STRAUSS GROUP LTD.
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STRAUSS GROUP LTD.

DESCRIPTION OF THE CORPORATION'S BUSINESS

UPDATE OF THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS AFFAIRS" IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY") FOR THE YEAR 2016[1] (HEREINAFTER: THE "PERIODIC REPORT")

The following is a summary of significant changes and/or innovations which occurred in the Company's business in the nine months which ended September 30, 2017 and up to the publication date of the report and which should be outlined in the Periodic Report pursuant to Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), – 1970. This update relates to the numbers of the sections which appeared in the Chapter, Description of the Company's Business and to the number of the regulations which appeared in the Chapter, Additional Details on the Corporation in the Periodic Report of the Company for 2016 ("Description of the Company's Business Affairs" and "Report of Additional Details", respectively).

1. Section 4 to the Description of the Company's Business, Distribution of Dividends

On August 9, 2017, the Board of Directors of the Company approved the distribution of a cash dividend to the Company's shareholders. For details regarding the distribution of a dividend, as aforesaid, see Immediate Report dated August 10, 2017 (Ref no. 2017-01-081858), Immediate Report dated August 17, 2017 (Ref no. 2017-01-084270) and Note 4.7 to the condensed consolidated interim financial statements of the Company as at September 30, 2017.

2. Section 14 of the Description of the Company's Business, Dips and Spreads International Sector

On September 13, 2017, the Company reported, following the report dated June 30, 2016 (Ref no. 2016-01-071689) that PepsiCo-Strauss Fresh Dips and Spreads (“Obela”), a company jointly owned by the Company and PepsiCo, began marketing products in the area of refrigerated spreads and dips in Germany through Florentine Company under the brand name “Obela”.

3. Section 15.1 of other activities, Strauss Water

On May 28, 2017, it was decided that the subsidiary Strauss Water Ltd. ("Strauss Water ") will exercise its right in accordance with the joint venture agreement as defined in the reports, to purchase an additional 15% of the Qingdao HSW Health Water Appliance Co. Ltd, thus following the acquisition the joint venture will be owned by the Haier Group 51% and Strauss Water 49%. For further details, see Immediate Report dated May 29, 2017 (Ref no. 2017-01-045247) and Note 4.5 to the condensed consolidated interim financial statements of the Company as at September 30, 2017.

4. Section 15.2 of other activities, Max Brenner

On May 24, 2017, the Company reported that agreements were signed on May 23, 2017 for the sale of activity of Max Brenner to an Israeli franchise of Max Brenner in consideration of approximately NIS 18 million. The aforesaid amount includes lease fees for the Max Brenner factory in Beit Shemesh for five years.
The sale of the Max Brenner activity was made as part of realizing the Group's strategy to focus on its core areas. For further details, see Note 4.4 to the condensed consolidated interim financial statements as at September 30, 2017.

5. Section 21 to the Description of the Corporation's Business, Finance

Section 21.1 – General – In April 2017, 4,074,752 shares of NIS 1 par value were issued to institutional entities and to the public for consideration of approximately NIS 260 million. For further details, see Immediate Reports dated April 5, 2017 (Ref no. 2017-01-030811), dated April 6, 2017 (Ref. no. 2017-01-031000) and April 7, 201 (Ref. no. 2017-01-031927).

Additionally, in June 2017, 2,727,274 shares of NIS 1 par value were issued to institutional entities for consideration of approximately NIS 180 million. For further details, see Immediate Reports dated June 22, 2017 (Ref no. 2017-01-052369), June 27, 2017 (Ref. no. 2017-01-053941) and July 2, 2017 (Ref. no. 2017-01-055525).

For further information on issues to institutional entities, see Note 4.3 to the condensed consolidated interim financial statements as at September 30, 2017.

Section 21.3 – Reportable credit – On March 30, 2017, the subsidiary, Strauss Coffee B.V. entered into a loan agreement with an institutional entity (not a related party). For further details, see Immediate Report

[1] As published on March 28, 2017 (reference number 2017-01-025621).

dated April 2, 2017 (Ref. no. 2017-01-029197). For further details, see Note 4.1 to the condensed consolidated interim financial statements as at September 30, 2017.

On July 4, 2017, the Company issued Bonds (Series E), which are listed for trading on the Tel Aviv Stock Exchange. The issue proceeds were NIS 399 million, net of the issuance costs. For further details, see Note 4.6 to the condensed consolidated interim financial statements as at September 30, 2017, and Immediate Reports dated July 4, 2017 (Ref. no. 2017-01-056605 and Ref. no. 2017-01-056833).

Section 21.7 – Credit rating – On April 2, 2017, the Company announced the ratification of a IiAA+ with negative outlook rating of Standard & Poor's Maalot Ltd. For further details, see Immediate Report dated April 2, 2017 (Ref. no. 2017-01-029593).

On April 3, 2017, the Company reported on a Special Report of Midroog Ltd. ("**Midroog**"), following a buyback of shares of TPG by Strauss Coffee, pursuant to which Midroog ratified an Aa2 rating for Series B bonds and Series D bonds in circulation with a stable horizon. See Immediate Report of the Company dated April 3, 2017 (Ref. no. 2017-01-029839).

On April 27, 2017, the Company announced an Aa2.il rating of Midroog for Series B bonds and Series D bonds in circulation with a stable horizon. For further details, see Immediate Report of the Company dated April 27, 2017 (Ref. no. 2017-01-035740).

On July 2, 2017, the Company reported that Midroog had set a rating of Aa2.il for bonds to be issued by the Company up to an amount of NIS 470 million par value. For details, see Immediate Report dated July 2, 2017 (Ref. no. 2017-01-055858). On July 2, 2017, the Company reported that Maalot had set a rating of ilAA+ for bonds to be issued by the Company up to an amount of NIS 470 million par value. For further details, see Immediate Report dated July 2, 2017 (Ref. no. 2017-01-055771).

6. **Section 26 to the Description of the Corporation's Business – Legal Proceedings**

For updates, see Note 6 to the condensed consolidated interim financial statements of the Company for September 30, 2017.

7. **Regulation 26 to the Report of Additional Details, Directors of the Corporation**

On June 12, 2017, Dr. Samer Haj Yahi was appointments external director in the Company. In addition, on this date, the external directors, Prof. Dafna Schwartz and Dr. Michael Angel, and independent directors, Ms. Dalya Lev and Mr. Akiva Moses, ceased to serve as directors in the Company. For further details, see Immediate Reports dated June 13, 2017 (Ref. nos. 2017-01-049336, 2017-01-049342, 2017-01-049348, 2017-01-049354, 2017-01-049345, 2017-01-049363, 2017-01-049366).

8. **Regulations 21, 22, 29 and 29A to the statement, Additional Details, Payments to Interested Parties and Senior Officers, Transactions with a Controlling Shareholder, Company Resolutions, Respectively**

On November 8, 2017, the General Meeting of the Company's shareholders discussed and approved the following resolutions on its agenda: (1) discussion of the Company's annual financial statements and the Board of Directors' report for the year ended December 31, 2016; (2) reappointment of the Somekh Chaikin Accounting Firm (KPMG) as the Company's auditors, until the next annual general meeting, to authorize the Company's Board of Directors to set their salaries for 2017 and report their salaries for 2016; (3) reappointment of Ms. Ofra Strauss and Mr. Arie Ovadia and Mr. David Moshevitz, who are retiring as directors of the Company in accordance with the provisions of the Company's Articles of Association; (4) amendment of the Company's Articles of Association; and (5) amendment of letters of undertaking to indemnify directors and officers who are not among the controlling shareholder and its relatives and directors who are among the controlling shareholder and its relatives. For further details, see the Immediate Reports dated October 3, 2017 (Ref. No. 2017-01-097263), dated October 18, 2017 (Ref. No. 2017-01-100227), and also dated November 9, 2017 (Ref No. 2017-01-105120).

Date: November 15, 2017

Names of the signatories and their positions:

Ofra Strauss, Chairperson of the Board of Directors

Gadi Lesin, Chief Executive Officer

Strauss Group Ltd

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT
TO THE SHAREHOLDERS
AS AT SEPTEMBER 30, 2017

Convenience Translation from Hebrew

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"** or the **"Group"**) hereby respectfully submits the Board of Directors' Report for the third quarter of 2017 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Regulations"**).

The review presented below is limited in scope and refers to events and changes that occurred in the state of the Company's affairs in the reporting period, which have a material impact, and should be read together with the chapter Description of the Company's Business Affairs in the Periodic Report as at December 31, 2016, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 28, 2017 (reference no. 2017-01-025621) (the "2016 Periodic Report").

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

The Group is active in six segments, as follows: **Strauss Israel**, which comprises two 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; and other activities that are included in the Financial Statements as the **"Other Operations"** segment, which includes the Strauss Water business and other immaterial activities.

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 third quarter of 2017 the Group held an 11.7% share of the domestic food and beverage market (in value terms[1]) compared to 11.6% at the end of 2016, and it has the highest sales turnover among Israeli food companies (based on the Company's sales turnover according to the Group's Management (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 venture[2] and mainly focuses on roast and ground (R&G) coffee in the domestic market; **the operation in Europe**, which mainly includes the coffee business in Russia, Ukraine and Central and Eastern Europe as well as Obela's activity in the Netherlands and Germany through the Florentin brand[3]; and **the operation in the US and Canada**, which includes Sabra's operations. The Group is also active in Australia, New Zealand and Mexico through the company Obela; and in China and the UK through Strauss Water.

The Group manages and develops its business with the aim of providing the entire public with a broad variety of top-quality branded products for different consumption opportunities. The products of the Group are generally sold through a variety of sales channels including large food chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, etc.

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

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

[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] For information on the acquisition of Florentin B.V., see Note 12.6.1 to the Consolidated Financial Statements as at December 31, 2016.

CHANGES IN THE ECONOMIC ENVIRONMENT

Prices of raw materials and other production inputs – The commodities markets account for a substantive component of the raw materials used to manufacture the products of the Group and the companies it controls, including joint ventures. In the first nine months of 2017 the average market prices of part of the Group's raw materials increased, whereas the average market prices of other raw materials dropped, compared to the corresponding period last year. On the one hand, green coffee prices (mainly Robusta, and excluding Arabica prices in Brazil) rose, as did the price of raw milk (the "target price"), while on the other, the prices of cocoa, sugar, hazelnuts and almonds decreased. In the third quarter of 2017 the average prices of green coffee (Robusta) rose, except in Brazil, as well as the price of raw milk (the target price); by contrast, the prices of Arabica coffee, coffee prices in Brazil, cocoa, sugar, tahini, hazelnuts and almonds decreased. At the beginning of the fourth quarter, the price of raw milk (target price) was revised downward by 1.5% for the months October – December 2017, further to an increase of 8.7% in the first nine months of the year.

The Group takes steps to reduce the impacts of commodity price volatility, including hedging, making changes in the materials mix in its products and operational efficiency enhancement. Up to and including 2016, the cost of raw materials to the Company (including green coffee) in the Group's Non-GAAP Reports includes profits and losses that were realized, in respect of financial derivatives that served to economically hedge those commodities. Commencing in the first quarter of 2017, profits or losses arising from economic hedges of commodities have been recorded on the income statement on the date of sale of the inventory to outside parties.

Energy prices – Since the beginning of the year and on or about the date of publication of the report, oil prices have increased, and average oil prices in the first nine months and third quarter were approximately 20% and 10% higher, respectively, than prices in the corresponding periods last year.

Exchange rate fluctuations –The impact of the devaluation of the Shekel against the average exchange rates of the Real and the Ruble, after setoff of the revaluation of the Shekel against the average exchange rates of the Group's other functional currencies, led to positive translation differences in the income statement for the first nine months of 2017 compared to the corresponding period last year. However, in the third quarter negative translation differences in relation to the corresponding quarter were caused by the appreciation of the average exchange rate of the Shekel against most of the Group's functional currencies (excluding the Russian Ruble, Polish Zloty and Serbian Dinar). In terms of nine-monthly change (based on closing prices), the Shekel strengthened against the Real as well as against most other currencies. This revaluation contributed to a reduction in the Group's shareholders' equity in the first nine months of the year. In the third quarter, most of the currencies appreciated against the Shekel (based on closing prices). The devaluation of the Shekel led to an increase in the Group's shareholder's equity in the third quarter. In the first nine months and third quarter of the year, the average exchange rates of most of the functional currencies in Strauss Coffee's countries of operations strengthened against the Dollar compared to the corresponding periods last year.

The following table presents the average exchange rates **versus the Shekel** in the first nine months and third quarter of 2017 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Nine Months		% Change	Average Exchange Rate in Third Quarter		% Change
		2017	2016		2017	2016	
United States Dollar	USD	3.629	3.842	*(5.5)*	3.560	3.804	*(6.4)*
Ukrainian Hryvnia	UAH	0.137	0.151	*(9.2)*	0.138	0.150	*(8.2)*
Russian Ruble	RUB	0.062	0.056	*10.3*	0.060	0.059	*2.5*
Serbian Dinar	RSD	0.033	0.035	*(5.2)*	0.035	0.034	*1.3*
Romanian Leu	RON	0.887	0.956	*(7.3)*	0.913	0.951	*(4.0)*
Polish Zloty	PLN	0.946	0.984	*(3.8)*	0.982	0.978	*0.4*
Brazilian Real	BRL	1.144	1.088	*5.1*	1.125	1.174	*(4.1)*
Chinese Renminbi	CNY	0.533	0.584	*(8.7)*	0.534	0.571	*(6.5)*
Canadian Dollar	CAD	2.777	2.908	*(4.5)*	2.838	2.919	*(2.8)*
Australian Dollar	AUD	2.779	2.850	*(2.5)*	2.810	2.885	*(2.6)*
Mexican Peso	MXN	0.192	0.210	*(8.5)*	0.200	0.203	*(1.7)*

The following table presents the average exchange rates **versus the Dollar** in the first nine months and third quarter of 2017 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Nine Months		% Change	Average Exchange Rate in Third Quarter		% Change
		2017	2016		2017	2016	
New Israeli Shekel	ILS	0.276	0.260	*5.9*	0.281	0.263	*6.9*
Ukrainian Hryvnia	UAH	0.038	0.039	*(3.9)*	0.039	0.039	*(1.9)*
Russian Ruble	RUB	0.017	0.015	*16.7*	0.017	0.015	*9.5*
Serbian Dinar	RSD	0.009	0.009	*0.5*	0.010	0.009	*8.3*
Romanian Leu	RON	0.244	0.249	*(1.8)*	0.256	0.250	*2.5*
Polish Zloty	PLN	0.261	0.256	*1.9*	0.276	0.257	*7.3*
Brazilian Real	BRL	0.315	0.283	*11.2*	0.316	0.309	*2.4*

Regulation in the food industry – On April 3, 2017 the Ministry of Health distributed the Draft Protection of Public Health Regulations (Food) (Nutritional Labeling), 2017 for public comment. According to the Draft Regulations, food manufacturers will be mandatorily required to mark food products with a red label for specific nutritional ingredients (saturated fat, sodium and sugar), according to the threshold values specified in the Regulations. Labeling will be introduced gradually, in three steps, with third step labeling scheduled to be implemented in 2020. Additionally, a professional committee, which will be appointed by the Director of Public Health Services, will recommend to the Minister with regard to the conditions for labeling food types that meet the "green label" requirements, according to nutritional profiling. On November 1, 2017 the professional committee appointed by the Director of Public Health Services announced that the preparation of the regulations had been completed and that they had been submitted to the Knesset Labor, Welfare and Health Committee for approval.

ANALYSIS OF FINANCIAL RESULTS

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

Since 2013 Strauss Group has retrospectively applied IFRS 11 – Joint Arrangements. The significance of the standard is that the income statements and statements relating to financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses which are jointly controlled by the companies in the Group and other partners are no longer stated according to the Group companies' relative holding in the entity as was the practice until the publication of the standard, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section) (hereinafter: the **"Financial Statements"**).
The reporting method does not alter the Group's profit and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no managerial change in the jointly held businesses.

