2017, the Group has no material financial instruments measured at Level 3.

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 – Post-Statement of Financial Position Date Events

- 9.1** On May 3, 2018 the Remuneration Committee of the Company approved the grant of 1,173,326 option warrants to 15 managers. The exercise price was set at the average closing price of the Company's share in the 30 trading days preceding the grant date with no premium, linked to the CPI published on April 15, 2018. The value of the grant is approximately NIS 13 million.
- 9.2** On May 22, 2018 the Board of Directors of the Company approved a dividend distribution to the shareholders at an amount of NIS 160 million (approximately NIS 1.39 per share), which will be paid on June 10, 2018.
- 9.3** For details regarding developments in claims after the date of the statement of financial position, see Note 6.



STRAUSS GROUP LTD.

SEPARATE FINANCIAL INFORMATION
AS AT MARCH 31, 2018

Unofficial Translation from Hebrew

Strauss Group Ltd.



Separate Financial Information as at March 31, 2018

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Strauss Group Ltd.



Condensed Interim Information on the Financial Position

	March 31 2018 Unaudited	March 31 2017 Unaudited	December 31 2017 Audited
	NIS Millions		
Current assets			
Cash and cash equivalents	107	23	89
Securities and deposits	-	16	150
Trade receivables	251	253	192
Income tax receivables	10	25	5
Other receivables and debit balances	31	39	22
Investee receivables	207	138	207
Inventory	120	105	137
Assets held for sale	24	42	22
Total current assets	750	641	824
Investments and non-current assets			
Investments in investees	1,771	1,333	1,609
Other investments and long-term debit balances	896	645	892
Fixed assets	929	938	932
Investment property	4	-	4
Intangible assets	48	52	52
Total investments and non-current assets	3,648	2,968	3,489
Total assets	4,398	3,609	4,313

Ofra Strauss
Chairperson of the Board of
Directors

Giora Bardea
Interim Chief Executive Officer

Shahar Florence
Chief Financial Officer

Date of approval of the separate financial information: May 22, 2018

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

Strauss Group Ltd.**Condensed Interim Information on the Financial Position (cont'd)**

	March 31 2018 Unaudited	March 31 2017 Unaudited	December 31 2017 Audited
	NIS Millions		
Current liabilities			
Current maturities of debentures	56	205	206
Short-term credit and current maturities of long-term loans and other long term liabilities	116	59	15
Trade payables	214	220	199
Other payables and credit balances	232	234	219
Investee payables	149	188	119
Provisions	2	2	2
Liabilities directly associated with the assets held for sale	-	4	-
Total current liabilities	769	912	760
Non-current liabilities			
Debentures	797	428	826
Long-term loans and other long term liabilities	674	789	782
Long-term payables and credit balances	18	16	7
Employee benefits, net	22	20	22
Deferred tax liabilities	105	80	99
Total non-current liabilities	1,616	1,333	1,736
Total equity attributable to the Company's shareholders	2,013	1,364	1,817
Total liabilities and equity	4,398	3,609	4,313

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

Strauss Group Ltd.**Condensed Interim Information on Income**

	For the three months ended		For the year ended
	March 31	March 31	December 31
	2018	2017	2017
	Unaudited		Audited
	NIS Millions		
Sales	308	311	1,011
Cost of sales	184	187	625
Gross profit	124	124	386
Selling and marketing expenses	60	66	251
General and administrative expenses	16	17	71
	<u>76</u>	<u>83</u>	<u>322</u>
Operating profit before other income (expenses)	48	41	64
Other income	2	-	3
Other expenses	(1)	(2)	(8)
Other income (expenses), net	<u>1</u>	<u>(2)</u>	<u>(5)</u>
Operating profit	49	39	59
Financing income	16	7	26
Financing expenses	(20)	(31)	(98)
Financing expenses, net	<u>(4)</u>	<u>(24)</u>	<u>(72)</u>
Profit (loss) before taxes on income	45	15	(13)
Taxes on income	<u>(12)</u>	<u>(1)</u>	<u>(34)</u>
Profit (loss) after taxes on income	33	14	(47)
Income from investees	<u>120</u>	<u>93</u>	<u>389</u>
Income for the period attributable to the shareholders of the Company	<u>153</u>	<u>107</u>	<u>342</u>

