STRAUSS GROUP LTD.
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STRAUSS GROUP LTD.

DESCRIPTION OF THE CORPORATION'S BUSINESS

UPDATE TO THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS" IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY") FOR THE YEAR 2018[1] (HEREINAFTER: THE "PERIODIC REPORT")

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, following is a description of material developments that occurred in the Company's business in the six months ended June 30, 2019 through to the publication date of the report, which have not yet been disclosed in the Periodic Report. This update refers to the numbers of the sections appearing in the chapter "Description of the Company's Business" as well as to a number of regulations in the chapter "Additional Information on the Company" in the Company's 2018 Periodic Report (**"Description of the Company's Business Report"** and **"Additional Information Report"**, respectively), and is presented in the order of the sections in said reports. It is noted that the terms used in this chapter shall have the meaning ascribed to them in the Periodic Report, unless expressly stated otherwise.

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

On March 12, 2019 the Board of Directors of the Company approved the distribution of a cash dividend to shareholders of the Company. For further information on said dividend distribution, see the Immediate Report of March 20, 2019 (reference no. 2019-01-023538) and also Note 4.1 to the condensed consolidated interim financial statements of the Company as at June 30, 2019.

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

Section 21.6, Credit rating: On April 3, 2019 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with stable outlook. For further information, see the Immediate Report of April 3, 2019 (reference no. 2019-01-030720).

On May 15, 2019 the Company announced the upgrade of Midroog's rating of the Company's Series D and Series E debentures from Aa2.il with positive outlook to Aa1.il with stable outlook. For further information, see the Immediate Report of May 15, 2019 (reference no. 2019-01-041517).

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

For updates, see Note 6 to the condensed consolidated interim financial statements of the Company as at June 30, 2019.

4. **Regulation 26 in the Additional Information Report**

On July 9, 2019 the Company summoned a special general meeting of shareholders to convene on August 13, 2019, on the agenda of which is the appointment of Ms. Dorit Salinger and Ms. Dalia Lev as external directors of the Company for a three-year term of office. For further information, see the Immediate Report of July 9, 2019 (reference number 2019-01-059040).

On July 22, 2019 Dr. Samer Haj-Yehia ceased to serve as an external director of the Company. For further information, see the Immediate Report of July 22, 2019 (reference number 2019-01-063258).

Date: August 12, 2019

Names and titles of signatories:

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Chief Executive Officer

Strauss Group Ltd.

[1] As published on March 13, 2019 (reference number 2019-01-020559).

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

AS AT JUNE 30, 2019

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED JUNE 30, 2019

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

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

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"**) herewith respectfully submits the Board of Directors' Report for the second quarter of 2019 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Regulations"**).

The review presented below is limited in scope and refers to events and changes that occurred in the state of the Company's affairs in the reporting period, which have a material impact, and should be read together with the chapter Description of the Company's Business in the Periodic Report as at December 31, 2018, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 13, 2019 (reference no. 2019-01-020559) (the "2018 Periodic Report").

Strauss Group Ltd. and the companies it controls, including joint ventures (hereinafter: the **"Group"**), are a group of industrial and commercial companies engaged mainly in the development, manufacture, sale and marketing of a variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration, purification and carbonation systems.

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

The Group is a leading player in most of the markets in which it operates. The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In the second quarter of 2019 the Group held an 11.9% share of the total domestic food and beverage market (in value terms[1]) compared to 11.7% at the end of 2018, and it has the highest sales turnover among Israeli food companies (according to the Group's sales turnover in its non-GAAP reports, as defined below).

The operation in Israel includes the activity of Strauss Israel (sale of a broad variety of refrigerated and dry food products), the coffee operation in Israel and Strauss Water's activity in Israel. In addition to the operation in Israel, the Group is also active in three other major geographical regions: **the operation in Brazil**, which is conducted through the Três Corações joint 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[3] activity in Holland and Germany and the Florentin brand; and **the operation in the US and Canada**, which includes Sabra's[4] operations. The Group is also active in dips and spreads in Australia, New Zealand and Mexico through Obela; and in China and the UK through Strauss Water.