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

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

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

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarter and nine months ended September 30, 2017 and 2016 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Sales	**6,335**	**5,909**	***7.2***	**2,210**	**2,096**	***5.5***
Organic growth excluding foreign currency effect	7.3%	7.1%		8.3%	5.8%	
Cost of sales	3,993	3,646	*9.5*	1,401	1,292	*8.4*
Gross profit – non-GAAP	**2,342**	**2,263**	***3.5***	**809**	**804**	***0.7***
% of sales	37.0%	38.3%		36.6%	38.3%	
Selling and marketing expenses	1,371	1,316	*4.1*	471	471	*0.1*
General and administrative expenses	353	343	*3.1*	122	122	*0.6*
Total expenses	**1,724**	**1,659**		**593**	**593**	
Company's share of profits of equity-accounted investees	13	5	*130.9*	5	2	*131.8*
Operating profit – non-GAAP	**631**	**609**	***3.6***	**221**	**213**	***3.4***
% of sales	10.0%	10.3%		10.0%	10.2%	
Financing expenses, net	(105)	(102)	*2.7*	(27)	(41)	*(34.5)*
Income before taxes on income	**526**	**507**	***3.8***	**194**	**172**	***12.6***
Taxes on income	(133)	(142)	*(6.1)*	(56)	(45)	*25.0*
Effective tax rate	25.2%	27.8%		28.7%	25.9%	
Income for the period – non-GAAP	**393**	**365**	***7.6***	**138**	**127**	***8.2***
Attributable to: **The Company's shareholders**	**338**	**277**	***21.8***	**125**	**92**	***34.9***
Non-controlling interests	55	88	*(37.1)*	13	35	*(61.6)*
EPS (NIS)	3.04	2.58	*17.6*	1.09	0.86	*26.4*

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarter and nine months ended September 30, 2017 and 2016 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Israel						
Net sales	2,363	2,274	*3.9*	808	786	*2.8*
Operating profit	259	248	*4.4*	88	87	*0.9*
Coffee						
Net sales	3,015	2,612	*15.4*	1,072	955	*12.2*
Operating profit	314	275	*14.1*	122	112	*8.5*
International Dips & Spreads						
Net sales	524	581	*(9.9)*	186	199	*(6.7)*
Operating profit	23	62	*(63.3)*	-	11	*(98.8)*
Other						
Net sales	433	442	*(1.8)*	144	156	*(7.4)*
Operating profit	35	24	*47.3*	11	3	*225.2*
Total						
Net sales	**6,335**	**5,909**	***7.2***	**2,210**	**2,096**	***5.5***
Operating profit	**631**	**609**	***3.6***	**221**	**213**	***3.4***

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

Following are the condensed financial accounting (GAAP) income statements for the quarter and nine months ended September 30, 2017 and 2016 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Sales	4,095	3,972	*3.1*	1,399	1,378	*1.6*
Cost of sales excluding impact of commodity hedges	2,473	2,387	*3.6*	855	826	*3.6*
Adjustments for commodity hedges**	18	(28)		(1)	(1)	
Cost of sales	2,491	2,359	*5.6*	854	825	*3.6*
Gross profit	**1,604**	**1,613**	***(0.6)***	**545**	**553**	***(1.4)***
% of sales	39.2%	40.6%		39.0%	40.1%	
Selling and marketing expenses	935	911	*2.7*	308	314	*(1.8)*
General and administrative expenses	275	269	*2.1*	96	96	*(0.7)*
Total expenses	**1,210**	**1,180**		**404**	**410**	
Share of profits of equity-accounted investees	120	154	*(21.9)*	26	51	*(48.7)*
Operating profit before other expenses	**514**	**587**	***(12.5)***	**167**	**194**	***(13.7)***
% of sales	12.6%	14.8%		12.0%	14.1%	
Other income (expenses), net	(7)	(43)		-	(25)	
Operating profit after other expenses	**507**	**544**	***(6.9)***	**167**	**169**	***(1.6)***
Financing expenses, net	(90)	(93)	*(2.9)*	(22)	(37)	*(38.8)*
Income before taxes on income	**417**	**451**	***(7.7)***	**145**	**132**	***8.6***
Taxes on income	(77)	(119)	*(35.9)*	(37)	(31)	*15.9*
Effective tax rate	18.3%	26.4%		25.2%	23.6%	
Income for the period	**340**	**332**	***2.4***	**108**	**101**	***6.3***
Attributable to: **The Company's shareholders**	**274**	**242**	***13.2***	**94**	**69**	***37.0***
Non-controlling interests	66	90	*(26.7)*	14	32	*(58.8)*

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

*** Reflects mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices. Commencing in the first quarter of 2017, reflects all adjustments necessary to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties.*

<u>Following are the adjustments to the Company's Non-GAAP Management Reports (NIS millions)*:</u>

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

	First Nine Months 2017			First Nine Months 2016			Third Quarter 2017			Third Quarter 2016		
	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)
Sales	4,095	2,240	6,335	3,972	1,937	5,909	1,399	811	2,210	1,378	718	2,096
Cost of sales excluding impact of commodity hedges	2,473	1,520	3,993	2,387	1,259	3,646	855	546	1,401	826	466	1,292
Adjustments for commodity hedges	18	-	18	(28)	-	(28)	(1)	(1)	(2)	(1)	-	(1)
Cost of sales	2,491	1,520	4,011	2,359	1,259	3,618	854	545	1,399	825	466	1,291
Gross profit	**1,604**	**720**	**2,324**	**1,613**	**678**	**2,291**	**545**	**266**	**811**	**553**	**252**	**805**
% of sales	39.2%		36.7%	40.6%		38.8%	39.0%		36.7%	40.1%		38.4%
Selling and marketing expenses	935	436	1,371	911	405	1,316	308	163	471	314	157	471
General and administrative expenses	275	91	366	269	84	353	96	31	127	96	30	126
Company's share of profits of equity-accounted investees	120	(107)	13	154	(149)	5	26	(21)	5	51	(49)	2
Operating profit before other expenses	**514**	**86**	**600**	**587**	**40**	**627**	**167**	**51**	**218**	**194**	**16**	**210**
% of sales	12.6%		9.5%	14.8%		10.6%	12.0%		9.8%	14.1%		10.0%
Other expenses, net	(7)	(44)	(51)	(43)	-	(43)	-	(34)	(34)	(25)	1	(24)
Operating profit after other expenses	**507**	**42**	**549**	**544**	**40**	**584**	**167**	**17**	**184**	**169**	**17**	**186**
Financing expenses, net	(90)	(15)	(105)	(93)	(9)	(102)	(22)	(5)	(27)	(37)	(4)	(41)
Income before taxes on income	**417**	**27**	**444**	**451**	**31**	**482**	**145**	**12**	**157**	**132**	**13**	**145**
Taxes on income	(77)	(27)	(104)	(119)	(31)	(150)	(37)	(12)	(49)	(31)	(13)	(44)
Effective tax rate	18.3%		23.4%	26.4%		30.9%	25.2%		31.3%	23.6%		29.6%
Income for the period	**340**	**-**	**340**	**332**	**-**	**332**	**108**	**-**	**108**	**101**	**-**	**101**
Attributable to: The Company's shareholders	**274**	**-**	**274**	**242**	**-**	**242**	**94**	**-**	**94**	**69**	**-**	**69**
Non-controlling interests	66	-	66	90	-	90	14	-	14	32	-	32

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

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

	First Nine Months			Third Quarter		
	2017	2016	% Chg	2017	2016	% Chg
Operating profit (according to proportionate consolidation method) after other expenses	**549**	**584**	***(5.8)***	**184**	**186**	***(0.8)***
Share-based payment	13	10		5	4	
Adjustments for commodity hedges	18	(28)		(2)	(1)	
Other expenses, net	51	43		34	24	
Operating profit – non-GAAP	**631**	**609**	***3.6***	**221**	**213**	***3.4***
Financing expenses, net	(105)	(102)		(27)	(41)	
Taxes on income	(104)	(150)		(49)	(44)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(29)	8		(7)	(1)	
Income for the period – non-GAAP	**393**	**365**	***7.6***	**138**	**127**	***8.2***
Attributable to: **The Company's shareholders**	**338**	**277**	***21.8***	**125**	**92**	***34.9***
Non-controlling interests	**55**	**88**	***(37.1)***	**13**	**35**	***(61.6)***

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

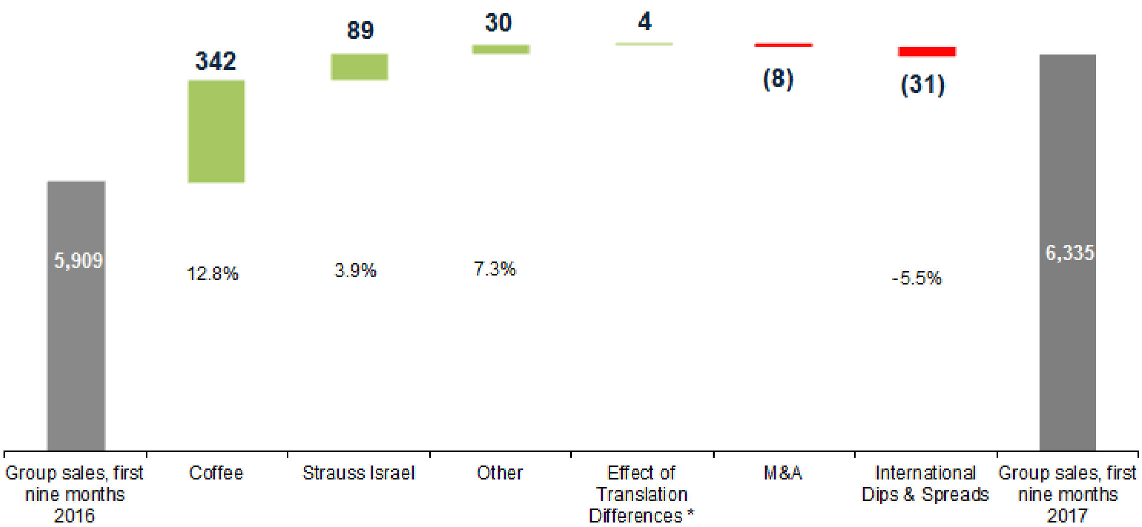
ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

Sales – non-GAAP

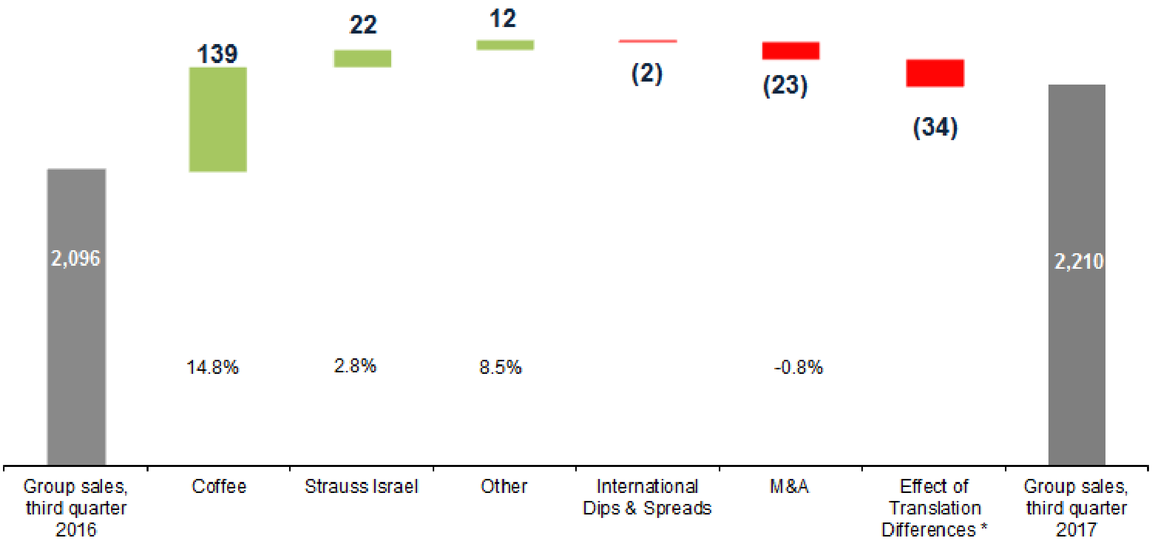
	First Nine Months		Third Quarter	
	2017	2016	2017	2016
Sales	6,335	5,909	2,210	2,095
Growth	7.2%	2.9%	5.5%	6.1%
Organic growth excluding foreign currency effect	7.3%	7.1%	8.3%	5.8%

Organic growth of the Group's sales in the first nine months and third quarter of 2017, excluding the foreign currency effect, amounted to 7.3% and 8.3%, respectively, compared to the corresponding periods last year.

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



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



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

The Group's sales in the first nine months of 2017, particularly sales by Strauss Coffee, were impacted by positive translation differences amounting to approximately NIS 4 million, of which NIS 48 million are due to the strengthening of the average exchange rate of the Brazilian Real against the Shekel, as opposed to negative translation differences amounting to NIS 32 million arising from the weakening of the average exchange rate of the US Dollar against the Shekel, compared to the corresponding period last year. The Group's sales in the third quarter of the year were influenced by negative translation differences of approximately NIS 34 million, of which NIS 19 million are the result of the weakening of the average exchange rate of the Brazilian Real against the Shekel, and NIS 12 million are the result of the weakening of the average exchange rate of the US Dollar against the Shekel compared to the corresponding quarter last year (see also the foreign exchange rate table in the section "Changes in the Economic Environment").

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

- Organic growth in sales by the coffee business (in the first nine months and third quarter, an increase of approximately NIS 342 million and NIS 139 million, respectively) mainly reflected volume growth as well as the effect of price increases implemented in some of the countries of operations earlier this year (in Romania prices were not raised, and the prices of some products were even reduced) in light of the rising cost of green coffee.

- Growth in Strauss Israel's sales (in the first nine months and third quarter, an increase of approximately NIS 89 million and NIS 22 million, respectively) reflects the continuation of 2016's positive growth trend, and is mostly the result of volume growth, which was achieved, among other things, thanks to the launch of new products in the yogurt, dairy dessert, chocolate tablet, salty snack, cookie and packaged salad categories.

- Organic decline in sales by the International Dips & Spreads operation (in the first nine months and third quarter, a decrease of approximately NIS 31 million and NIS 2 million, respectively), mainly as a result of the continuing negative impact of the recall of Sabra hummus products in the fourth quarter of 2016.

- Organic growth in sales by the Other Operations segment (in the first nine months and third quarter, an increase of approximately NIS 30 million and NIS 12 million, respectively), mainly as a result of growth in Strauss Water's business in Israel.

- Inorganic growth in the Group's sales (in the first nine months, a decrease of approximately NIS 8 million), primarily as a result of the acquisition of the Dutch company, Florentin B.V. (**"Florentin"**) and of the acquisition of Cia Iguaçu by the Três Corações joint venture in Brazil[(1)], offset by the sale of Max Brenner; and in the third quarter, a decrease of NIS 23 million, mainly due to the sale of Max Brenner at the end of the second quarter of the year.

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

[(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).

Gross Profit – Non-GAAP

	First Nine Months				Third Quarter			
	2017	2016	% Chg	% chg less translation differences effect	2017	2016	% Chg	% chg less translation differences effect
Gross profit	2,342	2,263	*3.5*	*3.9*	809	804	*0.7*	*2.2*
Gross profit margin	37.0%	38.3%			36.6%	38.3%		

The Group's non-GAAP gross profit in the first nine months of 2017 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 9 million. Most of the translation differences were the result of the weakening of the average exchange rate of the US Dollar against the Shekel (approximately NIS 16 million) and were offset in part by positive translation differences originating in Strauss Coffee following the strengthening of the Brazilian Real against the Shekel (approximately NIS 12 million). In the third quarter, the gross profit was negatively impacted by translation differences into Shekels totaling approximately NIS 12 million. The main part of the translation differences originated in the International Dips & Spreads segment following the weakening of the US Dollar against the Shekel (approximately NIS 5 million) (see also the exchange rate table in the chapter "Changes in the Economic Environment").

The Group's non-GAAP gross profit in the first nine months and third quarter of the year rose by approximately NIS 79 million and NIS 5 million, respectively, compared to the corresponding periods last year:

- In Strauss Coffee the gross profit increased by approximately NIS 119 million and NIS 32 million in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The increase in gross profit is explained by increases in sales prices introduced in most of the countries where the Company is active over and above the increase in green coffee prices, in order to maintain the profit margin per ton sold (in Romania the sales prices of some products were reduced and in Russia, the price of coffee sold dropped as a result of the strengthening of the Ruble against the US Dollar).

- In the Strauss Israel segment the gross profit rose by approximately NIS 25 million in the first nine months of the year and dropped by approximately NIS 2 million in the third quarter, compared to the corresponding periods last year. The increase in gross profit is due to growth in sales volumes, continued implementation of efficiency enhancing moves in production and packaging processes in a number of manufacturing sites, and also reflects the favorable impact of a drop in the prices of some raw materials (cocoa, tahini, hazelnuts and almonds), which was partly offset by an increase in the prices of key raw materials. The decrease in the gross profit margin in the third quarter is primarily the result of a rise in the prices of key raw materials during the year (raw milk, milk powders and olive oil). Additionally, an increase in production inputs such as the minimum wage and municipal taxes was recorded during the year, compared to the corresponding periods last year.

- The aggregate gross profit of the International Dips & Spreads and Other Operations segments dropped by approximately NIS 65 million and NIS 25 million in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The decrease in gross profit in the cumulative period and in the quarter is the result of the voluntary recall by Sabra in the fourth quarter last year and of the impairment of one of the company's operations in the third quarter this year.

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

Operating Profit before Other Expenses – Non-GAAP

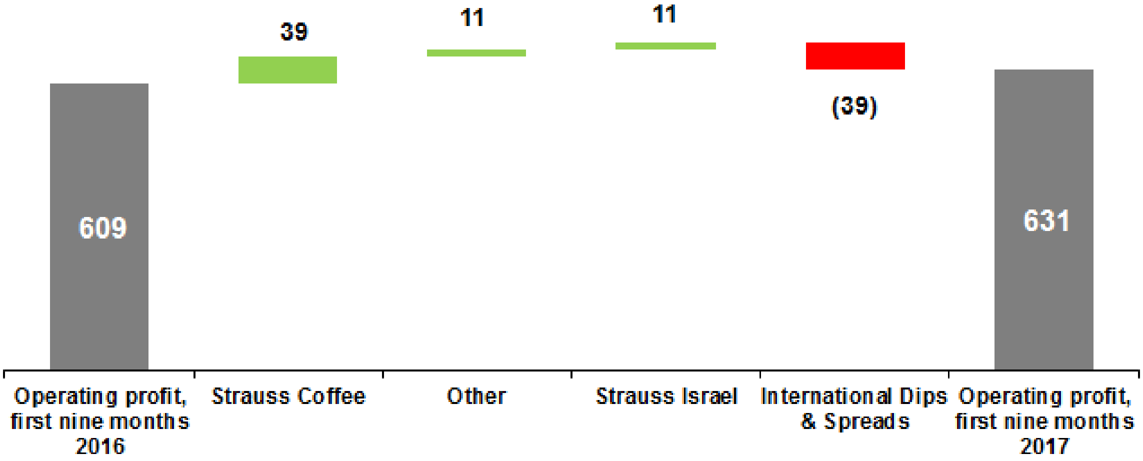
	First Nine Months				Third Quarter			
	2017	2016	% Chg	% chg less translation differences effect	2017	2016	% Chg	% chg less translation differences effect
Operating profit (EBIT)	631	609	*3.6*	*3.1*	221	213	*3.4*	*3.5*
Operating profit margin	10.0%	10.3%			10.0%	10.2%		

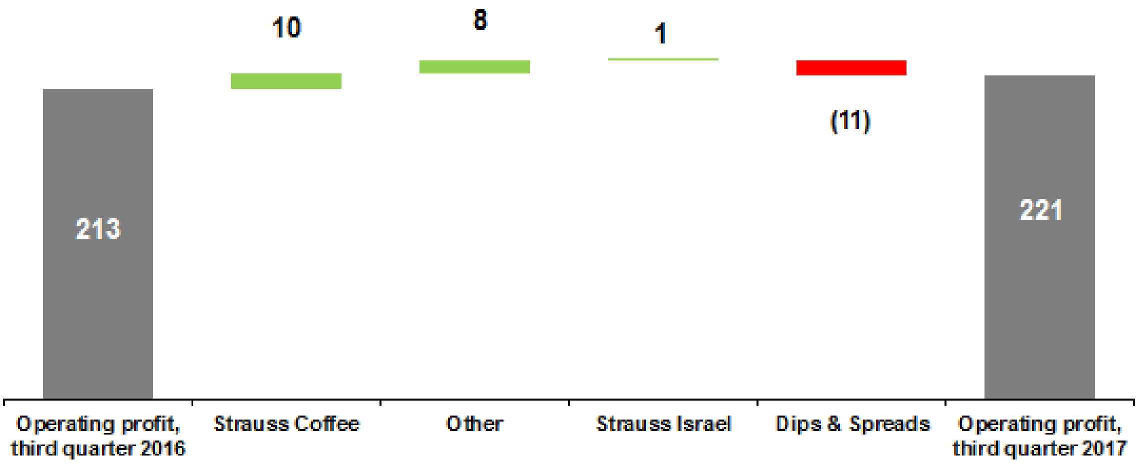
The Group's non-GAAP operating profit (EBIT) in the first nine months of 2017 was positively influenced by translation differences into Shekels, which amounted to approximately NIS 3 million. Most of the translation differences originated in Strauss Coffee (see also the exchange rate table in the chapter "Changes in the Economic Environment").