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



Condensed Interim Information on Comprehensive Income

	For the three months ended		For the year ended
	March 31 2018	March 31 2017	December 31 2017
	Unaudited		Audited
	NIS Millions		
Income for the period attributable to the shareholders of the Company	153	107	342
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:			
Other comprehensive income (loss) from investees	43	(50)	(111)
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	43	(50)	(111)
Comprehensive income for the period attributable to the shareholders of the Company	196	57	231

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

Strauss Group Ltd.**Condensed Interim Information on Cash Flows**

	For the three months ended		For the year ended
	March 31	March 31	December 31
	2018	2017	2017
	Unaudited		Audited
	NIS Millions		
Cash flows from operating activities			
Income for the period attributable to the shareholders of the company	153	107	342
Adjustments:			
Depreciation	13	13	53
Amortization of intangible assets	4	4	15
Other income, net	(2)	-	(2)
Expenses in respect of share-based payment	3	4	14
Income from investees	(120)	(93)	(389)
Financing expenses, net	4	24	72
Income tax expense	12	1	34
Change in inventory	17	10	(22)
Change in trade and other receivables	(65)	(85)	(10)
Change in investee receivables	1	32	68
Change in trade and other payables	36	43	(15)
Change in investee payables	30	28	(41)
Change in employee benefits	-	-	2
Interest paid	(19)	(34)	(74)
Interest received	-	-	8
Income tax paid, net	(1)	(4)	(9)
Net cash flows provided by operating activities	66	50	46
Cash flows from investing activities			
Sale (acquisition) of marketable securities and deposits, net	150	7	(127)
Proceeds from sale of fixed and other assets	4	7	13
Investment in fixed assets	(12)	(13)	(45)
Investment in intangible assets	(2)	(2)	(14)
Repayment of deposits and long-term loans	1	1	9
Loans granted	(7)	(7)	(10)
Dividends from investees	-	-	164
Cash received in respect of investing activities with investees	2	39	114
Cash paid in respect of investing activities with investees	-	(27)	(660)
Proceeds from sale of operations	-	-	8
Net cash flows provided by (used in) investing activities	136	5	(548)
Cash flows from financing activities			
Repayment of debentures and long-term loans	(184)	(202)	(211)
Dividends paid	-	-	(160)
Short-term bank credit, net	-	44	-
Proceeds from issuance of debentures, net of issuance costs	-	-	399
Proceeds from issuance of share capital, net of issuance costs	-	-	436
Proceeds from the exercise of stock options	-	-	1
Net cash flows provided by (used in) financing activities	(184)	(158)	465
Net increase (decrease) in cash and cash equivalents	18	(103)	(37)
Cash and cash equivalents as at beginning of period	89	126	126
Cash and cash equivalents as at end of period	107	23	89

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, the Group's salads activity in Israel and the Group's confectionery operation in Israel, which includes the development, manufacture and marketing of branded candy products.

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, 2017, and in conjunction with the condensed interim consolidated financial statements as at March 31, 2018 (hereinafter: the "Interim Consolidated Financial Statements").

Except for stated at Note 1 to the Condensed Consolidated Interim Financial Statements as at March 31, 2018, 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, 2017.

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, 2017.

1.1.4 The Interim Separate Financial Information is presented in NIS, 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. There is no clear trend of seasonality in the area of salads in Israel.

Note 3 - Material Events during the Reported Period

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

Note 4 - Share-Based Payment

For information on share-based payment see Notes 5 to the Condensed Consolidated Interim Financial Statements.



Note 5 - Contingent liabilities

For information on Contingent liabilities see Notes 6 to the Condensed Consolidated Interim Financial Statements.

Note 6 - Financial Instruments

6.1 Fair value of financial instruments measured at fair value

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

6.2 Fair value hierarchy

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

Note 7 - Events after the Reporting Date

For information on events after the reporting date, see Note 9 to the Condensed 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. Giora Bardea, 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, 2017 (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, 2017 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.