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

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

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

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

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

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

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

2. CHANGES IN THE ECONOMIC ENVIRONMENT

2.1 Prices of raw materials and other production inputs – A substantive part of the raw materials used to manufacture the Group's products are traded on the commodities markets. In the first half and second quarter of 2019 there were changes in the average market prices of part of the Group's raw materials. On the one hand, the prices of green coffee, sugar, eggs, lactic acid cultures and olive oil dropped, whereas on the other, the prices of cocoa, sesame, tahini, potatoes, milk powders, plastic bottles, laminates and corrugated cardboard (packaging materials) rose. At the beginning of the third quarter of 2019 the price of raw milk (the "target price") was revised downward by approximately 0.4% for the months of July to September 2019 and by approximately 2.5% since the beginning of the year, as opposed to an overall increase of approximately 2% during 2018.

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

The procurement of green coffee in Brazil is carried out by the local management of the Três Corações joint venture[1] according to internal procedures determined by the Três Corações joint venture's board of directors, and is the responsibility of the procurement, export and financial managers of the Três Corações joint venture[1].

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

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

2.2 Energy prices – In the first half and second quarter of 2019 the average prices of Brent oil were approximately 10% and 7% lower, respectively, than the average prices in the corresponding periods last year. However, since the beginning of 2019 Brent oil prices have increased by approximately 20%. Energy prices mainly affect the procurement of packaging materials, energy costs at the manufacturing sites and distribution costs.

2.3 Exchange rate fluctuations – The impact of the revaluation of the Shekel (on the basis of average exchange rates) against most of the Group's functional currencies, including the Brazilian Real and the Russian Ruble, led to negative translation differences on the income statement in the first half and second quarter of 2019. In terms of change in exchange rates in the first half and second quarter (based on closing prices) the Shekel appreciated against most of the currencies, which had a negative net effect on the Group's equity. During the first half and second quarter, the average exchange rates of all relevant currencies depreciated against the US Dollar compared to the corresponding periods; however, part of the currencies were revalued against the Dollar on the basis of closing prices since the beginning of the year.

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

The following table presents the average exchange rates **versus the Shekel** in the first half and second quarter of 2019 compared to the corresponding periods last year:

Currency		Average Exchange Rate in the First Half		% change	Average Exchange Rate in the Second Quarter		% change
		2019	2018		2019	2018	
United States Dollar	USD	3.620	3.520	*2.9*	3.595	3.576	*0.5*
Euro	EUR	4.090	4.261	*(4.0)*	4.040	4.265	*(5.3)*
Ukrainian Hryvnia	UAH	0.134	0.132	*2.1*	0.135	0.136	*(0.7)*
Russian Ruble	RUB	0.055	0.059	*(6.7)*	0.056	0.058	*(3.7)*
Serbian Dinar	RSD	0.035	0.036	*(3.8)*	0.034	0.036	*(5.1)*
Romanian Leu	RON	0.863	0.915	*(5.7)*	0.851	0.916	*(7.1)*
Polish Zloty	PLN	0.953	1.009	*(5.6)*	0.943	1.001	*(5.8)*
Brazilian Real	BRL	0.942	1.031	*(8.6)*	0.917	0.995	*(7.9)*
Chinese Renminbi	CNY	0.534	0.553	*(3.5)*	0.527	0.561	*(6.1)*
Canadian Dollar	CAD	2.714	2.756	*(1.5)*	2.687	2.771	*(3.0)*
Australian Dollar	AUD	2.557	2.715	*(5.8)*	2.517	2.707	*(7.0)*
Mexican Peso	MXN	0.189	0.185	*2.3*	0.188	0.185	*1.9*
Pound Sterling	GBP	4.682	4.846	*(3.4)*	4.621	4.868	*(5.1)*

The following table presents the average exchange rates **versus the Dollar** in the first half and second quarter of 2019 compared to the corresponding periods last year:

Currency		Average Exchange Rate in the First Half		% change	Average Exchange Rate in the Second Quarter		% change
		2019	2018		2019	2018	
New Israeli Shekel	ILS	0.276	0.284	*(2.8)*	0.278	0.280	*(0.5)*
Ukrainian Hryvnia	UAH	0.037	0.037	*(0.7)*	0.038	0.038	*(1.2)*
Russian Ruble	RUB	0.015	0.017	*(9.3)*	0.015	0.016	*(4.2)*
Serbian Dinar	RSD	0.010	0.010	*(6.5)*	0.010	0.010	*(5.6)*
Romanian Leu	RON	0.238	0.260	*(8.4)*	0.237	0.256	*(7.6)*
Polish Zloty	PLN	0.263	0.287	*(8.3)*	0.262	0.280	*(6.3)*
Brazilian Real	BRL	0.260	0.293	*(11.3)*	0.255	0.278	*(8.4)*
Chinese Renminbi	CNY	0.147	0.157	*(6.2)*	0.147	0.157	*(6.6)*
Pound Sterling	GBP	1.293	1.377	*(6.1)*	1.285	1.362	*(5.6)*

2.4 Regulatory developments in input prices – The Group is influenced by regulatory changes applying from time to time to wages and the price of raw milk, which accounts for a major part of its inputs.