In the third quarter, the operating profit was adversely affected by translation differences into Shekels, which amounted to NIS 1 million (see also the exchange rate table in the chapter "Changes in the Economic Environment").

In the first nine months and third quarter of 2017 the non-GAAP operating profit grew by approximately NIS 22 million and NIS 8 million, respectively.

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





The change in the Group's EBIT in the first nine months and third quarter of 2017 was the result of the following:

- An increase of approximately NIS 39 million and NIS 10 million in the operating profit of the coffee business in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The change in Strauss Coffee's operating profit reflects:
  - An increase in the operating profit of the Três Corações joint venture in Brazil[1] in the first nine months and third quarter as a result of an increase in sales prices and growth in R&G sales quantities over and above the increase in the cost of green coffee. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in the nine months and quarter by 35.5% and 33.5%, respectively (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

[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).

    - An increase in the operating profit of the coffee business in the CEE countries in the first nine months and third quarter, mainly as a result of an improvement in the product mix sold in Poland and an increase in sales quantities in all countries in the first nine months, except for Romania, and except for Serbia compared to the corresponding period last year. In the third quarter, an increase in sales quantities was recorded in Russia only.

    - In Russia, the operating profit and operating profit margin rose in the first nine months compared to the corresponding period last year as a result of growth in sales volumes, an increase in sales prices and a decrease in the cost of sales as a result of a drop in green coffee purchase costs, coupled with the strengthening of the Ruble compared to the first nine months of 2016. In the third quarter the operating profit and operating profit margin in Russia rose compared to the corresponding period following a reduction in the cost of sales as a result of a decrease in green coffee purchases costs.

    - An increase in the operating profit of Israel Coffee in the first nine months of the year, mainly as a result of sales campaigns held in the corresponding period last year, growth in sales quantities, and erosion of the prices of raw materials following the strengthening of the Shekel against the US Dollar and the other currencies. In the third quarter, sales decreased slightly.

- An increase of approximately NIS 11 million and NIS 1 million in the operating profit of Strauss Israel in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The growth in EBIT mainly reflects an increase in sales quantities compared to last year, which was partly offset by an increase in selling and marketing expenses.

- The operating profit of the International Dips & Spreads business decreased by approximately NIS 39 million and NIS 11 million in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The decrease is due to the drop in Sabra's sales following the voluntary recall made by the company in the fourth quarter of 2016. The recall also adversely impacted the company's operating profit due to indirect expenses including, among others, damage to the company's trade agreements and the costs of an additional improvement made to the strict quality controls in place in the hummus factory in Virginia. The operating profit was also affected by the impairment of the Salsa operation in the third quarter of the year.

- An increase in the EBIT of the Other Operations segment – approximately NIS 11 million and NIS 8 million in the nine months and quarter, respectively – compared to last year. The increase in the operating profit is primarily due to an increase in Strauss Water's profit as a result of sales growth and an improvement in the operating profit margin.

Financing Expenses, Net – Non-GAAP

Net financing expenses in the first nine months of 2017 amounted to NIS 105 million compared to expenses of NIS 102 million in the corresponding period last year.

Net financing expenses in the third quarter of 2017 amounted to NIS 27 million compared to expenses of NIS 41 million in the corresponding period last year.

The increase in financing expenses in the first nine months of 2017 compared to the corresponding period last year is mainly the result of an increase in gross debt.

The decrease in financing expenses in the third quarter compared to the corresponding quarter in 2016 is the result of the valuation of Index-linked liabilities, less the impact of derivatives, due to a decrease of 0.5% in the known Index in the quarter compared to a 0.4% increase in the known Index in the corresponding period, as well as income from foreign exchange derivatives and exchange differences following the appreciation of the US Dollar and Pound Sterling, particularly against the Shekel, in the quarter, as opposed to their weakening in the corresponding period, and expenses recorded in the corresponding period in respect of the valuation of a financial instrument. Most of the decrease in financing expenses was offset by the increase in gross debt.

The net outstanding debt (according to the Non-GAAP Report) as at September 30, 2017 totaled NIS 2,285 million, compared to NIS 1,428 million on December 31, 2016. The gross outstanding debt as at September 30, 2017 was NIS 2,983 million, compared to NIS 2,314 million on December 31, 2016.

The net outstanding debt (according to the equity method) as at September 30, 2017 totaled NIS 2,033 million compared to NIS 1,120 million on December 31, 2016. The gross outstanding debt as at September 30, 2017 was NIS 2,631 million, compared to NIS 1,884 million on December 31, 2016.

Taxes on Income – Non-GAAP

In the first nine months of 2017 taxes on income (non-GAAP) amounted to NIS 133 million, reflecting an effective tax rate of 25.2%, whereas in the corresponding period last year income tax amounted to NIS 142 million and the effective tax rate was 27.8%.

In the third quarter of 2017 income tax (non-GAAP) amounted to NIS 56 million, reflecting an effective tax rate of 28.7%, whereas in the corresponding period last year income tax amounted to NIS 45 million and the effective tax rate was 25.9%.

The decrease in the effective tax rate in the first nine months of the year is the result of the profit mix for tax purposes between the companies in the various countries, a decrease in the Israeli corporate tax rate, and a decrease in Sabra's profits in the quarter.

The increase in the effective tax rate in the third quarter is due, among other things, to a provision made by an investee company which is currently discussing its tax assessments for the years 2009 to 2013 with the local tax authorities. At this preliminary stage the Company is unable to estimate the outcome of these discussions. The investee made the provision in accordance with information in its possession as at the date of this report.

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

	First Nine Months			Third Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Income attributable to the Company's shareholders	338	277	21.8	125	92	34.9
% of sales	5.3%	4.7%		5.6%	4.4%	

Non-GAAP income attributable to the Company's shareholders in the first nine months and third quarter of 2017 rose by approximately NIS 61 million and NIS 33 million, respectively, compared to the corresponding periods last year. The increase is mainly due to growth in the operating profit, a decrease in tax expenses in the nine months, and an increase in the contribution of the coffee business's profits following the acquisition of the non-controlling interest in Strauss Coffee.

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

In the first nine months the GAAP comprehensive income amounted to approximately NIS 242 million, compared to comprehensive income of NIS 422 million in the corresponding period last year. In the reporting period losses in respect of translation differences, which are the main component of the other comprehensive income, amounted to approximately NIS 83 million compared to income of NIS 89 million from translation differences in the corresponding period last year.

In the third quarter of 2017 the GAAP comprehensive income amounted to approximately NIS 151 million, compared to comprehensive income of NIS 67 million in the corresponding period last year. In the reporting period income in respect of translation differences, which are the main component of the other comprehensive income, amounted to approximately NIS 45 million compared to losses of NIS 35 million arising from translation differences in the corresponding period last year.

The losses from translation differences in the first nine months of 2017 were primarily the result of Strauss Coffee's operations; of them, approximately NIS 37 million are due to the weakening of the Brazilian Real against the Shekel compared to their exchange rate at the end of 2016.

The gains from translation differences in the third quarter were mainly the result of Strauss Coffee's operations; of them, approximately NIS 23 million are due to the appreciation of the Brazilian Real against the Shekel compared to their exchange rate at the end of the second quarter of 2017.

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

In the first nine months of 2017

Cash flows provided by operating activities amounted to a positive cash flow of approximately NIS 182 million, compared to a positive cash flow of NIS 310 million in the corresponding period last year. The change is mainly due to the change in working capital compared to the corresponding period, primarily as a result of growth in inventories and a change in accounts receivable compared to the corresponding period last year, and was offset mainly following a decrease in tax payments (in the corresponding period, a refund was paid to the Assessing Officer after income was received from the Assessing Officer at the end of 2015),

Cash flows provided by (used in) investing activities amounted to a negative cash flow of approximately NIS 255 million compared to a positive cash flow of NIS 58 million in the corresponding period last year. The change is primarily due to the acquisition of an operation by Strauss Coffee (for further information, see the chapter on Strauss Coffee) to an increased investment in an associate by Strauss Water (for further information, see the Other Operations chapter), and to a dividend received from investee companies in the corresponding period last year. Conversely, in the first quarter an investment in an available-for-sale financial asset was realized.

Cash flows provided by (used in) financing activities amounted to a negative cash flow of approximately NIS 81 million compared to a negative cash flow of NIS 357 million in the corresponding period last year. The change is mainly due to an issue of shares, an issue of debentures, and long-term loans taken. Conversely, the Company acquired the non-controlling interest in the coffee company and repaid long-term loans and debentures, compared to debt financing in a lower amount in the corresponding period in relation to uses made in that year.

In the third quarter of 2017

Cash flows provided by operating activities amounted to a positive cash flow of approximately NIS 86 million, compared to a positive cash flow of NIS 131 million in the corresponding period last year. The change is mainly due to a change in working capital compared to the corresponding period, primarily as a result of a change in inventories as well as a change in accounts receivable compared to the corresponding period.

Cash flows provided by (used in) investing activities amounted to a negative cash flow of approximately NIS 106 million compared to a positive cash flow of NIS 97 million in the corresponding period last year. The change is primarily the result of an increased investment in an associate by the water company in the quarter (for further information, see the Other Operations chapter), and of a dividend received from investee companies in the corresponding period last year.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 152 million compared to a negative cash flow of NIS 212 million in the corresponding period last year. The change is mainly due to long-term debt financing taken in the quarter, and by contrast, repayment of short-term debt, acquisition of the non-controlling interest in the coffee company and payment of a dividend to the shareholders of the Company. In the corresponding period the negative cash flow from financing activities was primarily the result of the payment of a dividend to shareholders.

In April 2017 the Company issued 4,074,752 shares of NIS 1 par value to institutional investors and the public, in consideration for approximately NIS 260 million. Additionally, in June 2017 the Company issued 2,727,274 shares of NIS 1 par value to institutional investors in consideration for approximately NIS 180 million. The costs of the issue amounted to NIS 4 million.

On April 4, 2017 the subsidiary Strauss Coffee took a long-term loan of NIS 234 million from an institutional body, which replaces part of the short-term loan. The long-term loan bears 2.5%-3.5% interest, which shall be paid half-yearly on the undischarged principal of the loan. The principal of the loan shall be repaid in ten yearly installments, as follows: two annual installments of 2% of the loan amount, four annual installments of 14%-15% of the loan amount, and four annual installments of 8%-10% of the loan amount.

On July 27, 2017 Strauss Coffee took a long-term loan of approximately NIS 78 million from an institutional body, bearing 2%-3% annual interest, which shall be paid half-yearly on the undischarged principal of the loan. The principal of the loan will be repaid in ten yearly installments, as follows: two annual installments of 2% of the loan amount, four annual installments of 14%-15% of the loan amount, and four annual installments of 8%-10% of the loan amount.

On July 4, 2017 the Company issued Debentures (Series E), which were listed on the Tel Aviv Stock Exchange (TASE). The proceeds of the issue amounted to NIS 403 million, and the costs of the issue totaled NIS 4 million.

For further information, see Note 4.6 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017.

On August 1, 2017 the subsidiary Strauss Coffee repaid a short-term loan of approximately EUR 85 million (approximately NIS 355 million) it had received from TPG Capital on the acquisition date (see Note 4.1 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017).

On August 30, 2017 the subsidiary Strauss Water paid 150 million Yuan (approximately NIS 81 million) in consideration for an additional 15% holding in Qingdao HSW Health Water Appliance Co. Ltd., in such manner that after the closing, the joint venture will be 51% owned by companies of the Haier Group and 49% by Strauss Water (for further information, see the Other Operations chapter).

Following is information on average credit volumes:

	First Nine Months		**Third Quarter**	
	2017	**2016**	**2017**	**2016**
Average volume of long-term credit according to the Non-GAAP Report	2,332	2,166	2,647	2,165
Average volume of short-term credit according to the Non-GAAP Report	515	159	464	164
Average volume of long-term credit according to the equity method	2,065	1,989	2,348	1,963
Average volume of short-term credit according to the equity method	363	47	333	37

The change is primarily the result of the buyback of TPG's holding (25.1%) in Strauss Coffee. For further information, see Note 4.1 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017.

Following is the change in net working capital*:

	First Nine Months		**Third Quarter**	
	2017	**2016**	**2017**	**2016**
Change in net working capital according to the equity method	(198)	8	(54)	4
Change in net working capital according to the Non-GAAP Report	(285)	(90)	(41)	(60)

* The changes in the above table are calculated on a cash basis, whereas in the corresponding period last year the changes in net working capital were calculated as changes in balance sheet amounts.

The Company's cash and cash equivalents as at September 30, 2017 totaled NIS 550 million compared to NIS 711 million on December 31, 2016. In accordance with Company policy, these assets are held mainly in liquid deposits.

The Company's liquidity ratio as at September 30, 2017 is 1.26 compared to 1.36 on December 31, 2016. On September 30, 2017 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,519 million compared to NIS 1,866 million on December 31, 2016. On September 30, 2017 short-term credit (excluding current maturities) totaled NIS 112 million compared to NIS 18 million on December 31, 2016. On September 30, 2017 supplier credit totaled NIS 726 million, compared to NIS 743 million on December 31, 2016.

Total assets in the Company's Consolidated Statement of Financial Position on September 30, 2017 amounted to NIS 6,405 million, compared to NIS 6,182 million on December 31, 2016.

Reportable credit – further to Note 20.6 to the Periodic Report and Note 4.6 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017 – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's Consolidated Statement of Financial Position as at September 30, 2017 is 27.9%, compared to 29.7% on December 31, 2016. The net financial debt-to-EBITDA ratio as at September 30, 2017 is 2.6, compared to 1.3 on December 31, 2016. Equity attributable to the Company's shareholders as at September 30, 2017 is NIS 1,786 million. The Company is in compliance with the required covenants.

On August 9, 2017 the Board of Directors approved a dividend to shareholders in the amount of NIS 160 million (approximately NIS 1.39 per share), which was paid to the shareholders on September 5, 2017. For information on the dividend distribution, see the update of the chapter “Description of the Company’s Business Affairs” as at September 30, 2017.

Customer 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 April 2017 the Company announced the reaffirmation of Standard & Poor’s Maalot’s ilAA+ rating with negative outlook. In July 2017 the Company announced that Standard & Poor’s Maalot had assigned a rating of ilAA+ with negative outlook to debentures to be issued by the Company up to an amount of NIS 470 million.

In April 2017 the Company announced the reaffirmation of Midroog’s Aa2 rating for the Company’s Series B and Series D Debentures in circulation, with stable outlook. In July 2017 the Company announced that Midroog had assigned a rating of Aa2 with stable outlook to debentures to be issued by the Company up to an amount of NIS 470 million.

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

	First Nine Months		**Third Quarter**		**Year Ended December 31**
	2017	**2016**	**2017**	**2016**	**2016**
Cash flow from operating activities (according to the Non-GAAP Report)	294	402	181	132	762
Acquisition of fixed assets and investment in intangibles (according to the Non-GAAP Report)	189	163	57	50	239
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,285	1,640	2,285	1,640	1,428
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	173	172	62	60	231
Strauss Israel:					
Health & Wellness	41	43	14	14	58
Fun & Indulgence	25	27	8	9	35
Strauss Coffee:					
Israel Coffee	9	8	3	2	12
International Coffee	39	38	13	13	52
International Dips & Spreads	25	20	12	9	27
Other	34	36	12	13	47

The Group’s EBITDA (non-GAAP) totaled approximately NIS 804 million in the first nine months of the year compared to NIS 781 million in the corresponding period in 2016, an increase of 2.9%. In the third quarter, the Group’s EBITDA (non-GAAP) totaled approximately NIS 283 million compared to NIS 273 million in the corresponding period, an increase of 3.6%.

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

Strauss Coffee

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reported segments for the quarter and the nine months ended September 30, 2017 and 2016 (in NIS millions):

	First Nine Months			Third Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Israel Coffee						
Net sales	537	526	*1.9*	176	179	*(2.3)*
Operating profit	84	79	*6.3*	27	27	*2.0*
% operating profit	15.6%	14.9%		15.3%	14.7%	
International Coffee						
Net sales	2,478	2,086	*18.8*	896	776	*15.6*
Operating profit	230	196	*17.3*	95	85	*10.5*
% operating profit	9.3%	9.4%		10.5%	10.9%	
Total Strauss Coffee						
Net sales	**3,015**	**2,612**	***15.4***	**1,072**	**955**	***12.2***
Organic growth excluding foreign currency effect	**12.8%**	**11.0%**		**14.8%**	**8.0%**	
Gross profit	**981**	**862**	***13.8***	**354**	**322**	***10.2***
% gross profit	**32.5%**	**33.0%**		**33.0%**	**33.7%**	
Operating profit	**314**	**275**	***14.1***	**122**	**112**	***8.5***
% operating profit	**10.4%**	**10.5%**		**11.3%**	**11.6%**	

On March 27, 2017 the subsidiary Strauss Coffee (hereinafter: **"Strauss Coffee"**) made a buyback of TPG's entire holding (25.1%) in Strauss Coffee in consideration for €257 million. For further information, see Note 4.1 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017.