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

Managers' Statement

Statement of the Chief Executive Officer

I, Giora Bardea, warrant that:

- (1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the first quarter of 2018 (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, 2017) 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.

May 22, 2018

Giora Bardea, Interim Chief Executive Officer

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

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 first quarter of 2018 (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, 2017) 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.

May 22, 2018

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 month periods
ended 31 March 2018 and 2017
and independent auditors' limited
review report on condensed
consolidated interim
financial statements**

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Independent auditors' report on review of interim financial statements

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

Introduction

We have reviewed the accompanying 31 March 2018 condensed consolidated interim financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise:

- the condensed consolidated statement of financial position as at 31 March 2018;
- the condensed consolidated statement of income and other comprehensive income for the three month periods ended 31 March 2018;
- the condensed consolidated statement of changes in equity for the three month periods ended 31 March 2018;
- the condensed consolidated statement of cash flows for the three month periods ended 31 March 2018 and
- the notes to the condensed consolidated 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 Statement 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 31 March 2018 condensed consolidated interim financial statements are not prepared in all material respects in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, 11 May 2018

KPMG Auditores Independentes
CRC 2SP014428/O-6

A handwritten signature in blue ink, appearing to read 'João Alberto da Silva Neto', written over the printed name and title.

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Financial Position as of 31 March 2018 and 31 December 2017

(In thousand of Brazilian Reais)

Assets	2018	2017	Liabilities	2018	2017
Current			Current		
Cash and cash equivalents	116.096	113.110	Short term loans	235.664	224.233
Deposits	2.544	3.508	Trade payables	209.709	233.675
Trade receivables	496.220	472.296	Income tax payables	4.387	27
Inventories	373.371	372.189	Employees and other payroll related liabilities	51.999	50.162
Recoverable taxes	35.583	32.635	Proposed dividends	45.704	45.704
Income tax receivable	8.723	13.268	Interest on equity payable	55.315	47.915
Other current assets	21.009	19.238	Payable taxes	26.449	23.976
	<u>1.053.546</u>	<u>1.026.244</u>	Other current liabilities	20.747	19.856
Non-current				<u>649.974</u>	<u>645.548</u>
Judicial deposits	7.810	8.655	Non-current		
Loans to related parties	21.809	21.479	Long term loans	148.641	151.525
Other non-current assets	13.528	6.198	Other non-current liabilities	4.027	4.043
Deferred tax assets	8.287	11.017	Deferred tax liabilities	7.314	6.816
Investments	4.280	4.236	Provision for legal proceedings	17.563	18.166
Fixed assets	312.353	284.204		<u>177.545</u>	<u>180.550</u>
Intangible assets	283.039	282.857	Equity		
	<u>651.106</u>	<u>618.646</u>	Share capital	273.442	273.442
Total assets	<u><u>1.704.652</u></u>	<u><u>1.644.890</u></u>	Translation reserve	(93.376)	(91.917)
			Retained earnings	697.067	637.267
				<u>877.133</u>	<u>818.792</u>
			Total liabilities	<u><u>1.704.652</u></u>	<u><u>1.644.890</u></u>

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Income

Three months period ended 31 March 2018 and 2017

(In thousand of Brazilian Reais)

	Three months period ended 31 March	
	2018	2017
Revenue	884.650	760.330
Cost of sales	<u>(631.027)</u>	<u>(579.375)</u>
Gross profit	<u>253.623</u>	<u>180.955</u>
Selling and marketing expenses	(144.389)	(118.077)
General and administrative expenses	(25.810)	(27.437)
Equity method	44	(118)
Other income (expenses), net	<u>(14)</u>	<u>28</u>
Operating profit	<u>83.454</u>	<u>35.351</u>
Finance income	4.191	1.933
Finance expenses	<u>(5.699)</u>	<u>(9.752)</u>
Profit before income tax	<u>81.946</u>	<u>27.532</u>
Income tax expenses	<u>(14.755)</u>	<u>(2.156)</u>
Profit for the year	<u><u>67.191</u></u>	<u><u>25.376</u></u>

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Comprehensive Income

Three months period ended 31 March 2018 and 2017

(In thousand of Brazilian Reais)