In December 2017 the Public Health Regulations (Food) (Nutritional Labeling), 2017 were published in the Official Gazette. The purpose of these regulations is to provide consumers with clear information on the nutritional value of prepackaged foods, including by means of symbols informing consumers that the food contains a large amount of sodium, sugars or saturated fatty acids, in order to enable consumers to make informed food choices for the benefit of their health. The Company has been working on improving the nutritional value of its products for some years and continues to do so, through adaptation and product innovation. The Regulations are to take effect in January 2020 and the Company is preparing for their implementation.

As part of this policy, in July 2019 the Ministry of Health published draft recommendations for marking food products with a green symbol for public comment. The Ministry will recommend to food manufacturers, importers and marketers to use a green symbol to indicate foods that are healthy and recommended for consumption, on the basis of criteria that will be defined. As at the date of this report, no material impact on the Company's business results is expected when the Regulations enter into force.

3. ANALYSIS OF FINANCIAL RESULTS

The Group has a number of jointly controlled companies in which the Company and/or subsidiaries hold 50%: the Três Corações joint venture (the coffee business in Brazil)[1], Sabra Dipping Company (the dips and spreads operation 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%).

In accordance with the guidance in IFRS 11 – Joint Arrangements, in the financial statements of the Company, the statements of income and statements relating to financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses which are jointly controlled by the companies in the Group and other partners are not presented according to the Group companies' relative holding in the joint venture, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section) (hereinafter: **"Financial Statements"**).

Notwithstanding the foregoing and in view of the fact that the Group's non-GAAP reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies have remained unchanged, the Group has continued to present the activity segments by presenting 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 audited Financial Statements of the Company.

In view of the fact that the Group's Non-GAAP Reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies have remained unchanged, the Group has continued to present the activity segments in the same manner in which they were presented before IFRS 11 was applied, i.e. presentation of the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%).

The next pages present the Non-GAAP Reports, the Financial Statements and the various adjustments made by the Company in making the transition from the Company's Financial Statements 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 half year ended June 30, 2019 and 2018 (in NIS millions)*:

	First Half			Explanation
	2019	2018	% Chg	
Sales	**4,179**	**4,270**	**(2.1%)**	The decrease in sales is due to the Strauss Coffee segment and is the result of negative translation differences, mainly due to the depreciation of the Brazilian Real against the Shekel, as well as price reductions introduced in certain countries following the drop in green coffee prices, mainly in Brazil, while market share in Brazil continued to grow. By contrast, an increase in sales by Strauss Israel was registered following innovation, launches and the sales mix, in the International Dips & Spreads segment following the adjustment of hummus prices in the US and of guacamole prices in the US and Canada for changes in manufacturing costs, and in Strauss Water following growth of the customer base. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effects	0.8%	7.1%		
Cost of sales	2,512	2,624	(4.3%)	Most of the increase in the gross profit margin is the result of a drop in green coffee prices, which was offset in part by the adjustment of prices to reflect changes in raw material costs and currencies in some countries, and of a change in the sales mix. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**1,667**	**1,646**	**1.2%**	
% of sales	39.9%	38.5%		
Selling and marketing expenses	921	935	(1.5%)	There was no substantial change in the percentage of selling and marketing expenses in relation to total sales.
General and administrative expenses	265	259	2.5%	The increase is primarily due to non-recurring expenses.
Total operating expenses	**1,186**	**1,194**		
Company's share of profit of equity-accounted investees	15	9	64.5%	Growth is primarily due to an increase in the profit of the joint venture, Haier Strauss Water (HSW). For further information, see section 3.2.4 below. Additionally, in the current period a profit was recognized following a decrease in holdings in equity-accounted investees active in Strauss's incubator.
Operating profit – non-GAAP	**496**	**461**	**7.4%**	The change in the operating profit margin is primarily due to the International Dips & Spreads segment, Strauss Coffee and Strauss Israel following the improvement in the gross profit margin, and Strauss Water following growth in the customer base combined with operational efficiency enhancement and an improvement in the income of the HSW joint venture. For further information, see section 3.1.3 below.
% of sales	11.9%	10.8%		
Financing expenses, net	(71)	(43)	62.8%	The increase in financing expenses is primarily the result of expenses recognized in respect of foreign currency derivatives and exchange rate differences following the depreciation of the Dollar, Euro and Pound Sterling against the Shekel in the first half of the year, as opposed to the recognition of income as a result of their appreciation against the Shekel in the corresponding period last year, as well as first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16). The increase in financing expenses was partially offset by a decrease in interest expenses.
Income before taxes – non-GAAP	**425**	**418**	**1.6%**	
Income tax	(105)	(133)	(21.3%)	The decrease in the effective tax rate in the first half of 2019 is the result of the profit mix for tax purposes between the companies in the various countries, as well as non-recurring provisions for tax recognized in Romania and other countries in the corresponding period last year.
Effective tax rate	24.8%	32.0%		
Income for the period – non-GAAP	**320**	**285**	**12.4%**	The change primarily consists of an increase in operating profit and a decrease in tax expenses, which was partially offset by the increase in financing expenses.
Attributable to the Company's shareholders	**293**	**258**	**13.6%**	
% of sales	7.0%	6.0%		
Attributable to non-controlling interests	27	27	0.0%	
EPS (NIS)	2.54	2.25	13.1%	