On March 23, 2017 Strauss Coffee exercised its call option for the acquisition of 100% of the shares of Norddeutsche Kaffeewerke GmbH (hereinafter: **"NDKW"**), which operates a freeze-dried coffee production plant in Germany. For further information, see Note 4.2 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017.

Sales

In the first nine months and third quarter of 2017 organic growth of the coffee business, excluding the foreign currency effect, amounted to 12.8% and 14.8%, respectively, compared to the corresponding periods last year.

Growth in coffee sales in local currency in the third quarter mainly reflects volume growth as well as the impact of price increases implemented in some countries earlier this year (in Romania prices were not raised, and the prices of some products were even reduced), in light of the rising cost of green coffee. For further information, see the chapter "Strauss Coffee Sales by Major Geographical Regions".

In the first nine months and third quarter of the year Strauss Coffee's Shekel sales increased by approximately NIS 403 million and NIS 117 million, respectively, compared to the corresponding periods last year. Translation differences into Shekels in the first nine months had a positive impact on sales by the coffee company and amounted to NIS 38 million, as opposed to a negative impact in the third quarter, which amounted to NIS 21 million. Of said amounts, the positive impact of the change in the average exchange rate of the Brazilian Real against the Shekel amounted to approximately NIS 48 million in the cumulative period versus a negative impact of NIS 19 million in the third quarter. In addition, positive translation differences of NIS 28 million and NIS 3 million, respectively, were recorded as a result of the appreciation of the Russian Ruble against the Shekel compared to the corresponding periods last year.

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

Gross profit

In the first nine months and third quarter of 2017 the gross profit rose by approximately NIS 119 million and NIS 32 million, respectively, compared to the corresponding periods last year. The gross profit margin dropped by 0.5% in the first nine months and amounted to 32.5%. In the third quarter the gross profit margin dropped by 0.7% and amounted to 33%. The drop in the gross profit margin is explained by the rate of increase in green coffee prices exceeding the price increases introduced in most of the countries where the Company is active (in Romania the sales prices of some products were reduced), and in Russia, a drop in the price of coffee sold as a result of the strengthening of the Ruble against the US Dollar.

Operating profit

In the first nine months and third quarter of 2017 the operating profit of the coffee operation increased by approximately NIS 39 million and NIS 10 million, respectively, compared to the corresponding periods last year. The operating profit margin in the first nine months and third quarter was 10.4% and 11.3%, respectively (down 0.1% compared to the first nine months of 2016 and down 0.3% compared to the third quarter last year).

The change in Strauss Coffee’s EBIT in the first nine months and third quarter reflects:

- An increase in the operating profit of the Três Corações joint venture in Brazil[1] in the first nine months and third quarter as a result of an increase in sales prices and growth in R&G sales quantities over and above the increase in the cost of green coffee. Três Corações operating profit (before other expenses) in Brazilian Reals rose in the nine months and quarter by 35.5% and 33.5%, respectively (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 nine months and third quarter, mainly as a result of an improvement in the product mix sold in Poland and an increase in sales quantities in all countries in the first nine months, except for Romania, and except for Serbia compared to the corresponding period last year. In the third quarter, an increase in sales quantities was recorded in Russia only.

- In Russia, the operating profit and operating profit margin rose in the first nine months compared to the corresponding period last year as a result of growth in sales volumes, an increase in sales prices and a decrease in the cost of sales as a result of a drop in green coffee purchase costs, coupled with the strengthening of the Ruble compared to the first nine months of 2016. In the third quarter the operating profit and operating profit margin in Russia rose compared to the corresponding period following a reduction in the cost of sales as a result of a decrease in green coffee purchase costs.

- An increase in the operating profit of Israel Coffee in the first nine months of the year, mainly as a result of sales campaigns held in the corresponding period last year, growth in sales quantities, and erosion of the prices of raw materials following the strengthening of the Shekel against the US Dollar and the other currencies. In the third quarter, sales decreased slightly.

[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).

Strauss Coffee sales by major geographical regions

Following is the scope of sales of the coffee business in the major geographical regions (not including intercompany sales), and growth rates for the quarter and the nine months ended September 30, 2017 and 2016 (in NIS millions):

	First Nine Months				Third Quarter			
Geographical region	**2017**	**2016**	**% Chg**	**% change in local currency***	**2017**	**2016**	**% Chg**	**% change in local currency**
Israel Coffee	**537**	**526**	***1.9***	***1.9***	**176**	**179**	***(2.3)***	***(2.3)***
International Coffee								
Brazil (Três Corações joint venture) [(1) (2)] - 50%	1,539	1,188	*29.5*	*24.5*	565	461	*22.3*	*27.5*
Russia and Ukraine	457	409	*11.6*	*7.1*	160	147	*9.3*	*9.9*
Poland	222	205	*8.4*	*12.6*	78	70	*11.5*	*10.9*
Romania	162	188	*(13.4)*	*(6.6)*	56	60	*(5.6)*	*(1.6)*
Serbia	98	96	*2.7*	*8.1*	37	38	*(0.6)*	*(1.9)*
Total International Coffee	**2,478**	**2,086**	***18.8***	***16.7***	**896**	**776**	***15.6***	***18.9***
Total Coffee	**3,015**	**2,612**	***15.4***	***13.7***	**1,072**	**955**	***12.2***	***14.8***

* 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.

<u>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%))</u>

In the first nine months of 2017 the Três Corações joint venture's average value market share in roast and ground (R&G) coffee amounted to approximately 25.2%, compared to 24.0% in the corresponding period last year (value market share reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures). In the GAAP report, the Group's share of the joint venture is accounted for in the equity method.

Despite the economic and political crisis in Brazil, in the first nine months and third quarter of 2017 the Três Corações joint venture's sales in local currency grew by approximately 24.5% and 27.5%, respectively (24.7% and 28.0%, respectively, before the exclusion of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee). Most of the growth originates in R&G sales as a result of price increases and growth in sales volumes in this category. The growth in the Três Corações joint venture's local currency sales reflects growth in sales volumes of most of the joint venture's products, as well as price increases introduced in 2016 and 2017 in light of the rising cost of green coffee to Três Corações compared to the corresponding periods last year. However, the increase in the cost of green coffee in Brazil tapered off somewhat in the first nine months of 2017, as did the increase in sales prices.

Growth in the Três Corações joint venture's Shekel sales in the first nine months was favorably influenced by the appreciation of the Brazilian Real against the Shekel, which amounted to approximately NIS 48 million compared to the corresponding period last year. In the third quarter sales growth was negatively impacted by the weakening of the Brazilian Real against the Shekel, which amounted to approximately NIS 19 million compared to the corresponding quarter in 2016.

The Três Corações joint venture's gross profit in domestic currency rose by 25.4% and 29.7% in the first nine months and third quarter, respectively, and amounted to approximately 369 million and 144 million BRL, respectively. In the first nine months Três Corações' gross profit margin rose by 0.2% and amounted to 27.3%. In the third quarter the gross profit margin rose by 0.4%, amounting to 28.6%. The increase in the gross profit margin primarily reflects the increase in sales prices, which was offset in part due to a rise in the cost of green coffee to the Três Corações joint venture. EBIT (before other expenses) in BRL increased in the first nine months of 2017 by 35.5%, reflecting an increase in gross profit, which was partly offset by selling expenses. In the third quarter the operating profit (before other expenses) in BRL grew by 33.5% and primarily reflected growth in the gross profit as a result of volume growth and an increase in sales prices, which were offset by the rising cost of green coffee and selling and distribution expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

The overall impact of the TRES solution on Três Corações' EBIT in the first nine months and third quarter of the year amounted to an operating loss of approximately NIS 4.7 million and NIS 1.5 million, respectively (approximately 4 million and 1.3 million BRL, respectively), compared to a loss of NIS 11 million and NIS 1.4 million, respectively (10.2 million and 1.3 million BRL, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)).

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

<u>Russia and Ukraine</u>

In the final months of 2016 and in the first nine months of 2017 the Ruble began to strengthen against the US Dollar and the Shekel following a period of devaluation that began at the end of 2014. Nevertheless, the competitive environment in the region has remained challenging.

The Company's sales in the region in local currency grew in the first nine months and third quarter of 2017 by approximately 7.1% and 9.9%, respectively, compared to the corresponding periods last year. The Company's sales in local currency mainly reflected volume growth and price increases introduced during 2016 in light of the devaluation of the Russian Ruble against the US Dollar, as mentioned. In the first nine months of this year, prices in Ukraine were raised to compensate for the increase in raw material prices as a result of the devaluation of the Ukrainian Hryvnia against the US Dollar.

The Company's Shekel sales in the region grew by approximately NIS 48 million and NIS 13 million in the first nine months and third quarter of 2017, respectively, compared to the corresponding periods last year and were affected by positive translation differences of the Russian Ruble and negative translation differences of the Ukrainian Hryvnia into Shekels, along with the increase in sales prices in local currency in Ukraine and volume growth.

<u>Poland</u>

The Company's sales in Poland in local currency increased by approximately 12.6% and 10.9% in the first nine months and third quarter of 2017, respectively, compared to the corresponding periods in 2016. The growth in sales is the result of an improvement in the sales mix, growth in volumes and an increase in sales prices implemented in the first nine months of the year, which compensated for the increase in green coffee prices, compared to the corresponding periods last year.

The Company's Shekel sales in Poland grew by approximately NIS 17 million and NIS 8 million in the nine months and quarter, respectively, compared to the corresponding periods last year. Most of the increase in sales is due to growth in sales volumes and to price increases implemented in the first nine months of 2017, which compensated for the increase in green coffee prices. Sales growth in local currency covered the erosion of sales as a result of translation differences into Shekels. In the third quarter sales were positively affected by the appreciation of the Polish Zloty against the Shekel compared to the corresponding quarter in 2016.

<u>Romania</u>

The Company's sales in Romania in local currency fell by approximately 6.6% and 1.6% in the first nine months and third quarter of 2017, respectively, compared to the corresponding periods last year. The drop in sales in local currency is primarily due to growing competition, which led to a drop in sales prices.

Shekel sales in Romania decreased by approximately NIS 26 million and NIS 4 million in the nine months and third quarter, respectively, compared to the corresponding periods in 2016. Sales were affected by negative translation differences following the erosion of the Romanian Leu against the Shekel and by the drop in sales prices, as described above.

<u>Serbia</u>

The Company's sales in Serbia in local currency rose by 8.1% in the first nine months and dropped by 1.9% in the third quarter of the year compared to the corresponding periods last year. Sales were influenced by an increase in sales prices, particularly in the first quarter, despite a consumer trend of preferring cheaper coffee brands and price erosion due to the harshening competitive environment.

The Company's Shekel sales in Serbia rose by approximately NIS 2 million in nine months and dropped by NIS 1 million in the quarter compared to the corresponding periods last year. In the nine months sales were influenced by negative translation differences of the Serbian Dinar against the Shekel, which were offset by the growth in sales volumes in local currency, compared to the corresponding period. In the third quarter the Company's sales were influenced by positive translation differences of the Serbian Dinar, which were offset by a drop in sales in local currency as a result of the consumer trend of preferring cheaper coffee brands and of price erosion in light of the harshening competitive environment, as mentioned.

Israel

The Company's sales in Israel rose by approximately NIS 11 million in the first nine months of 2017 and dropped by NIS 3 million in the third quarter compared to the corresponding periods last year. The decrease in the quarter is explained by a drop in volumes due to the timing of Rosh Hashanah and the Jewish festivals. The increase in the first nine months is due, among other things, to effective price erosion in the first quarter of 2016 as a result of marketing campaigns. The increase in the operating profit in the first nine months of 2017 is the result of sales growth as mentioned and of the erosion of raw material costs following gains by the Shekel against the US Dollar and other currencies, despite an increase in marketing expenses.

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first nine months of 2017, according to StoreNext figures, held an 11.7% share of the total domestic retail food and beverage market in value terms (compared to 11.6% in the corresponding period last year), an increase of 0.1% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew by 3.9% in value terms, whereas according to StoreNext, in the first nine months of 2017 the Israeli food and beverage market increased by 0.7% in value terms.

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 the first nine months include Max Brenner figures, until the sale of the business in May 2017. The Strauss Water business is not included in StoreNext's market share measurements.

In the first nine months of 2017 Strauss Group's sales in Israel totaled approximately NIS 3,283 million compared to NIS 3,169 million last year, an increase of 3.6%. In the third quarter of the year Strauss Group's Israel sales totaled approximately NIS 1,188 million versus NIS 1,100 million last year, an increase of 1.6%.

Organic growth, excluding the impact of the sale of Max Brenner, in the first nine months and third quarter amounted to 4.1% and 2.4%, respectively, compared to the corresponding periods in 2016.

Strauss Israel

Following are the condensed results of business operations, based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments, for the quarter and the nine months ended September 30, 2017 and 2016 (in NIS millions):

	First Nine Months			Third Quarter		
	2017	**2016**	**% Chg**	**2017**	**2016**	**% Chg**
Health & Wellness segment						
Net sales	1,554	1,491	*4.2*	552	526	*5.0*
Operating profit	170	162	*4.9*	62	63	*(1.4)*
% operating profit	10.9%	10.9%		11.3%	12.0%	
Fun & Indulgence segment						
Net sales	809	783	*3.3*	256	260	*(1.6)*
Operating profit	89	86	*3.5*	26	24	*6.9*
% operating profit	11.0%	11.0%		10.1%	9.3%	
Total Strauss Israel						
Net sales	**2,363**	**2,274**	***3.9***	**808**	**786**	***2.8***
Gross profit	**932**	**907**	***2.8***	**312**	**314**	***(0.2)***
% gross profit	**39.5%**	**39.9%**		**38.7%**	**39.9%**	
Operating profit	**259**	**248**	***4.4***	**88**	**87**	***0.9***
% operating profit	**11.0%**	**10.9%**		**10.9%**	**11.1%**	

Sales

In the first nine months of 2017 Strauss Israel's sales increased by approximately 3.9% (NIS 89 million). In Health & Wellness the increase was approximately 4.2% (NIS 63 million), and in Fun & Indulgence sales growth amounted to 3.3% (NIS 26 million).

In the third quarter Strauss Israel's sales grew by approximately 2.8% (NIS 22 million); in Health & Wellness growth amounted to 5% (NIS 26 million), and in Fun & Indulgence sales dropped by 1.6% (NIS 4 million), among other things as a result of the timing of Rosh Hashanah and the Jewish festivals.

The increase in sales in the nine months and quarter reflects volume growth, which was the result of the launch of new products in the yogurt, dessert, chocolate tablet, salty snack, cookie and packaged salad categories.

Gross profit

In the first nine months of 2017 Strauss Israel's gross profit increased by approximately NIS 25 million with the gross profit margin dropping by 0.4%, compared to the corresponding period last year.

In the third quarter Strauss Israel's gross profit decreased by approximately NIS 2 million, with a 1.2% drop in the gross profit margin compared to the corresponding period in 2016.

The drop in the gross profit and gross profit margin in the third quarter is the result of a rise in the prices of key raw materials (raw milk, milk powders and olive oil). Additionally, an increase in production inputs such as the minimum wage and municipal taxes was recorded during the year compared to the corresponding period last year. These increases were offset by sales volume growth, continued efficiency enhancing measures applied in manufacturing and packaging processes and the appreciation of the Shekel.

Operating profit

In the first nine months of 2017 Strauss Israel's EBIT increased by approximately NIS 11 million, and the operating profit margin rose by 0.1% and amounted to 11% of sales.

In the third quarter Strauss Israel's EBIT increased by approximately NIS 1 million, with the operating profit margin dropping by 0.2% and amounting to 10.9% of sales.

The growth in the operating profit mainly reflects growth in sales volumes compared to the corresponding periods last year, which was partly offset by an increase in selling expenses.

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 36 weeks ended September 30, 2017 was 24.4% (Number 1 in the market), compared to 26.2% at the end of 2016 and 28.0% in the corresponding period last year. Sabra's value market share of the hummus category in the third quarter of 2017 was 58.5%, compared to 62.2% in the corresponding period last year. Sabra's market share in hummus in the 4 weeks ended October 8, 2017 was approximately 58.6%.

In Australia, significant growth of approximately 32.9% and 34.9% was recorded in local currency sales in the first nine months and third quarter, respectively, compared to the corresponding periods last year; these figures include the start of sales in New Zealand, which are immaterial. In Mexico and Holland, sales volumes are immaterial. Obela is leader of the hummus market in Australia and Mexico in terms of market share.

During the quarter Obela began marketing refrigerated dips and spreads products in Germany through Florentin under the "Obela" brand.

Sabra

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

	First Nine Months		Third Quarter	
	2017	2016	2017	2016
Sales	950	1,095	337	371
Growth	(13.2%)	1.6%	(9.2%)	(3.4%)
Organic growth excluding foreign currency effect	(7.9%)	3.2%	(3.1%)	(1.7%)
Operating profit before other expenses	63	144	7	29
% operating profit	6.6%	13.1%	2.1%	7.6%

Sales by Sabra in the first nine months and third quarter of 2017 dropped by approximately NIS 145 million and NIS 34 million, respectively, compared to the corresponding periods last year as a result of the voluntary recall by the company in November 2016.

On November 19, 2016 Sabra announced a voluntary recall in North America of some of its hummus products, manufactured and marketed in the US and Canada, due to concerns of possible Listeria contamination. The bacteria were detected in Sabra's production site in Virginia, but not in the end products. The company's sales were also adversely impacted by translation differences, which amounted to approximately NIS 60 million and NIS 23 million in the nine months and quarter, respectively (of which the Company's share amounts to NIS 30 million and NIS 12 million, respectively).

In the first nine months and third quarter of 2017 EBIT dropped by NIS 81 million and NIS 22 million, respectively, compared to the corresponding periods last year (of which the Company's share is NIS 40 million and NIS 11 million, respectively). The drop in EBIT in the nine months and quarter is the result of the decrease in Sabra's sales following the voluntary recall in November 2016. The recall also adversely impacted the Company's operating profit due to indirect expenses including, among others, damage to the Company's trade agreements and the costs of an additional improvement made to the strict quality controls in place in the hummus factory in Virginia. Sabra has a certain amount of insurance coverage for the damages caused by the recall. In the first nine months of 2017, insurance coverage of approximately NIS 10 million was recognized.