	Three months period ended 31 March	
	2018	2017
Profit for the year	67.191	25.376
Foreign currency translation differences	<u>(1.459)</u>	<u>3.897</u>
Comprehensive income for the year	<u><u>65.732</u></u>	<u><u>29.273</u></u>

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Changes in Equity

Three months period ended 31 March 2018 and 2017

(In thousand of Brazilian reais)

	Retained earnings					Accumulated profit	Total
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments		
Balance as of 31 December, 2016	272.370	42.209	194.522	243.064	(99.228)	-	652.937
Profit for the period	-	-	-	-	-	25.376	25.376
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	3.897	-	3.897
Total other comprehensive gain:	-	-	-	-	3.897	25.376	29.273
Internal equity changes							
State VAT and Federal tax incentives	-	-	8.787	-	-	(8.787)	-
Profit destination:							
Legal reserve	-	1.269	-	-	-	(1.269)	-
Interest on equity credited	-	-	-	-	-	(4.400)	(4.400)
Reserve for profit to be distributed	-	-	-	10.920	-	(10.920)	-
	-	1.269	8.787	10.920	-	(25.376)	(4.400)
Balance as of 31 March, 2017	272.370	43.478	203.309	253.984	(95.331)	-	677.810
Balance as of 31 December, 2017	273.442	54.688	248.180	334.399	(91.917)	-	818.792
Effect of new standards							
Adjustment from adoption of IFRS 9 (net of tax)	-	-	-	488	-	-	488
Adjustment from adoption of IFRS 15 (net of tax)	-	-	-	121	-	-	121
Total effect of new standards as of 1 January, 2018	-	-	-	609	-	-	609
Profit for the period	-	-	-	-	-	67.191	67.191
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	(1.459)	-	(1.459)
Total other comprehensive gain:	-	-	-	-	(1.459)	67.191	65.732
Internal equity changes							
State VAT and Federal tax incentives	-	-	12.615	-	-	(12.615)	-
Profit destination:							
Interest on equity credited	-	-	-	-	-	(8.000)	(8.000)
Reserve for profit to be distributed	-	-	-	46.576	-	(46.576)	-
	-	-	12.615	46.576	-	(67.191)	(8.000)
Balance as of 31 March, 2018	273.442	54.688	260.795	381.584	(93.376)	-	877.133

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

Três Corações Alimentos S.A.

Consolidated statements of cash flows

Three months period ended 31 March 2018 and 2017

(In thousand of Brazilian Reais)

	Three months period ended 31 March	
	2018	2017
Cash flows from operating activities		
Profit for the year	67.191	25.376
Adjustments for:		
Depreciation and amortization	9.082	8.240
Gains in tax lawsuits	(5.535)	-
Provision for legal proceedings	(603)	(548)
Other income (expenses), net	14	(28)
Equity method	(44)	118
Financing expenses, net	1.508	7.819
Income tax expenses	14.755	2.156
Interest paid, net	(2.215)	(11.578)
Income tax paid	(266)	-
	<u>83.887</u>	<u>31.555</u>
Change in:		
Trade receivables	(24.938)	(7.374)
Inventories	(1.298)	14.251
Recoverable and payable taxes, net	(2.982)	(19.081)
Judicial deposits	845	325
Trade payables	(23.966)	(25.278)
Employees and other payroll related liabilities	1.837	3.274
Other current and non-current assets and liabilities	(1.196)	(141)
	<u>32.189</u>	<u>(2.469)</u>
Net cash flows provided by (used in) operating activities		
Cash flows from investing activities		
Change in deposits	961	237
Payment for acquisition of operations	(214)	(18.992)
Proceeds from sales of fixed assets	449	265
Acquisition of fixed assets	(36.269)	(11.202)
Investments in intangible assets	(1.771)	(3.733)
Long-term loans to related parties	-	(9.154)
	<u>(36.844)</u>	<u>(42.579)</u>
Net cash flows used in investing activities		
Cash flows from financing activities		
Proceeds from loans	80.683	93.783
Repayment of loans	(73.042)	(112.254)
	<u>7.641</u>	<u>(18.471)</u>
Net cash flows provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	<u>2.986</u>	<u>(63.519)</u>
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents as of beginning of year	113.110	86.524
Cash and cash equivalents as of end of year	<u>116.096</u>	<u>23.005</u>
	<u>2.986</u>	<u>(63.519)</u>