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarters ended June 30, 2019 and 2018 (in NIS millions)*:

	Second Quarter			Explanation
	2019	**2018**	**% Chg**	
Sales	**2,073**	**2,103**	**(1.4%)**	The decrease in sales is due to the Strauss Coffee segment and is the result of negative translation differences, mainly due to the depreciation of the Brazilian Real against the Shekel, as well as price reductions introduced in certain countries following the drop in green coffee prices, mainly in Brazil, while market share in Brazil continued to grow. By contrast, an increase in sales by Strauss Israel was registered following innovation, launches and the sales mix, in the International Dips & Spreads segment following the adjustment of hummus prices in the US and of guacamole prices in the US and Canada for changes in manufacturing costs, and in Strauss Water following growth of the customer base. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effects	1.7%	6.4%		
Cost of sales	1,251	1,290	(3.0%)	Most of the increase in the gross profit margin is the result of a drop in green coffee prices, which was offset in part by the adjustment of prices to reflect changes in raw material costs and currencies in some countries, and of a change in the sales mix. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**822**	**813**	**1.1%**	
% of sales	39.6%	38.7%		
Selling and marketing expenses	472	478	(1.3%)	There was no substantial change in the percentage of selling and marketing expenses in relation to total sales.
General and administrative expenses	132	135	(2.0%)	The decrease is primarily due to non-recurring expenses in the corresponding period last year.
Total operating expenses	**604**	**613**		
Company's share of profit of equity-accounted investees	9	7	23%	Most of the increase is the result of a decrease in holdings in equity-accounted investees active in Strauss's incubator.
Operating profit – non-GAAP	**227**	**207**	**9.4%**	The change in the operating profit margin is primarily due to the International Dips & Spreads segment, Strauss Israel following the improvement in the gross profit margin, and Strauss Water following growth in the customer base combined with operational efficiency enhancement. For further information, see section 3.1.3 below.
% of sales	11.0%	9.9%		
Financing expenses, net	(41)	(26)	57.3%	The increase in financing expenses is primarily the result of expenses recognized in respect of foreign currency derivatives and exchange rate differences following the depreciation of all currencies against the Shekel in the second quarter, as opposed to the recognition of income as a result of the appreciation of the Dollar, Zloty and Leu and the more moderate depreciation of the Pound Sterling against the Shekel in the corresponding period last year, as well as first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Income before taxes – non-GAAP	**186**	**181**	**2.5%**	
Income tax	(50)	(57)	(14.1%)	The decrease in the effective tax rate in the second quarter of 2019 is the result of the profit mix for tax purposes between the companies in the various countries.
Effective tax rate	26.8%	32.0%		
Income for the period – non-GAAP	**136**	**124**	**10.4%**	The change primarily consists of an increase in operating profit and a decrease in tax expenses, which was partially offset by the increase in financing expenses.
Attributable to the Company's shareholders	**121**	**112**	**9.5%**	
% of sales	5.9%	5.3%		
Attributable to non-controlling interests	15	12	18.7%	
EPS (NIS)	1.06	0.97	8.8%	