In the reporting period the Company amortized intangibles and depreciated tangible assets in respect of the impairment of the Salsa operation in the amount of approximately NIS 38 million (the Group's share). The assets were depreciated to a recoverable amount supported by the assessment of the Company's external consultants. The sum of NIS 5 million was included in operating expenses, and the sum of NIS 33 million was included in the other expenses item. In addition, income from tax of approximately NIS 17 million was recorded in respect of the depreciation, and was included in the "taxes on income" item.

Obela

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

Sales by Obela in the first nine months of 2017 totaled approximately NIS 98 million, compared to NIS 68 million in the corresponding period last year (44% growth). Excluding the foreign currency effect, sales growth in the period amounted to 48.6% compared to the corresponding period in 2016. Organic growth of Obela's sales in the first nine months amounted to 22.6% compared to the corresponding period last year.

Obela's sales in the third quarter totaled approximately NIS 35 million, compared to NIS 28 million last year (26.3% growth). Excluding the foreign currency effect, growth in the period amount to 29.2% compared to the corresponding period in 2016.

The operating loss in the first nine months amounted to NIS 17 million, compared to NIS 20 million in the corresponding period last year.
In the third quarter, the operating loss amounted to NIS 6 million compared to NIS 6 million last year.

<u>Other Operations</u>

The Group has activities which are included in the Financial Statements as the "Other Operations" segment. As at the reporting date, the main operation in this segment is Strauss Water.

Strauss Water

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

Commencing in the third quarter of 2015 the Group's Non-GAAP Reports have reflected the restructuring of the operation in China implemented that year, following which Strauss Water held 34% of the Haier Strauss Water joint venture (HSW) in China.

On 28 May, 2017, Strauss Water Ltd. exercised the right reserved to it in accordance with the joint venture agreement to purchase an additional 15% of Qingdao HSW Health Water Appliance Co. Ltd. (the **"Joint Venture"** and the **"Acquisition"**); following the Acquisition the Joint Venture will be owned 51% by companies of the Haier Group and 49% by Strauss Water. On August 30 (the **"Acquisition Date"**), Strauss Water paid 150 million Yuan (approximately NIS 81 million) (hereinafter: the **"Consideration"**). On the Acquisition Date ownership of the additional shares acquired was transferred. The Consideration was determined according to a valuation based on the Joint Venture's financial results for the 2016 fiscal year, as determined in the Joint Venture agreement. The Consideration was financed by a shareholder loan extended by the Company to Strauss Water.

<u>Sales</u> by Strauss Water in the first nine months of 2017 amounted to NIS 405 million compared to NIS 371 million in the corresponding period last year, an increase of 9.1% mainly originating in the business in Israel.

In the third quarter, Strauss Water's sales amounted to NIS 144 million compared to NIS 133 million in the corresponding quarter in 2016, an increase of 8.2% mainly originating in the business in Israel.

Sales by the Haier Strauss Water Joint Venture in China, which is not included in the Non-GAAP Report, in the first nine months of 2017 totaled NIS 376 million compared to NIS 247 million in the corresponding period last year, an increase of 52.2%. Sales growth in the period, excluding the foreign currency effect, amounted to 65.9% compared to the corresponding period last year (unaudited, reflecting 100%).

In the third quarter of the year, sales amounted to NIS 131 million compared to NIS 104 million last year, an increase of 25.5%. Sales growth in the quarter, excluding the foreign currency effect, amounted to 33.9% compared to the corresponding period (unaudited, reflecting 100%).

The net profit of the Joint Venture in the first nine months amounted to approximately NIS 39 million compared to NIS 20 million in the corresponding period last year, an increase of 92.9% (unaudited, reflecting 100%).

In the third quarter of the year, the net profit totaled approximately NIS 13 million compared to NIS 7 million in the corresponding period in 2016, an increase of 96.4% (unaudited, reflecting 100%).

Strauss Water has posted an improvement in operating profit and cash flow in the nine months and quarter compared to the corresponding periods last year.

Max Brenner

On May 23, 2017 an agreement was signed for the sale of the Max Brenner business in consideration for approximately NIS 18 million. The said amount includes prepaid rental fees amounting to NIS 3.5 million for Max Brenner's production facility in Beit Shemesh for a five-year period. Pursuant to the decision to realize the operation, the Company recognized a loss of approximately NIS 10 million in the first quarter as a result of the business's valuation according to the lower of its carrying value and fair value less costs to sell. Following the actual divestment in the second quarter, the Company recognized a net loss of NIS 11 million (NIS 7 million in respect of the realization of the translation reserve and the remainder in respect of transaction costs and severance pay to employees), which was classified to the other expenses item in the income statement. As at the date of publication of the report, the entire consideration for the sale has been received.

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 third quarter of 2017 there is a working capital deficiency of approximately NIS 86 million, whereas in the Consolidated Financial Statements of the Company for the third quarter of 2017 no such deficiency exists. Cash flows from operating activities in the solo report are positive and amount to approximately NIS 134 million. In light of the working capital deficiency in the solo report, on November 15, 2017 the Board of Directors 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 September 30, 2017, and is also based on data regarding the Company's projected cash flows 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 B), (Series D) and (Series E) and to banking corporations and their maturity dates, and on a review 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 flows 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 of 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 enumerated in section 29 in the chapter "Description of the Company's Business Affairs" as at December 31, 2016.

ASPECTS OF CORPORATE GOVERNANCE

General

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

INFORMATION ON DEBENTURE SERIES

		Debentures Series B	**Debentures Series D**	**Debentures Series E**
A.	Nominal/par value	149	446	403
B.	Par value linked to the Consumer Price Index	178	446	403
C.	Carrying value of Debentures	178	455	399
D.	Carrying value of interest payable	1	10	3
E.	Market value	181	508	422

For further information on the issue of Debentures (Series E) of the Company, see Note 4.6 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017.

LIABILITY REPORT ACCORDING TO PAYMENT DATES

See Form T-126, published simultaneously with the Financial Statements.

MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see the update of the chapter "Description of the Company's Business Affairs" as at September 30, 2017 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at September 30, 2017.

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 September 30, 2017.

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

Ofra Strauss	Gadi Lesin
Chairperson of the Board	Chief Executive Officer

November 15, 2017

STRAUSS GROUP LTD.
FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 2017

Convenience Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at September 30, 2017

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Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	September 30 2017	September 30 2016	December 31 2016
	Unaudited		Audited
	NIS Millions		
Current assets			
Cash and cash equivalents	550	564	711
Securities and deposits	48	54	53
Trade receivables	1,038	1,018	881
Income tax receivables	43	34	38
Other receivables and debit balances	110	167	156
Inventory	593	535	537
Assets held for sale	22	36	32
Total current assets	2,404	2,408	2,408
Investments and non-current assets			
Investment in equity-accounted investees	1,525	1,132	1,119
Other investments and long-term debt balances	83	189	163
Fixed assets	1,694	1,574	1,581
Intangible assets	945	849	857
Deferred expenses	-	33	28
Investment property	12	7	8
Deferred tax assets	15	12	18
Total investments and non-current assets	4,001	3,796	3,774
Total assets	6,405	6,204	6,182

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

Date of approval of the interim financial statements: November 15, 2017

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)

	September 30 2017	September 30 2016	December 31 2016
	Unaudited		Audited
	NIS Millions		
Current liabilities			
Current maturities of debentures	206	197	196
Short-term credit and current maturities of long-term loans and other liabilities	228	159	147
Trade payables	726	672	743
Income tax payables	29	25	11
Other payables and credit balances	684	618	642
Provisions	31	32	31
Total current liabilities	1,904	1,703	1,770
Non-current liabilities			
Debentures	826	636	635
Long-term loans and credit	1,371	986	906
Long-term payables and credit balances	69	67	60
Employee benefits, net	57	56	47
Deferred tax liabilities	226	211	221
Total non-current liabilities	2,549	1,956	1,869
Equity and reserves			
Share capital	251	244	244
Share premium	1,051	622	622
Reserves	(1,583)	(906)*	(975)
Retained earnings	2,067	1,910*	1,944
Total equity attributable to the Company's shareholders	1,786	1,870	1,835
Non-Controlling interests	166	675	708
Total equity	1,952	2,545	2,543
Total liabilities and equity	6,405	6,204	6,182

* Adjustment due to retrospective implementation of changes in accounting policy, see note 2.6 to the consolidated financial statements as at December 31, 2016.

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 nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Sales	4,095	3,972	1,399	1,378	5,282
Cost of sales	2,491	2,359	854	825	3,179
Gross profit	1,604	1,613	545	553	2,103
Selling and marketing expenses	935	911	308	314	1,234
General and administrative expenses	275	269	96	96	367
	1,210	1,180	404	410	1,601
Share of profit of equity-accounted Investees (For the three and nine months periods ended on September 30 2017,the equity profits include nonrecurring reduction of assets in the amount of NIS 38 million)	120	154	26	51	178
Operating profit before other income (expense)	514	587	167	194	680
Other income	25	5	2	1	6
Other expenses	(32)	(48)	(2)	(26)	(55)
Other expenses, net	(7)	(43)	-	(25)	(49)
Operating profit	507	544	167	169	631
Financing income	3	3	7	1	7
Financing expenses	(93)	(96)	(29)	(38)	(116)
Financing expenses, net	(90)	(93)	(22)	(37)	(109)
Profit before income taxes	417	451	145	132	522
Taxes on income	(77)	(119)	(37)	(31)	(134)
Profit for the period	340	332	108	101	388
Attributable to:					
The Company’s shareholders	274	242	94	69	272
Non-Controlling interests	66	90	14	32	116
Profit for the period	340	332	108	101	388
Earnings per share					
Basic earnings per share (in NIS)	2.47	2.26	0.82	0.64	2.53
Diluted earnings per share (in NIS)	2.45	2.25	0.82	0.64	2.52

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

Convenience Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Profit for the period	340	332	108	101	388
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Foreign currency translation differences	(14)	21	18	(8)	17
Changes in fair value of available for sale financial assets, net	3	1	-	1	2
Available for sale financial assets reclassified to profit or loss	(21)	-	-	-	-
Reclassification of translation reserve to profit or loss	7	-	-	-	-
Other comprehensive income (loss) from equity-accounted investees	(69)	68	27	(27)	83
Total other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods, net	(94)	90	45	(34)	102
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:					
Changes in employee benefits, net	(4)	-	(2)	-	-
Total other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net	(4)	-	(2)	-	-
Comprehensive income for the period	242	422	151	67	490
Attributable to:					
The Company's shareholders	197	303	138	40	343
Non-controlling interests	45	119	13	27	147
Comprehensive income for the period	242	422	151	67	490

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									
	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									
Changes during nine month period ended September 30, 2017 - unaudited:										
Balance as at January 1, 2017 - audited	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	274	274	66	340
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(7)	-	-	(7)	(7)	(14)
Other comprehensive income from equity accounted investees	-	-	-	-	(66)	-	-	(66)	(3)	(69)
Reclassification of translation reserve 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)
Change in employee benefits, net	-	-	-	-	-	-	(4)	(4)	-	(4)
Other comprehensive loss for the period, net	-	-	-	-	(66)	(7)	(4)	(77)	(21)	(98)
Total comprehensive income (loss) for the period, net	-	-	-	-	(66)	(7)	270	197	45	242
Issue of share capital, net issue costs	7	429	-	-	-	-	-	436	-	436
Share-based payment	-	-	-	-	-	-	13	13	-	13
Transaction with non-controlling interests	-	-	-	(311)	(224)	-	-	(535)	(554)	(1,089)
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	-	-	-	-	(1)	(1)
Dividend	-	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(32)	(32)
Balance as at September 30, 2017 - unaudited	251	1,051	(20)	(392)	(1,171)	-	2,067	1,786	166	1,952

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

Convenience Translation from Hebrew

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									
For the nine month period ended September 30, 2016 - unaudited:										
Balance as at January 1, 2016 - Audited	244	622	(20)	(4)*	(951)	6	1,808 *	1,705	603	2,308
Comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	242	242	90	332
Other comprehensive income:										
Foreign currency translation differences	-	-	-	-	15	-	-	15	6	21
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	-	-	-	1	1
Other comprehensive income from equity accounted investees	-	-	-	-	46	-	-	46	22	68
Total other comprehensive income for the Period, net of tax	-	-	-	-	61	-	-	61	29	90
Total comprehensive income for the period	-	-	-	-	61	-	242	303	119	422
Share-based payment	-	-	-		-	-	10	10	-	10
Transaction with non-controlling interests	-	-	-	2	-	-	-	2	(5)	(3)
Dividend	-	-	-	-	-	-	(150)	(150)	-	(150)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(42)	(42)
Balance as at September 30, 2016 - unaudited	244	622	(20)	(2)*	(890)	6	1,910 *	1,870	675	2,545

* Adjustment due to retrospective implementation of changes in accounting policy, see note 2.6 to the consolidated financial statements as at December 31, 2016.

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	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
For the three month period ended September 30, 2017 - unaudited:									
Balance as at July 1, 2017 - unaudited	251	1,051	(20)	(389)	(1,217)	2,130	1,806	153	1,959
Total comprehensive income for the period									
Profit for the period	-	-	-	-	-	94	94	14	108
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	19	-	19	(1)	18
Other comprehensive income from equity accounted investees	-	-	-	-	27	-	27	-	27
Change in employee benefits, net	-	-	-	-	-	(2)	(2)	-	(2)
Other comprehensive income (loss) for the period, net	-	-	-	-	46	(2)	44	(1)	43
Total comprehensive income for the period, net	-	-	-	-	46	92	138	13	151
Share-based payment	-	-	-	-	-	5	5	-	5
Acquisition of non-controlling interest in a subsidiary (see note 4.1)	-	-	-	(3)	-	-	(3)	-	(3)
Dividend	-	-	-	-	-	(160)	(160)	-	(160)
Balance as at September 30, 2017 - unaudited	251	1,051	(20)	(392)	(1,171)	2,067	1,786	166	1,952

The accompanying notes are an integral part of the 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 stock	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									
For the three month period ended September 30, 2016 - unaudited:										
Balance as at July 1, 2016 - unaudited	244	622	(20)	(2)*	(861)	6	1,987 *	1,976	648	2,624
Comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	69	69	32	101
Other comprehensive income:										
Foreign currency translation differences	-	-	-	-	(5)	-	-	(5)	(3)	(8)
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	-	-	-	1	1
Other comprehensive loss from equity-accounted investees	-	-	-	-	(24)	-	-	(24)	(3)	(27)
Other comprehensive income for the period, net of tax	-	-	-	-	(29)	-	-	(29)	(5)	(34)
Total comprehensive income for the period	-	-	-	-	(29)	-	69	40	27	67
Share-based payment	-	-	-	-	-	-	4	4	-	4
Dividend	-	-	-	-	-	-	(150)	(150)	-	(150)
Balance as at September 30, 2016 - unaudited	244	622	(20)	(2)*	(890)	6	1,910*	1,870	675	2,545

* Adjustment due to retrospective implementation of changes in accounting policy, see note 2.6 to the consolidated financial statements as at December 31, 2016.

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

Convenience Translation from Hebrew

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, 2016	244	622	(20)	(4)	(951)	6	1,808	1,705	603	2,308
Changes in 2016 (audited) :										
Total comprehensive income for the year										
Income for the year	-	-	-		-	-	272	272	116	388
Components of other comprehensive income:										
Foreign currency translation differences	-	-	-	-	11	-	-	11	6	17
Other comprehensive income from equity accounted investees	-	-	-	-	59	-	-	59	24	83
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	1	2
Other comprehensive income for the period, net	-	-	-	-	70	1	-	71	31	102
Total comprehensive income for the year	-	-	-		70	1	272	343	147	490
Share-based payment	-	-	-	-	-	-	14	14	-	14
Acquisition of non-controlling interest in a subsidiary	-	-	-	(77)	-	-	-	(77)	21	(56)
Dividend	-	-	-	-	-	-	(150)	(150)	-	(150)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(63)	(63)
Balance as at December 31, 2016	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Profit for the period	340	332	108	101	388
Adjustments:					
Depreciation	105	103	35	34	137
Amortization of intangible assets and deferred expenses	26	33	9	11	44
Impairment loss of fixed assets and intangible assets and investment property, net	9	15	1	12	10
Other expenses (income), net	(14)	13	-	8	22
Expenses in respect of share-based payment	13	10	5	4	14
Financing expenses, net	90	93	22	37	109
Income tax expenses	77	119	37	31	134
Share of profit of equity-accounted investees	(120)	(154)	(26)	(51)	(178)
Change in inventory	(54)	52	7	48	47
Change in trade and other receivables	(179)	(88)	(115)	(77)	83
Change in long-term trade receivables	2	(1)	3	1	5
Change in trade and other payables	29	42	50	28	84
Change in employee benefits	4	3	1	4	(3)
Interest paid	(75)	(91)	(28)	(39)	(101)
Interest received	2	13	-	10	15
Income tax paid, net	(73)	(184)	(23)	(31)	(200)
Net cash flows provided by operating activities	182	310	86	131	610
Cash flows from investing activities					
Sale (acquisition) of marketable securities and deposits, net	6	5	-	(1)	5
Proceeds from sale of fixed assets, intangible assets and investment property	14	27	6	2	31
Investment in fixed assets, investment property and held-for-sale assets	(97)	(93)	(27)	(28)	(132)
Investments in intangible assets	(32)	(20)	(10)	(7)	(30)
Proceeds from sale of operations, net cash sold (See note 4.4)	12	-	6	-	-
Acquisition of a subsidiary, net cash acquired (See note 4.2)	(119)	-	-	-	-
Available for sale financial assets realization	31	(20)	-	-	-
Repayment of deposits and loans granted	24	42	9	9	49
Loans granted	(13)	(11)	-	(1)	(15)
Dividends from investee companies	18	144	-	123	196
Investment in investee companies (See also note 4.5)	(99)	(36)	(90)	-	(37)
Net cash flows provided by (used in) investing activities	(255)	58	(106)	97	67

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 nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Cash flows from financing activities					
Proceeds from issue of share capital, net issue costs (See note 4.3)	436	-	-	-	-
Short-term bank credit, net	95	(18)	(188)	(23)	(30)
Receipt of long-term loans (see also note 4.6)	938	115	604	-	115
Repayment of long-term loans and debentures	(280)	(260)	(21)	(39)	(339)
Acquisition of non-controlling interests in subsidiaries (see note 4.1 and note 6.4 to the annual financial statements)	(1,093)	(2)	(387)	-	(52)
Dividends paid (see note 4.7)	(160)	(150)	(160)	(150)	(150)
Dividend paid to non-controlling interests in a subsidiary	(17)	(42)	-	-	(63)
Net cash flows used in financing activities	(81)	(357)	(152)	(212)	(519)
Net increase (decrease) in cash and cash equivalents	**(154)**	**11**	**(172)**	**16**	**158**
Cash and cash equivalents as at beginning of period	711	560	716	555	560
Effect of exchange rate fluctuations on cash balances	(7)	(7)	6	(7)	(7)
Cash and cash equivalents as at end of period	550	564	550	564	711

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 September 30, 2017 and for the nine and three months period then ended (hereinafter - the "Interim Statements") comprise the Company and its subsidiaries.