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 reais, unless otherwise stated)

1 Reporting entity

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

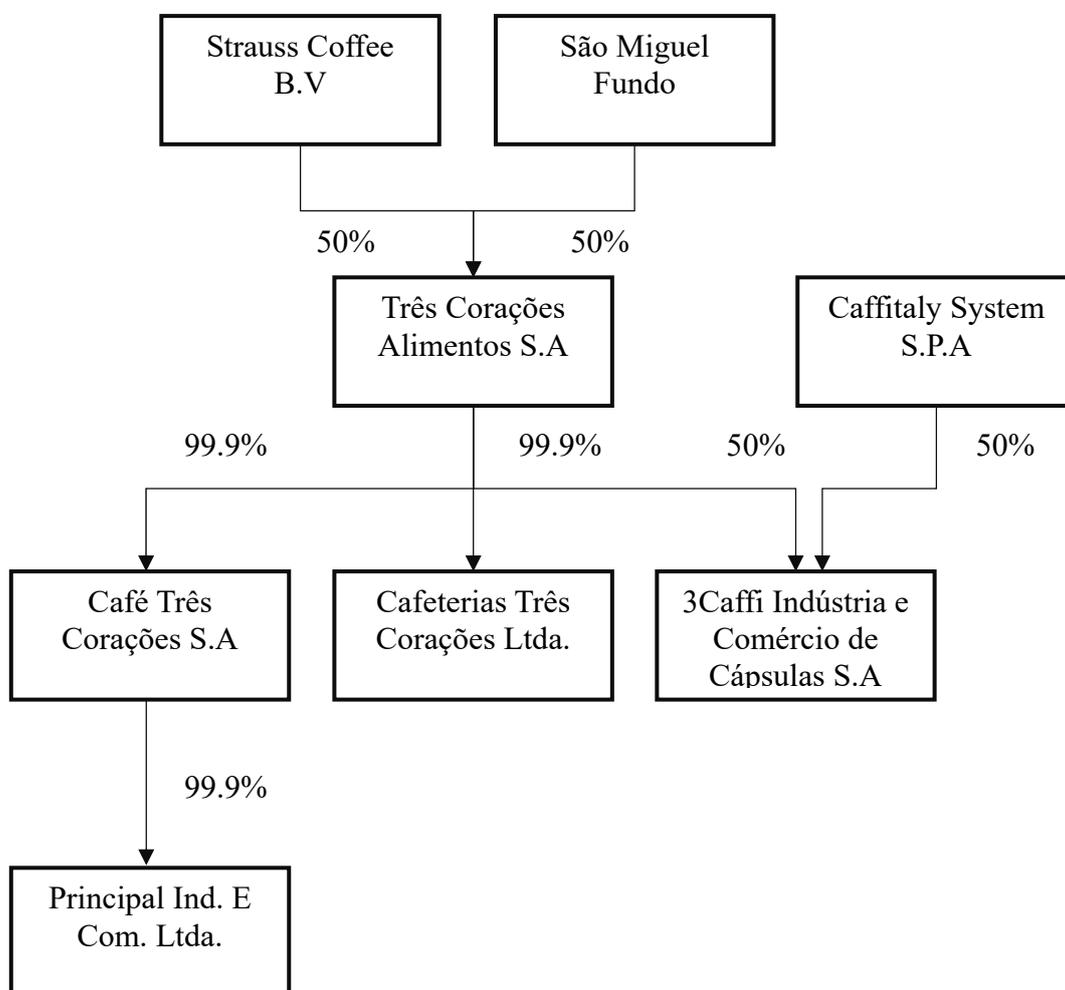
The Company controls the entities Cafeterias Três Corações Ltda. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as “the Group”. The Company is part of a joint-venture with Caffitaly System S.p.A., whereby it holds 50% share of company 3Caffi Indústria e Comércio de Cápsulas S.A. (“3Caffi”). 3Caffi is not consolidated in this report, since the Group no longer controls it.