The Company's controlling shareholders are Mr. Michael Strauss through his holdings (indirect) 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 consolidated Interim Statements have been prepared in accordance with IAS 34 regarding 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, 2016 and for the year then ended together with their accompanying notes (hereinafter: the "Annual Financial Statements"). The accounting principles applied in preparing these Interim Statements are consistent with the principles applied in preparing the Annual Financial Statements.

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

1.1.4 These Interim Statements have been approved by the Company's Board of Directors on November 15, 2017.

1.2 New standards and amendments to standards not yet adopted

IFRS 15, Revenue from Contracts with Customers

Further to note 3.22.2 to the consolidated financial statements as at December 31, 2016, the company completed the review of the implications of applying IFRS 15 and in its assessment of the implementation of the standard is not expected to have a material impact on its consolidated financial statements.

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

1.2 New standards and amendments to standards not yet adopted (cont'd)

Amendment to IFRS 9 (2014), Financial Instruments, regarding the change in the terms of financial liabilities

Further to note 3.22.1 to the Consolidated Financial Statements as of December 31, 2016, on October 9, 2017, the IASB issued an amendment to IFRS 9, which clarified the accounting treatment of a change in immaterial terms of a financial liability. Where a change in terms or a replacement of a financial liability is immaterial, the new cash flows should be capitalized at the original effective interest whereas the difference between the present value of the new financial liability and the original present value is recognized immediately as profit or loss.

Amendment to IAS 28 regarding long-term rights in associates and in joint ventures

On October 12, 2017, the IASB published an amendment to IAS 28 Investments in Associates and Joint Ventures ("IAS 28") regarding long-term rights in associated companies and in joint ventures ("the Amendment").

The Amendment clarifies that an entity shall also apply the requirements of IFRS 9 ("IFRS 9") as well as the requirements of IAS 28 for long-term rights, which substantially constitute part of the entity's net investment in the associate or in the joint venture. The Amendment will be applied retrospectively for annual periods beginning on January 1, 2019. The Group has not yet begun examining the Amendment’s effects on the financial statements.

Interpretation of IFRIC 23 – Uncertainty over Income Tax Treatments

The Interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty regarding tax positions. In accordance with the interpretation, in determining taxable income (loss) for tax purposes, tax bases, carryforward tax losses, unutilized tax credits and tax rates in the event of uncertainty, the entity must assess whether it is probable that the tax authority will accept the tax position it has taken. If it is probable that the tax authority accept the tax position adopted by the entity, the entity will recognize the tax implications on the financial statements in accordance with the same tax position. On the other hand, when the tax authority is not expected to accept the tax position taken, the entity must reflect the uncertainty in the books by using one of the following: the most likely outcome or the expected value. The interpretation clarifies that in the examination whether it is probable or not probable that the tax authority accept the tax position taken by the entity, it is reasonable to assume that the tax authority will review the amounts to which it has a right and is aware of all relevant information in this examination. In addition, according to the interpretation, changes in circumstances or new information that may change this estimate should be taken into consideration. In addition, the interpretation sharpens the need to provide disclosures about the entity's judgment and the assumptions made with respect to uncertain tax positions. The interpretation will be applied for annual periods commencing January 1, 2019, with the possibility of early adoption. The interpretation includes two alternatives for the implementation of the transitional provisions, so that a transition option may be chosen for retrospective application or prospective application from the first reporting period in which the entity first applied the interpretation. The Group has not yet begun examining the implications of adopting the interpretation on the financial statements.

Note 2 – Seasonality

The sales of Fun & Indulgence products are characterized by seasonality, and they are usually higher in the first quarter of the year. The seasonality is mainly affected by the winter, being characterized by a higher consumption of chocolate products, as well as by higher consumption before Passover.

In the area of coffee in Israel, 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 the Passover holiday.

In the area of 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 which the hot summer months occur, characterized by an increase in consumption in dairy products.

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

Note 3 - Operating segments

Details by operating segments and reconciliation to the consolidated financial statements:

	For the nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	1,554	1,491	552	526	1,975
Fun & Indulgence	809	783	256	260	1,006
Total Israel	2,363	2,274	808	786	2,963
Israel Coffee	537	526	176	179	673
International Coffee	2,478	2,086	896	776	3,000
Total Coffee	3,015	2,612	1,072	955	3,673
International dips and spreads	524	581	186	199	717
Other	433	442	144	156	590
Sales to other segments:					
Health & Wellness	6	6	2	3	7
Fun & Indulgence	9	9	4	3	11
Total Israel	15	15	6	6	18
Israel Coffee	1	2	-	1	2
International Coffee	1	-	-	-	1
Total Coffee	2	2	-	1	3
Other	-	-	-	-	1
Total revenues of the segments	6,352	5,926	2,216	2,103	7,965
Elimination of inter-segment sales	(17)	(17)	(6)	(7)	(22)
Total revenues of the segments excluding the inter - segment sales	6,335	5,909	2,210	2,096	7,943
Adjustment to the equity method	(2,240)	(1,937)	(811)	(718)	(2,661)
Total consolidated revenues	4,095	3,972	1,399	1,378	5,282

Note 3 - Operating segments (cont'd)

	For the nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS millions				
Profit					
Health & Wellness	170	162	62	63	213
Fun & Indulgence	89	86	26	24	101
Total Israel	259	248	88	87	314
Israel Coffee	84	79	27	27	87
International Coffee	230	196	95	85	272
Total Coffee	314	275	122	112	359
International dips and spreads	33	62	-	11	48
Other	35	24	11	3	23
Total profit of reportable segments	631	609	221	213	744
Unallocated income (expenses):					
Adjustments for commodity hedges (1)	(18)	28	2	1	-
Other expenses, net	(51)	(43)	(34)	(24)	(50)
Share based payment	(13)	(10)	(5)	(4)	(15)
Total operating profit of business operations	549	584	184	186	679
Adjustment to the equity method	(42)	(40)	(17)	(17)	(48)
Total operating profit in the consolidated financial statements	507	544	167	169	631
Financing expenses, net	(90)	(93)	(22)	(37)	(109)
Profit before taxes on income	417	451	145	132	522

(1) Reflects accounting revaluation (mark-to-market) to the end of the period of open positions in the Group in respect of derivative financial instruments which are used to hedge the prices of goods. As a result of a change in management reporting, Commencing in the first quarter of 2017, reflects all adjustments necessary to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties.

Note 4 - Material Events during the Reported Period

4.1 On March 27, the subsidiary, Strauss Coffee (hereinafter: "Strauss Coffee") effected a buyback of the shares of TPG (25.1%) in Strauss Coffee (hereinafter: "the purchase") for consideration of EURO 257 million (hereinafter: "the consideration"). Of the consideration, an amount of approximately EURO 172 million (approximately NIS 676 million) was paid in cash at the date of the purchase and an amount of approximately EURO 85 million, which was given by TPG as non-recourse loans to Strauss Coffee, was paid on August 1, 2017 (approximately NIS 355 million).

In addition, Strauss Coffee redeemed options that were issued to managers of Strauss Coffee in the amount of EUR 16 million (of which approximately EURO 7 million were paid by the date of this Statement), and options of Strauss Group, at a value of approximately EUR 2 million, were approved for allotment (see also note 5.1). In respect of the purchase transaction, costs amounting to approximately EUR 3 million were incurred.

As a result of the transaction outlined above, the Company recognized a decrease in non-controlling interests amounting to approximately NIS 554 million, a decrease in the reserve form transactions with non-controlling interests amounting to approximately NIS 311 million and a decrease in translation reserve amounting to approximately NIS 224 million.

The purchase and the redemption of the options were financed from independent resources of the Company and a debt assumed by Strauss Coffee, and a capital mobilization of Strauss Group. In order to finance the purchase, Strauss Coffee took a short-term loan amounting to approximately NIS 434 million (approximately EURO 110 million) bears 1.5%-2.0% interest. As at the date of the financial statement Strauss Coffee repaid the full short-term loan (see below).

On April 4, 2017, the subsidiary, Strauss Coffee took a long-term loan from an institutional entity amounting to NIS 234 million which replaces a part of the long-term loan. The long-term loan bears 2.5%-3.5% interest, which shall be paid half-yearly on the undischarged principal of the loan. The loan principal will be repaid in 10 annual installments, as follows: two annual installments of 2% of the total of the loan, four annual installments at a rate of between 14% and 15% of the total of the loan and four annual installments at a rate of between 8% and 10% of the total of the loan.

On July 27, 2017, the subsidiary, Strauss Coffee assumed an additional long-term loan from the institutional entity, amounting to approximately NIS 78 million, bearing annual interest ranging from 2%-3%, payable semi-annually on the balance of the outstanding principal, and repayable in identical manner to the loan taken in April 2017 (see above).

On August 1, 2017 the subsidiary, Strauss Coffee assumed an additional long-term loan from bank, amounting to approximately EURO 30 million (approximately NIS 121 million) which replaces an additional part of the short-term loans outlined above. The loan bears annual interest at a rate of 1.5% to 2.5% and will be repaid in one installment at the end of 6 years from the date it was taken.

The following financial criteria have been established for the loans outlined above: (1) the capital ratio (with the addition of shareholder loan) to the balance sheet must not be less than

Note 4 - Material Events during the Reported Period (cont'd)

25%; (2) the ratio of the financial debt net (minus shareholders loan) to EBITDA must not exceed 3.5. In case Strauss Coffee will not meet the following additional criteria, the interest rate for the loans from an institutional entity will increase: (1) If the capital ratio to the balance sheet as defined above shall be less than 30%. (2) If the ratio of net financial debt as defined above shall be more than 2.5. (3) If the ratio of net financial debt as defined above shall be more than 3.

As at September 30, 2017, Strauss Coffee was in compliance with all of its financial criteria described above.

4.2 On March 23, the subsidiary, Strauss Coffee exercised the Call option which it held to purchase 100% of the shares of Norddeutsche Kaffeewerke GmbH (hereinafter" "NDKW"), which operates a freeze-dried coffee plant in Germany (see also note 24.4.7 to the annual financial statements). The consideration of the purchase amounted to EURO 56 million (approximately NIS 220 million) (approximately EURO 32 million in cash and approximately EURO 24 million in respect of the payment of a mutual balance). The subsidiary, Strauss Coffee, completed the allocation of the cost of the purchase to the identifiable assets and liabilities which were purchased, and recognized, mainly, fixed assets amounting to approximately EURO 35 million and goodwill amounting to approximately EURO 22 million.

4.3 During April 2017, 4,074,752 shares of NIS 1 par value were issued to institutional investors and to the public for a consideration of approximately NIS 260 million. In addition, during June 2017, 2,727,274 shares of NIS 1 par value were issued to institutional investors for a consideration of amounting to approximately NIS 180 million. The issuance costs amounted of approximately NIS 4 million.

4.4 On May 23, 2017 an agreement was signed for the sale of the Max Brenner business inconsideration for approximately NIS 18 million. The said amount includes prepaid rental fees amounting to approximately NIS 3.5 million for Max Brenner’s production facility in Beit Shemesh for a five-year period. Pursuant to the decision to realize the operation, the Company recognized a loss of approximately NIS 10 million in the first quarter as a result of the business’s valuation according to the lower of its carrying value and fair value less costs to sell. Following the actual divestment in the second quarter, the Company recognized a net loss of approximately NIS 11 million (approximately NIS 7 million in respect of the realization of the translation reserve and the remainder in respect of transaction costs and severance pay to employees), which was classified to the other expenses item in the income statement. As at the date of publication of the report, the entire consideration for the sale has been received.

4.5 On 28 May, 2017, the subsidiary Strauss Water Ltd. Company exercised the right reserved to it in accordance with the joint venture agreement, to purchase an additional 15% of the Qingdao HSW Health Water Appliance Co. Ltd (“Joint Venture” and “The Acquisition”), thus following the acquisition’s completion, the joint venture is owned 51% by companies of the Haier Group and 49% by Strauss Water. On August 30 (hereinafter: the “Acquisition Date”), the company had paid approximately CNY 150 million (approximately NIS 81 million) (hereinafter: "the consideration”). The consideration was determined in accordance with the company's valuation based on the joint venture’s financial results for the 2016 fiscal year as determined in the joint venture agreement.

Note 4 - Material Events during the Reported Period (cont'd)

4.6 On July 4, 2017 the Company issued Series E bonds that were listed for trade on the Tel Aviv Stock Exchange. The issue proceeds were approximately NIS 399 million, net of the issuance costs. The following are the terms of the issued bonds:

	Series E
Type of interest	Fixed
Annual interest rate	2.61%
Effective Interest rate on the date of listing for trade taking into consideration issue costs	2.78%
Par value at time of issue	NIS 403.1 million
Linkage terms	Principal and interest are not linked to any index
Principal payment dates	8 annual installments on the June 30 of each year of the years 2020 until 2027. 4 first installments – 5% each and 4 additional installments – 20% each.
Interest payment dates	Semi-annual interest on December 31 and June 30. As of December 31, 2017 until June 30, 2027.
Securities or charges	None
Rating company's name	Midroog; Maalot
Rating at time of issue	ilAa2; ilAA+

As long as the Series E bonds have not been fully repaid, the Company undertakes to meet the financial conditions it assumed under the deed of trust and bond certificate, such financial conditions being identical to the financial conditions previously determined with respect of the D Series bonds, in accordance with the details in note 20.6 of the annual financial statements. In addition, the following conditions were provided for with respect of the Series E bonds: if the Company's equity (neutralizing a decrease deriving from the purchase of non-controlling rights following the issue date of Series E bonds) falls under NIS 500 million in the course of 3 consecutive quarters, this breach will constitute a cause for the bondholders at that time for immediate repayment. In addition, if it falls under NIS 700 million, the Company undertakes not to perform a distribution as this term is defined in the Companies Law. In addition, if the rating of Series E bonds falls under BBB- after 45 days have elapsed from the date of the update notice of such rating, and provided that the rating is not increased, the holders of Series E bonds will have a cause for immediate repayment.

4.7 On August 9, 2017, the Board of Directors of the Company approved the distribution of a dividend to the shareholders amounting to NIS 160 million (NIS 1.39 per share) to be paid on September 5, 2017.

4.8 In the reporting period, Sabra company, a jointly controlled company of the Company (hereinafter: "Sabra"), amortized intangible and tangible assets in respect of impairment of Salsa operation in the amount of approximately NIS 38 million (the Group's share). The aforementioned reduction was made to the recoverable amount, which was supported by the assessment of Sabra's external advisors. The reduction is included in the item “Share of profit of equity-accounted investees” in the Group's statement of income and loss. The introduction of tax in the amount of about approximately NIS 17 million in respect of the reduction was included in the item “taxes on income”.

Note 4 - Material Events during the Reported Period (cont'd)

4.9 One of the Company's investee companies is deliberating tax assessments for the years 2009-2013 with the local tax authorities. At this preliminary stage, the Company cannot estimate the outcome of the deliberations with the tax authorities. The investee company made a provision in accordance with the information known at the time of this statement. If additional clarifications are provided from the tax authorities, it is possible that the Company's assessments will change.

Note 5 - Share-Based Payment

5.1 Grants during the period

Details of the new options granted during the period are as follows:

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Expected annual volatility	Discount rate
		NIS millions	NIS	NIS	Years	%	%
March 27, 2017 (1)	773,325 to 14 managers	8.3	62.26	63.49	5.29-4.29	21.00-19.95	0.23-0.12
May 28, 2017 (2)	368,060 to 11 managers	4.2	64.52	63.82	5.29-4.29	20.98-19.69	(0.07)-(0.22)
May 28, 2017 (3)	653,258 to 5 managers	12.4	64.52	53.5-49.74	6.30-2.89	23.60-19.62	1.48-0.48
August 9, 2017 (4)	93,332 to 2 managers	1.1	68.34	68.08	4.29-5.29	19.67-20.61	(0.13)-(0.22)

(1) The exercise increment of each one of the options is linked to the consumer price index, published on March 15, 2017. Entitlement to exercise the options will be crystallized in two equal tranches, on March 27 of each of the years 2019 and 2020. The exercise money of each of the options is linked to the consumer price index published on May 15, 2017. The benefit arising from these grants will be charged as an expense in the financial statements over the said vesting periods.

(2) Entitlement to realize the warrants will be formed in two equal steps, on May 28 of each of the years 2019-2020. The exercise money of each of the options is linked to the consumer price index published on May 15, 2017. The benefit deriving from these grants will be recognized under an expense in the financial statements over such vesting periods.

(3) As part of the repurchase made by Strauss Coffee of all of TPG shares (25.1%) in Strauss Coffee, the options held by the managers of Strauss Coffee were converted. Under the conversion, 653,258 options were converted into the Company's shares. The exercise money of each of the options is not linked to the consumer price index. Entitlement to realize the warrants will be formed in accordance with the original terms of the options granted to the managers of Strauss Coffee over the years 2018-2021. At the time of conversion, no incremental value was recognized as the fair value of the options following the change of the terms did not exceed the fair value before the change, as measured on the date of changing the terms.

Note 5 - Share-Based Payment (cont'd)

5.1 Grants during the period (cont'd)

(4) The exercise of the options will be vested in two equal portions, on August 9 of each of the years 2019-2020. The exercise price of each option is linked to the Consumer Price Index published on July 14, 2017. The benefit deriving from these grants will be recorded as an expense in the financial statements over the said vesting periods.

5.2 Exercises during the period

During the report period, 1,087,556 options which were granted to employees were realized to 500,459 shares in consideration of their par value.

Note 6 - Contingent Liabilities

6.1 For details regarding legal claims and contingencies liabilities against the Company and its subsidiaries, as at December 31, 2016, see note 24.1.1 and note 24.1.2 to the Annual Financial Statements.

6.2 On January 17, 2017, a monetary claim and a petition to approve it as a class action were filed in the Central District of the District Court against the subsidiary, Strauss Water Ltd., relating to the failure to supply of spare parts on time. On April 30, 2017, the court instructed the dismissal of the request for approval for a class action without the ruling on expenses.

6.3 On April 5, 2017, a monetary claim and a petition to approve it as a class action were filed in the Central District of the District Court against the Company, regarding an allegation of displaying erroneous nutritional values and an erroneous weight mark on a 5% Ski cheese product in packages weighing 125 grams. The amount of the claim is NIS 53 million. On November 2017, the Central-Lod District Court certified a notice of the plaintiff's withdrawal from a monetary claim and the application to certify the claim as a class action.

6.4 Further to note 24.1.1 of the annual financial statements, on April 6, 2017, the District Court in Haifa decided to approve a withdrawal notice of the plaintiff, from a monetary claim and a petition for its approval as a class action in the amount of approximately NIS 915 million which was filed against the Company, Uri Horazo Yotvata Dairies and the subsidiary, Strauss Health in June 2016 due to sale of allegedly defective products.

6.5 Further to note 24.1.1 of the annual financial statements, on May 17, 2017, the District Court of Tel Aviv-Jaffa decided to approve the plaintiff’s notice of withdrawal from a monetary claim and motion to certify a class action in the amount of approximately NIS 38 million that was filed against the Company and Israel Railways in November 2014 due to alleged misleading in the sale of a product .The Company was required to pay compensation and fees in the amount of approximately NIS 20,000 (in addition to VAT) for the plaintiff and its counsel.

6.6 Further to note 24.1.2 of the annual financial statements pertaining to a claim that was filed with the Central District Court on May 2016 due to charging a prima facie exaggerated price by a Monopolist for the Milky dairy dessert, the company's management, based on the assessment of its legal advisors, estimates at this stage that the claim will not be upheld.

Note 6 - Contingent Liabilities (cont'd)

6.7 Further to note 24.1.4.2 of the annual financial statements pertaining to a claim that was filed on November 5, 2015 against the subsidiary Strauss Water Ltd., on October 1, 2017, the Court certified the settlement agreement in which the subsidiary Strauss Water Ltd. agreed to pay the plaintiff and its counsel a sum of approximately USD 30 thousand.

Note 7 – Equity - Investment in equity-accounted investees

7.1 Concise information on material equity-accounted investees (in 100% terms):

(a) Concise financial information about the financial position:

	Sabra Dipping Company			Três Corações Alimentos S.A		
	September 30		December 31	September 30		December 31
	2017	2016	2016	2017	2016	2016
	Unaudited		Audited	Unaudited		Audited
	NIS millions			NIS millions		
Current assets	282	337	324	1,142	995	1,091
Of which:						
Cash and cash non-current assets	56	112	115	86	43	102
Non-current assets	563	686	696	664	627	653
Total assets	845	1,023	1,020	1,806	1,622	1,744
Current liabilities	333	219	428*	705	616	779
Of which:						
Financial liabilities excluding trade payables, other payables and provisions (1)(2)	203	100	294*	273	241	352
Non-current liabilities	4	197	4*	203	230	195
Of which:						
Financial liabilities excluding trade payables, other payables and provisions (1)(2)	-	197	-*	169	193	158
Total liabilities	337	416	432	908	846	974

***** Reclassified (See Paragraph (1)).

(1) Classification of balance of loan at December 31, 2016 from long term to short term due to non-compliance with the financial criteria that became apparent to the investee company and to the banks in this quarter.

(2) Further to Paragraph (1) above, in this quarter, the financial criteria is held off until the end of the year, further to the provision of a guarantee by the companies holding approximately USD 2 million (each), through December 31, 2017.

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

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

(b) Concise financial information about the results of operations:

	Sabra Dipping Company					Três Corações Alimentos S.A				
	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2017	2016	2017	2016	2016	2017	2016	2017	2016	2016
	Unaudited				Audited	Unaudited				Audited
	NIS millions									
Income	950	1,905	337	371	1,328	3,084	2,377	1,134	924	3,459
Profit (loss) for the period (1)	(16)	79	(34)	15	63	213	144	92	67	212
Other comprehensive income (loss)	(51)	(28)	5	* (17)	(14)	(49)	110	32	(20)	120
Total comprehensive income (loss)	(67)	51	(29)	(2)	49	164	254	124	47	332
Of which:										
Depreciation and amortization	109	33	87	11	50	30	24	10	9	34
Interest income	-	-	-	-	-	11	10	5	2	12
Interest expenses	6	5	2	2	7	34	26	11	10	35
Income tax expense (income)(1)	(15)	59	(29)	11	49	42	46	20	19	50

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

* Reclassified.

7.2 The Group is enclosing 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 The real-shekel exchange rate was 1.1 as of September 30, 2017.

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

	Real Exchange Rate	
	Average for the period	**Change in %**
For the nine-month period ending on:		
September 30, 2017	1.14	(6.3)
September 30, 2016	1.09	17.8
For the three-month period ending on:		
September 30, 2017	1.13	4.2
September 30, 2016	1.17	(2.7)
For the year ending December 31, 2016	1.11	19.7

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:

	September 30, 2017		September 30, 2016		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited				Audited	
	NIS millions					
Series B Debentures	179	181	359	368	362	368
Series D Debentures	465	508	476	528	481	527
Series E Debentures	402	422	-	-		

(1) For details regarding issuance of Series E, see note 4.6

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.

	September 30, 2017			September 30, 2016			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	Unaudited						Audited		
	NIS million								
Financial assets (liabilities)									
Marketable securities	48	-	-	47	-	-	46	-	-
Trade receivables-derivatives	7	5	-	20	2	-	11	2	-
Trade payables- derivatives	(15)	(11)	-	(6)	(33)	-	(11)	(27)	-
Available for sale financial asset (1)	-	-	-	27	-	-	28	-	-
	40	(6)	-	88	(31)	-	74	(25)	-

(1) During the first quarter of 2017, an available-for-sale financial asset was sold for consideration of approximately NIS 31 million. As a result of this exercise, a gain was recognized of approximately NIS 21 million which was classified as other income item in the operating statements of income.

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

Note 9 – Subsequent Events

9.1 For details regarding a monetary claims after the date of the statement of the financial position, see note 6.3 and note 6.7.

Convenience Translation from Hebrew

Strauss Group Ltd.

<u>Separate Financial Information As At September 30, 2017</u>

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Strauss Group Ltd.

Condensed Interim Information on the Financial Position

	September 30 2017	September 30 2016	December 31 2016
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	260	126	126
Securities and deposits	16	23	23
Trade receivables	195	215	179
Income tax receivables	28	20	17
Other receivables and debit balances	28	34	31
Investee receivables	121	126	196
Inventory	115	102	118
Assets held for sale	22	36	32
Total current assets	785	682	722
Investments and non-current assets			
Investments in investees	1,576	1,868	1,816
Other investments and long-term debit balances	1,062	638	665
Fixed assets	930	941	944
Investment property	4	-	-
Intangible assets	49	53	53
Total investments and non-current assets	3,621	3,500	3,478
Total assets	4,406	4,182	4,200

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

Date of approval of the separate financial information: November 15, 2017

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

Strauss Group Ltd.

Condensed Interim Information on the Financial Position (cont'd)

	September 30 2017 Unaudited	September 30 2016 Unaudited	December 31 2016 Audited
		NIS Millions	
Current liabilities			
Current maturities of debentures	206	197	196
Short-term credit and current maturities of long-term loans and other long term liabilities	15	15	15
Trade payables	193	195	202
Other payables and credit balances	215	225	248
Investee payables	241	130	160
Provisions	1	3	2
Total current liabilities	871	765	823
Non-current liabilities			
Debentures	826	636	635
Long-term loans and other long term liabilities	784	800	796
Long-term payables and credit balances	20	17	16
Employee benefits, net	25	24	20
Deferred tax liabilities	94	70	75
Total non-current liabilities	1,749	1,547	1,542
Total equity attributable to the Company's shareholders	1,786	1,870	1,835
Total liabilities and equity	4,406	4,182	4,200

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

Strauss Group Ltd.

Condensed Interim Information on Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS Millions				
Sales	773	785	246	262	1,010
Cost of sales	479	476	152	165	622
Gross profit	294	309	94	97	388
Selling and marketing expenses	186	198	58	67	266
General and administrative expenses	48	41	18	17	61
	234	239	76	84	327
Operating profit before other income (expenses)	60	70	18	13	61
Other income	1	2	1	1	2
Other expenses	(7)	(8)	(1)	(1)	(12)
Other expenses, net	(6)	(6)	-	-	(10)
Operating profit	54	64	18	13	51
Financing income	18	20	13	7	28
Financing expenses	(76)	(74)	(21)	(31)	(88)
Financing expenses, net	(58)	(54)	(8)	(24)	(60)
Profit (loss) before taxes on income	(4)	10	10	(11)	(9)
Taxes on income	(17)	(28)	(12)	(5)	(38)
Loss after taxes on income	(21)	(18)	(2)	(16)	(47)
Income from investees	295	260	96	85	319
Income for the period attributable to the shareholders of the Company	274	242	94	69	272

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

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS Millions				
Income for the period attributable to the shareholders of the Company	274	242	94	69	272
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Other comprehensive income (loss) from investees	(73)	61	46	(29)	71
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	(73)	61	46	(29)	71
Other comprehensive loss items that will not be transferred to profit or loss in subsequent periods:					
Changes in employee benefits, net	(4)	-	(2)	-	-
Total other comprehensive loss items that will not be transferred to profit or loss in subsequent periods, net of tax	(4)	-	(2)	-	-
Comprehensive income for the period attributable to the shareholders of the Company	197	303	138	40	343

Strauss Group Ltd.

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

Condensed Interim Information on Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30 2017	September 30 2016	September 30 2017	September 30 2016	December 31 2016
	Unaudited				Audited
	NIS Millions				
Cash flows from operating activities					
Income for the period attributable to the shareholders of the company	274	242	94	69	272
Adjustments:					
Depreciation	40	42	13	14	56
Amortization of intangible assets and deferred expenses	11	10	4	3	14
Other income, net	(2)	(1)	-	-	(1)
Expenses in respect of share-based payment	11	10	4	4	13
Income from investees	(295)	(260)	(96)	(85)	(319)
Financing expenses, net	58	54	8	24	60
Income tax expense	17	28	12	5	38
Change in inventory	-	40	-	24	24
Change in trade and other receivables	(20)	(38)	(20)	(29)	6
Change in investee receivables	38	133	-	36	65
Change in trade and other payables	(18)	35	13	14	15
Change in investee payables	81	15	39	(4)	45
Change in employee benefits	1	-	-	(1)	(3)
Interest paid	(56)	(75)	(20)	(34)	(77)
Interest received	1	1	1	1	18
Income tax paid, net	(7)	(38)	-	(7)	(41)
Net cash flows provided by operating activities	134	198	52	34	185
Cash flows from investing activities					
Sale (acquisition) of marketable securities and deposits, net	6	6	(1)	-	6
Proceeds from sale of fixed and other assets	13	25	5	1	29
Investment in fixed assets	(36)	(38)	(8)	(11)	(49)
Investment in intangible assets	(6)	(7)	(2)	(3)	(11)
Repayment of deposits and long-term loans	6	7	4	3	9
Loans granted	(7)	(7)	-	(1)	(8)
Dividends from investees	2	65	-	-	159
Cash received in respect of investing activities with investees	41	90	2	87	91
Cash paid in respect of investing activities with investees (see also notes 3.2, 3.3)	(493)	(83)	(462)	(7)	(152)
Proceeds from sale of operations	8	-	-	-	-
Net cash flows provided by (used in) investing activities	(466)	58	(462)	69	74
Cash flows from financing activities					
Repayment of debentures and long-term loans	(209)	(212)	(7)	(20)	(215)
Dividends paid	(160)	(150)	(160)	(150)	(150)
Proceeds from issuance of Bonds, net	399	-	399	-	-
Proceeds from issue of share capital, net issue costs	436	-	-	-	-
Net cash flows provided by (used in) financing activities	466	(362)	232	(170)	(365)
Net increase (decrease) in cash and cash equivalents	134	(106)	(178)	(67)	(106)
Cash and cash equivalents as at beginning of period	126	232	438	193	232
Cash and cash equivalents as at end of period	260	126	260	126	126

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 salad 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, 2016, and in conjunction with the condensed interim consolidated financial statements as at September 30, 2017 (hereinafter: the "Interim Consolidated Financial Statements").

The accounting policy applied in this Condensed Interim Separate Financial Information is in accordance with the accounting policy rules described in the Separate Financial Information as at December 31, 2016.

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, 2016.

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

3.1 Further to the acquisition of the minority in the subsidiary Strauss Water Ltd. (the “Subsidiary”) in November 2016, the Company and the Subsidiary signed on a change to the terms of the balance of the loans amounted to approximately NIS 124 million that provided by the Company to the Subsidiary in the past. Within the change to the terms, the existing loans were replaced with unlinked and interest-free capital notes and that will not be repaid before May 18, 2022. Pursuant to a change in the conditions the difference between the value of the loans in the books before the replacement date and the capitalized value after the replacement was carried to the item, investment in investee companies.

3.2 On July 31, 2017 the subsidiary Strauss Coffee took a long-term loan from the Company in the total of approximately NIS 375 million. The loan bears annual interest at 2%. The principal of the loan will be repaid in 3 annual instalments commencing December 31, 2018, as follows: two annual instalments of 44% the amount of the loan each and the remainder, a total of 12%, in one payment. For further details, see Note 4.1 to the condensed consolidated interim financial statements.

Note 3 - Material Events during the Reported Period (cont'd)

3.3 On September 10, the Company granted to the subsidiary Strauss Water Ltd. Company capital notes in the amount of NIS 84 million. The capital notes are not linked and do not bear interest and are to be repaid no earlier than September 10, 2022. The gap between the fair value of the capital notes and the discounted value as recorded in the books is attributed under the item Investments in investees.

3.4 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

7.1 On November 12, the Company granted to the subsidiary Strauss Water Ltd. Company capital notes in the amount of NIS 83 million. The capital notes are not linked and do not bear interest and recorded in the books under the item Investments in investees.

7.2 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. Giyora Bar Dea, Deputy Chief Executive Officer;
3. Shahar Florence, EVP & CFO;
4. Mike Avner, EVP, CLO, Company Secretary;
5. Nurit Tal Shamir, SVP HR;

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

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

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

In the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure, which was attached to the Periodic Report for the period ended December 31, 2016 (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, 2016 is effective.

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

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

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

Managers' Statement

Statement of the Chief Executive Officer

I, Gadi Lesin, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the third quarter of 2017 (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, 2016) 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.

November 15, 2017

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Gadi Lesin, President & CEO

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

Managers' Statement

Statement of the Most Senior Financial Officer

I, Shahar Florence, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the third quarter of 2017 (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, 2016) 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.

November 15, 2017

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Shahar Florence, EVP & CF

STRAUSS GROUP LTD.

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

Três Corações Alimentos S.A.

Condensed consolidated interim financial statements as of and for the three and nine month periods ended 30 September 2017 and 2016 and independent auditors' limited review report on condensed consolidated interim financial statements

KPDS 157917

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

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 30 September 2017 condensed consolidated interim financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise:

- the condensed consolidated statement of financial position as at 30 September 2017;
- the condensed consolidated statement of income and other comprehensive income for the three and nine month periods ended 30 September 2017;
- the condensed consolidated statement of changes in equity for the three and nine month periods ended 30 September 2017;
- the condensed consolidated statement of cash flows for the three and nine month periods ended 30 September 2017; 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 30 September 2017 condensed consolidated interim financial statements are not prepared in all material respects in accordance with IAS 34, ‘Interim Financial Reporting’.

Fortaleza, 3 November 2017

KPMG Auditores Independentes
CRC 2SP014428/O-6

João Alberto da Silva Neto

Três Corações Alimentos S.A.