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

The Group is currently the largest group in roasted and ground coffee business in Brazil, and owns the coffee and other food brands of Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Leticia, Itamaraty, Londrina, Chocolatto, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, Cirol, Cirol Real, Realmil, Toko and Astoria. The Apollo brand is being used as a result of a Licence agreement, with purchase option.

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

As of 31 March 2018, the Group had the following structure:



2 Basis of preparation

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 regarding interim financial reporting. These condensed 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 2017 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 as of May 11, 2018.

3 Initial application of new accounting standards

Further to what is mentioned in Note 4.n to the Annual Financial Statements, the Company has adopted the new standard effective January 1, 2018 without correction of comparative figures, for both IFRS 9 (2014) - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers.

The table below summarizes the impact on the Companies condensed consolidated interim financial statements, not material, to the opening balances of profit to be distributed, net of tax effect:

	Profit to be distributed		
	Impact from adoption of new standards	Tax effect	Total impact net of taxes
Impact from adoption of IFRS 9	627	(139)	488
Impact from adoption of IFRS 15	184	(63)	121
Total impact in 1 January 2018	811	(202)	609

4 Significant accounting policies

The accounting principles applied by the Company in preparing these condensed consolidated interim financial statements are consistent with the principles applied by the Company in preparing its audited Annual Financial Statements as of 31 December 2017 and have been applied consistently to all entities of the Group, except for item 4.1 below.

Hedge Accounting

Management has decided to change its accounting policy related to hedge operations. Until 31 December 2017, all gains or losses were charged directly to the income statement, even in cases where the assets protected by the hedge operation were not yet sold.

Most of the currency hedge operations is currently related to importation of multibeverage single portion machines.

The multibeverage single portion machines business is increasing in importance as a share of the Group's business. Management understands that, due to this increase, the previously adopted policy would no longer reflect properly the actual results of the business.

Therefore, Management has decided to apply the IFRS 9 – Financial Instruments hedge accounting. According to the IFRS 9 hedge accounting, the Group may accumulate hedge gains or losses in inventories until the final sale or disposal of the related asset, at which time those gains or losses are allocated to cost of sales.

According to the IFRS 9, section Transition for Hedge Accounting, the above change is applicable prospectively.

5 Material events during the reported period

5.1 Favorable results of tax lawsuits

In February 2018, the Group prevailed in tax lawsuits as explained below:

SUFRAMA Administrative Service Fee

SUFRAMA is a federal agency that regulates certain commercial, industrial and agricultural activities in part of the northern region of Brazil.

Up until April of 2017, all goods sent to the Group's Manaus distribution center were charged a SUFRAMA Administrative Service fee.

The Group obtained a court decision determining illegality of this fee, in the total amount of R\$ 1,936.

Since this amount can not be offset against other federal taxes, the Group must request a restitution of the amount through issuance of legal credit instruments denominated "precatórios", whose average payment terms are currently between two and three years.

Federal VAT on Manaus Free Zone

The Company used to pay federal VAT taxes (PIS/COFINS) over the internal sales of Manaus distribution center. As of 15 February 2018, the Group obtained a court decision against taxation of sales in the Manaus Free Zone.

The judge authorized the reimbursement of the amount paid by the Group, together with SELIC interest, in the total amount of R\$ 2,812.

5.2 Manaus plant building

The Group started to build a new roasted and ground coffee plant in the city of Manaus, State of Amazonas.

The new plant will have productive capacity of 1,000 tons per month. The Group intends to start production in July of 2018.

The budget for this project is R\$ 17,500. In the first quarter of 2018 the Group spent R\$ 6,520 with the purchase of the land, construction of the buildings and acquisition of machines and equipment.

6 Net debt

	31 March 2018 (Unaudited)	31 December 2017 (Audited)
Short term loans	235,664	224,233
Long term loans	148,641	151,525
Cash and cash equivalents	<u>(116,096)</u>	<u>(113,110)</u>
Net debt	<u>268,209</u>	<u>262,648</u>

The small increase in net debt presented above reflects, among others:

- Cash flows provided by operating activities, in the amount of R\$ 32,189;
- Cash flows used in investing activities, in the amount of R\$ 36,844;
- Cash flows provided by financing activities, in the amount of R\$ 7,641.