Consolidated Interim Statements of Financial Position as of 30 September 2017 and 31 December 2016

(In thousand of Brazilian reais)

Assets	**30 September 2017**	**31 December 2016**
Current		
Cash and cash equivalents	77,883	86,524
Deposits	2,909	2,418
Trade receivables	494,341	393,469
Inventories	402,154	377,163
Recoverable taxes	35,449	37,798
Income tax receivable	788	14,030
Other current assets	20,679	14,114
	1,034,203	925,516
Non-current		
Judicial deposits	9,865	8,780
Loans to related parties	20,272	7,908
Other non-current assets	5,164	7,765
Deferred tax assets	8,909	14,299
Investments	4,097	4,211
Fixed assets	268,404	242,291
Intangible assets	284,348	268,456
	601,059	553,710
	1,635,262	1,479,226

Liabilities	**30 September 2017**	**31 December 2016**
Current		
Short term loans	247,256	298,804
Trade payables	175,335	151,143
Income tax payables	7,345	1,253
Employees and other payroll related liabilities	62,209	42,134
Proposed dividends	24,732	59,268
Interest on equity payable	75,388	43,938
Derivative instruments	147	-
Payable taxes	20,694	27,724
Other current liabilities	24,936	36,335
	638,042	660,599
Non-current		
Long term loans	153,274	134,243
Other non-current liabilities	4,022	2,565
Deferred tax liabilities	7,921	9,364
Provision for legal proceedings	18,869	19,518
	184,086	165,690
Equity		
Share capital	273,442	272,370
Translation reserve	(94,532)	(99,228)
Retained earnings	634,224	479,795
	813,134	652,937
	1,635,262	1,479,226

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Income

Nine and three month periods ended 30 September 2017 and 2016

(In thousand of Brazilian Reais)

	Nine month period ended 30 September		Three month period ended 30 September	
	2017	**2016**	**2017**	**2016**
Revenue	2,706,796	2,170,441	1,007,509	787,293
Cost of sales	(1,968,126)	(1,581,548)	(719,280)	(565,362)
Gross profit	738,670	588,893	288,229	221,931
Selling and marketing expenses	(405,039)	(338,836)	(150,557)	(117,297)
General and administrative expenses	(83,689)	(65,544)	(30,903)	(24,477)
Equity method	(114)	(118)	60	(115)
Other income (expenses), net	497	383	524	155
Operating profit	250,325	184,778	107,353	80,197
Finance income	9,443	9,721	3,921	2,098
Finance expenses	(32,427)	(23,051)	(11,316)	(9,658)
Profit before income tax	227,341	171,448	99,958	72,637
Income tax expenses	(37,828)	(41,590)	(18,093)	(15,884)
Profit for the period	189,513	129,858	81,865	56,753

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Comprehensive Income

Nine and three month periods ended 30 September 2017 and 2016

(In thousand of Brazilian Reais)

	Nine month period ended 30 September		Three month period ended 30 September	
	2017	**2016**	**2017**	**2016**
Profit for the period	189,513	129,858	81,865	56,753
Foreign currency translation differences	4,696	8,840	1,265	1,550
Comprehensive income for the period	194,209	138,698	83,130	58,303

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 month period ended 30 September 2017 and 2016

(In thousand of Brazilian reais)

		Retained earnings					
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments	Accumulated profit	Total
Balance as of 30 June, 2016	272,370	36,371	177,125	223,666	(98,210)	-	611,322
Profit for the period	-	-	-	-	-	56,753	56,753
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	1,550	-	1,550
Total other comprehensive gain:	-	-	-	-	1,550	56,753	58,303
Internal equity changes							
State VAT and Federal tax incentives	-	-	10,673	-	-	(10,673)	-
Profit destination:							
Legal reserve	-	2,838	-	-	-	(2,838)	-
Revaluation reserve adjustment in investee	-	-	-	(850)	-	-	(850)
Reserve for profit to be distributed	-	-	-	43,242	-	(43,242)	-
	-	2,838	10,673	42,392	-	(56,753)	(850)
Balance as of 30 September, 2016	272,370	39,209	187,798	266,058	(96,660)	-	668,775
Balance as of 30 June, 2017	273,442	47,520	214,517	302,322	(95,797)	-	742,004
Profit for the period	-	-	-	-	-	81,865	81,865
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	1,265	-	1,265
Total other comprehensive gain:	-	-	-	-	1,265	81,865	83,130
Internal equity changes							
State VAT and Federal tax incentives	-	-	13,565	-	-	(13,565)	-
Profit destination:							
Legal reserve	-	4,093	-	-	-	(4,093)	-
Interest on equity credited	-	-	-	-	-	(12,000)	(12,000)
Reserve for profit to be distributed	-	-	-	52,207	-	(52,207)	-
	-	4,093	13,565	52,207	-	(81,865)	(12,000)
Balance as of 30 September, 2017	273,442	51,613	228,082	354,529	(94,532)	-	813,134

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

Três Corações Alimentos S.A.

Consolidated Statements of Changes in Equity

Nine month period ended 30 September 2017 and 2016

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Accumulated profit**	**Total**
Balance as of 31 December, 2015	272,370	32,716	157,782	175,004	(105,500)	-	532,372
Dividends distributed relative to 2015	-	-	-	(1,445)	-	-	(1,445)
Profit for the period	-	-	-	-	-	129,858	129,858
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	8,840	-	8,840
Total other comprehensive gain:	-	-	-	-	8,840	129,858	138,698
Internal equity changes							
State VAT and Federal tax incentives	-	-	30,016	-	-	(30,016)	-
Profit destination:							
Legal reserve	-	6,493	-	-	-	(6,493)	-
Revaluation reserve adjustment in investee	-	-	-	(850)	-	-	(850)
Reserve for profit to be distributed	-	-	-	93,349	-	(93,349)	-
	-	6,493	30,016	92,499	-	(129,858)	(850)
Balance as of 30 September, 2016	272,370	39,209	187,798	266,058	(96,660)	-	668,775
Balance as of 31 December, 2016	272,370	42,209	194,522	243,064	(99,228)	-	652,937
Dividends distributed relative to 2016	-	-	-	(12)	-	-	(12)
Profit for the period	-	-	-	-	-	189,513	189,513
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	4,696	-	4,696
Total other comprehensive loss:	-	-	-	-	4,696	189,513	194,209
Internal equity changes							
Capitalization of tax incentives	1,072	-	(1,072)	-	-	-	-
State VAT and Federal tax incentives	-	-	34,632	-	-	(34,632)	-
Profit destination:							
Legal reserve	-	9,404	-	-	-	(9,404)	-
Interest on equity credited	-	-	-	-	-	(34,000)	(34,000)
Reserve for profit to be distributed	-	-	-	111,477	-	(111,477)	-
	-	9,404	34,632	111,477	-	(189,513)	(34,000)
Balance as of 30 September, 2017	273,442	51,613	228,082	354,529	(94,532)	-	813,134

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Cash Flows

Nine and three month periods ended 30 September 2017 and 2016

(In thousand of Brazilian Reais)

	Nine month period ended 30 September		Three month period ended 30 September	
	2017	**2016**	**2017**	**2016**
Cash flows from operating activities				
Profit for the period	189,513	129,858	81,865	56,753
Adjustments for:				
Depreciation and amortization	26,225	21,936	8,926	7,618
Provision for legal proceedings	(649)	(1,354)	(102)	(136)
Other income, net	(497)	(383)	(524)	(155)
Equity method	114	118	(60)	115
Financing expenses, net	22,984	13,330	7,395	7,560
Income tax expenses	37,828	41,590	18,093	15,884
Interest paid, net	(27,995)	(16,909)	(9,273)	(8,293)
Income tax paid	(14,547)	(31,211)	(12,594)	(18,215)
	232,976	156,975	93,726	61,131
Change in:				
Trade receivables	(101,529)	(67,863)	(7,396)	8,514
Inventories	(22,249)	(116,275)	(38,464)	(114,100)
Recoverable and payable taxes, net	(7,231)	(3,752)	5,722	(6,335)
Derivatives, net	147	(376)	556	(376)
Judicial deposits	(1,085)	434	(663)	(123)
Trade payables	24,192	2,218	22,596	(6,416)
Employees and other payroll related liabilities	20,075	16,754	10,976	4,636
Other current and non-current assets and liabilities, net	(717)	(5,998)	(3,671)	(7,448)
Net cash flows provided by (used in) operating activities	144,579	(17,883)	83,382	(60,517)
Cash flows from investing activities				
Change in deposits	(511)	1,223	(136)	3,765
Payment for acquisition of operations	(24,872)	(53,582)	(4,628)	-
Share capital increase in joint-venture	-	(4,605)	-	-
Proceeds from sales of fixed assets	1,354	1,529	703	361
Acquisition of fixed assets	(45,238)	(26,935)	(21,043)	(7,230)
Investments in intangible assets	(8,043)	(3,701)	(1,796)	(1,340)
Long-term loans to related parties	(11,424)	-	(2,000)	-
Net cash flows used in investing activities	(88,734)	(86,071)	(28,900)	(4,444)
Cash flows from financing activities				
Proceeds from loans	444,670	280,276	92,983	114,318
Repayment of loans	(474,608)	(263,018)	(220,220)	(72,194)
Dividend paid	(34,548)	(35,993)	-	-
Net cash flows provided by (used in) financing activities	(64,486)	(18,735)	(127,237)	42,124
Net decrease in cash and cash equivalents	(8,641)	(122,689)	(72,755)	(22,837)
Net decrease in cash and cash equivalents				
Cash and cash equivalents as of beginning of period	86,524	159,996	150,638	60,144
Cash and cash equivalents as of end of period	77,883	37,307	77,883	37,307
	(8,641)	(122,689)	(72,755)	(22,837)

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.

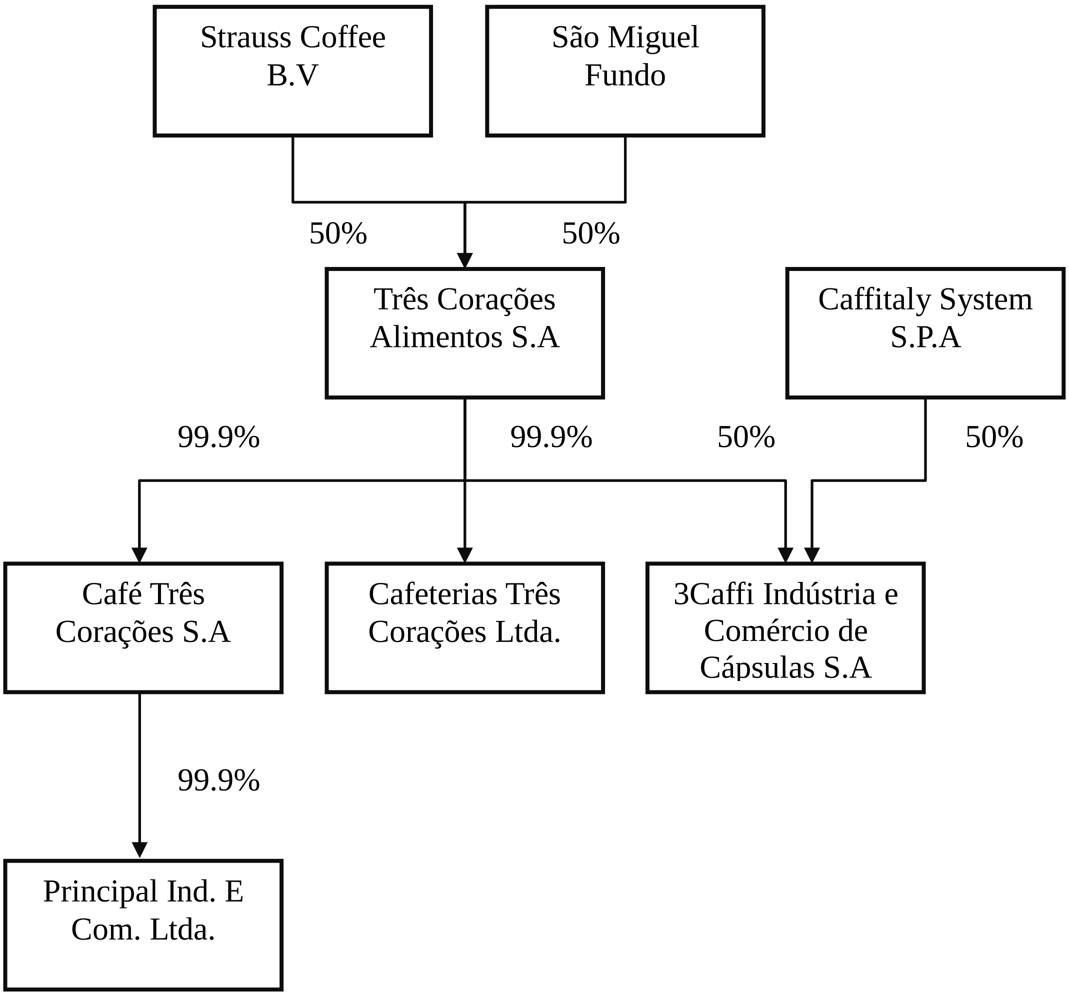
The Company controls the entities Cafeterias Três Corações Ltda. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company is party to a joint-venture with Caffitaly System S.p.A., whereby it holds 50% share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

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

The Group is currently the largest group in roasted and ground coffee business in Brazil, and owns the coffee and other food brands of Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Itamaraty, Londrina, Chocolatto, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, Cirol, Cirol Real and Realmil and the recently acquired brands Toko and Astoria. The Apollo brand will be used as result of a License agreement, as mentioned in item 4.1. of these condensed consolidated interim financial statements.

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais and Rio de Janeiro, and its distribution centers are located in almost all states of Brazil. In addition to that, the Group owns green coffee processing plants in the 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 30 September 2017, the Group had the following structure:



2 Basis of preparation

a. 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 2016 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 3 November 2017.

3 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 2016 and have been applied consistently to all entities of the Group.

4 Material events during the reported period

4.1 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi")

During the three month period ended on 31 March 2017, the Company entered in shareholders loan agreement with 3Caffi in the amount of R$ 9,154 in order to support the investment in the capsules factory. The shareholder's loan is supported by a formal agreement, stipulates interest of 100% of the Brazilian Interbank Deposit CDI rate, with an original due date in 181 days, that will be postponed for another 90 days at a time until the financing for this purpose, with the Banco do Nordeste do Brasil - BNB, is released.

4.2 Acquisition of Cirol Royal S.A brands portfolio

In March 2017, the Group won a Governamental auction to purchase from Cirol Royal S.A the brands portfolio with a bid of R$ 2,200, plus 5% of public auctioneer commission, to be paid as follows:

- R$ 360 paid in March 2017, already included the R$ 110 commission of 5%.
- R$ 1,950 will be paid in 10 consecutive monthly installments of R$ 195 each, plus interest at the Benchmark rate (TR) of 1% a month.

On September 30, 2017 the remaining amount to be paid is R$ 1,059.

4.3 Iguaçu acquisition

In March 2017, the Group paid the remaining amount of R$ 18,992, due Iguaçu acquisition.

On June 23rd, 2017, Management received the purchase price allocation of Iguaçu acquisition performed by Ernst & Young Assessoria Empresarial Ltda. The impact of this independent valuation is presented below:

	Before independent valuation	Adjustment	After independent valuation
Acquisition cost			
Consideration transferred, paid or to be paid	73,582	-	73,582
Identifiable assets			
Brands and trademarks	11,000	7,330	18,330
List of customers	34,400	(12,020)	22,380
Total identifiable assets	45,400	(4,690)	40,710
Goodwill	28,182	4,690	32,872

All adjustments above were recognized in the condensed consolidated interim financial statements of June 30, 2017.

4.4 Dividend payment

In June 2017, the amount of R$ 34,548, representing the final 50% of dividends declared from the 2014 results, was paid.

4.5 Acquisition of Toko brands portfolio

In September 2017, the Group signed contracts with Toko Participações e Empreendimentos S.A. in order to buy its brands: Toko, Apollo and Astoria.

See below detailed purchase and licensing costs involved in the transaction:

Description	Toko	Astoria	Apollo	Total
Acquisition of brands	3,613	400	-	4,013
Non-compete agreement	1,400	-	600	2,000
License agreement	-	-	2,000	2,000
Purchase option agreement	-	-	3,000	3,000
Total	**5,013**	**400**	**5,600**	**11,013**

The Toko brand acquisition was concluded via court approved Judicial Alienation. The amount of R$ 3,613 was deposited on 29 August, 2017 in Minas Gerais court bank account.

The amount of R$ 400 related to Astoria brand was paid in 28 September, 2017 to GTK Indústria e Comércio e Exportação de Café Ltda – ME, owner of the brand. Acquisition of Astoria and licensing of Apollo brands are not part of the court approved Judicial Alienation.

The amount of R$ 7,000 related to the non-compete, license agreement and purchase option agreement will be paid as follows:

- R$ 5,000 will be paid in October 2017;
- R$ 2,000, related to part of the purchase option agreement will be paid in up to 5 years from the date of signature of the agreement on September 26, 2017, with no interest, assuming the sellers will conclude the transfer to the Group of intectual properties related to the Apollo brand.

The amounts above are presented as intangible assets. The unpaid amount mentioned above is presented as other non-current liabilities.

The amounts allocated to the Apollo brand, except for the ones related to the purchase option agreement, will be charged to expenses during the period of the license agreement, which is 5 years.

In the opinion of the Company and its legal adviser, this transaction is only an acquisition of brands and not a business combination, so no liabilities were transferred.

5 Net debt

	30 September 2017	**31 December 2016**
	(Unaudited)	**(Audited)**
Short term loans	247,256	298,804
Long term loans	153,274	134,243
Cash and cash equivalents	(77,883)	(86,524)
Net debt	322,647	346,523

The decrease in net debt presented above reflects mainly:

- Cash flows provided from operating activities, in the amount of R$ 144,579;
- Cash flows used in investing activities, in the amount of R$ 88,734;
- Dividend payment in the amount of R$ 34,548 in June, 2017.

6 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.

7 Financial instruments

a. Fair value of financial instruments

The carrying amounts of the cash and cash equivalents, short and long term financial investments, trade receivables, other receivables and debit balances, credit from banks and others, trade payables and other payables and credit balances, are 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:

	30 September 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Audited)	
Financial liabilities				
Short term loans	247,256	219,563	298,804	254,013
Long term loans	153,274	126,670	134,243	110,019

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

b. Fair value hierarchy

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

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

As of 31 December 2016, the Group did not have financial instrument balances carried at fair value using valuation methods. As of 30 September 2017 the Group had future open positions in the amount of R$ 118, classified as level 2, with due date of December 2017 and in the amount of R$ 29, classified as level 2, with due date of March 2018.

8 Subsequent events

The Group presents subsequent events that occurred between September 30th, 2017 until the date of issuance of these condensed consolidated interim financial statements.

8.1 Goodwill Amortization

As of 03 October 2017 the Goodwill amortization process was judged in the Superior Chamber of Tax Appeals of CARF (Federal Administrative Court).

After prevailing at the first administrative level, the Group lost the process on appeal, but only by a quality vote, which provides a good basis for taking the issue to the judicial level.

The quality vote occurs when there is an equal number of votes in favor and against, and the final decision is left to the president of the session (always a representative of the Government).

The total updated claim, as of 30 September 2017 is R$ 27,129 (principal amount plus fine and interest).

The Group and its tax advisors are of the opinion that there is no need to provide for any liability at this point.

8.2 Federal Industrialized Goods (IPI) Tax Assessment

As of 11 October 2017 the Group was notified about a Federal Industrialized Goods (IPI) tax assessment in the total amount of R$ 16,208 (principal amount plus fine and interest).

Tax authorities claim that tax treatment applied to IPI for powder juice was incorrect. According to the Company's understanding of the regulation, powder juice is a product classified as of zero IPI rate. According to tax authorities, the Company should have applied a 10% rate for the period from January 2014 to December 2014.

The Group has 30 days to appeal to the Federal Administrative Court (CARF).

In 2015, the Group received tax assessments on the same matter for the period from January 2011 to March 2014. The Group appealed to the Federal Administrative Court but, so far, there has been no decision of the process, calculated in September 2017 in the amount of R$ 27,228

The Group and its tax advisors are of the opinion that there is no need to provide for any liability at this point.

*   *   *

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