7 Contingent liabilities

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

8 Financial instruments

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 equal or close to their fair values, 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:

	<u>31 March 2018</u>		<u>31 December 2017</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>	
Financial liabilities				
Short term loans	234,996	216,738	224,233	194,847
Long term loans	149,308	137,708	151,525	122,546

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.

9 Fair value hierarchy

The Group uses the following hierarchy to determine and disclose the fair values of financial instruments, based on the valuation methodology used:

- **Level 1:** quoted prices in an active market for identical assets and liabilities;
- **Level 2:** values determined by other techniques, for which all of the data, having a significant effect on the recorded fair value, are observable, directly or indirectly;

As of 31 December 2017, the Group had future open positions classified as Level 2 in the amount of R\$ 29, with due date of March 2018. As of 31 March 2018, the Group had future open positions classified as Level 2 in the amount of R\$ 776, with due date of September 2018.

The fair value of assets and liabilities that are not quoted in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is considered as valued from Level 3 source of information.

Specific valuation techniques that might be used to value financial instruments in general include:

- (i) Quoted market prices or dealer quotes for similar instruments;
 - (ii) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
 - (iii) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.
- **Level 3:** inputs for valuing a financial instrument that are not based on observable market data (that is, unobservable inputs). As of 31 March 2018 and 31 December 2017, the Group had no financial instruments classified at Level 3.

10 Revenue

	R\$	
	31 March 2018	31 March 2017
Gross revenue:		
Products – domestic	1,022,109	859,916
Products – foreign	49,466	45,289
Services	59	73
Other	34	36
Taxes on sales	(77,060)	(67,309)
Deductions	(109,958)	(77,675)
	884,650	760,330

11 Subsequent events

The Group presents below subsequent events that occurred between 31 March 2018 and the date of issuance of these condensed consolidated interim financial statements.

Acquisition of Manaus Coffee

As of 3 April 2018, the Company obtained control over the entity Tapajós Indústria de Café Ltda. through the acquisition of 100% of its shares from third parties, changing the corporate name of the company to 3Corações Norte Comércio de Produtos Ltda. ("3Corações Norte").

The entity purchased owns the brands Manaus, Tapajós, Betânia, amongst others, and its purchase will allow the Group to increase its market share, mainly of roasted and ground coffee in North of Brazil.

Consideration transferred

The acquisition value was R\$ 22,138, included tax credits in the amount of R\$ 5,130, with discount of 19.34%, equivalent to R\$ 992, payable as follows:

- R\$ 15,429 paid in April 2018;
- R\$ 4,138, related to the net amount of the tax credit, to be paid monthly, in accordance with tax compensation, during 10 months after the acquisition date. After this period, any eventual remaining amount not yet compensated will be paid to the sellers in a lump sum.
- R\$ 1,571, to be paid with interest when the seller complies with the contractual requirements;
- R\$ 500 to be paid with interest in April 2020;and
- R\$ 500 to be paid with interest in April 2023

The interest payable in this case is based upon 100% of the Interbank CDI rate.

Transferred assets and incurred liabilities

There were no liabilities transferred in the business combination and in the opinion of the Group's legal advisers, there were also no contingent liabilities. All identifiable assets transferred, based on Management's best judgment and estimates, are listed below:

	R\$
Current Asset:	
Tax credit	5,130
Fixed assets:	
Machines and Equipments	1,936
Intangible:	
Brands	484
Client portfolio	1,506
	9,056
Net identifiable assets	9,056

Três Corações Alimentos S.A.
*Condensed consolidated interim financial statements as of
and for the three month periods ended 31 March 2018 and 2017
and independent auditors' limited review report on
condensed consolidated interim financial statements*

The Group has the period of 12 months after the acquisition to conclude the independent valuation of the identifiable assets and confirm or adjust the above fair values based on such valuation.

Goodwill

	RS
Acquisition cost:	
Transferred resources, paid or to be paid	22,138
Net identifiable assets	(9,056)
Goodwill	13,082

* * *

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.