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarters and half year ended June 30, 2019 and 2018 (in NIS millions)*:

	First Half			Second Quarter		
	2019	**2018**	**% Chg**	**2019**	**2018**	**% Chg**
Israel						
Net sales	1,680	1,644	*2.2%*	803	778	*3.3%*
Operating profit	192	178	*7.3%*	80	69	*15.4%*
Coffee						
Net sales	1,807	1,964	*(8.0%)*	913	978	*(6.6%)*
Operating profit	211	226	*(6.6%)*	99	107	*(7.6%)*
International Dips & Spreads						
Net sales	390	377	*3.3%*	198	197	*0.3%*
Operating profit	52	29	*74.1%*	27	18	*46.5%*
Water						
Net sales	302	285	*6.0%*	159	150	*6.0%*
Operating profit	35	27	*32.5%*	19	17	*12.2%*
Other						
Net sales	-	-	*N/A*	-	-	*N/A*
Operating profit	6	1	*589.2%*	2	(4)	*143.5%*
Total						
Net sales	**4,179**	**4,270**	***(2.1%)***	**2,073**	**2,103**	***(1.4%)***
Operating profit	**496**	**461**	***7.4%***	**227**	**207**	***9.4%***

Following are the condensed financial accounting (GAAP) statements of income for the quarters and half year ended June 30, 2019 and 2018 (in NIS millions)*:

	First Half			Second Quarter		
	2019	**2018**	**% Chg**	**2019**	**2018**	**% Chg**
Sales	2,768	2,794	*(0.9%)*	1,338	1,348	*(0.8%)*
Cost of sales excluding impact of commodity hedges	1,623	1,664	*(2.4%)*	793	808	*(1.9%)*
Adjustments for commodity hedges**	-	(13)		(13)	(2)	
Cost of sales	1,623	1,651	*(1.6%)*	780	806	*(3.1%)*
Gross profit	**1,145**	**1,143**	***0.1%***	**558**	**542**	***2.8%***
% of sales	41.4%	40.9%		41.7%	40.2%	
Selling and marketing expenses	636	640	*(0.7%)*	322	325	*(0.8%)*
General and administrative expenses	198	198	*(0.1%)*	99	103	*(3.7%)*
Total expenses	**834**	**838**		**421**	**428**	
Share of profit of equity-accounted investees	153	134	*14.5%*	85	76	*13.3%*
Operating profit before other expenses	**464**	**439**	***5.7%***	**222**	**190**	***16.4%***
% of sales	16.7%	15.7%		16.5%	14,1%	
Other income (expenses), net	(3)	2		(2)	-	
Operating profit after other expenses	**461**	**441**	***4.5%***	**220**	**190**	***15.2%***
Financing expenses, net	(65)	(38)	*70.0%*	(38)	(22)	*71.8%*
Income before tax	**396**	**403**	***(1.6%)***	**182**	**168**	***7.8%***
Income tax	(87)	(113)	*(23.1%)*	(41)	(46)	*(12.8%)*
Effective tax rate	22.0%	28.1%		22.5%	27.8%	
Income for the period	**309**	**290**	***6.8%***	**141**	**122**	***15.8%***
Attributable to: **The Company's shareholders**	**283**	**263**	***7.6%***	**127**	**110**	***15.4%***
Non-controlling interests	26	27	*(0.8%)*	14	12	*19.4%*

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

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

Following is the condensed financial accounting (GAAP) statement of financial position as at June 30, 2019 and December 31, 2018 (in NIS millions)*:

	As at June 30, 2019	As at December 31, 2018	% Chg	Explanation
Total current assets	2,123	2,150	(1.3%)	The change is primarily the result of an increase in inventory and receivables balances, versus a reduction in cash balances and deposits.
Of which: Cash and cash equivalents balance	394	426	(7.6%)	For information on the change in the cash and cash equivalents item, see section 3.1.5 below. In accordance with Company policy, these assets are mainly held in liquid deposits.
Total non-current assets	4,438	4,093	8.4%	The change primarily originates in the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Total current liabilities	1,875	1,698	10.3%	The change is primarily the result of the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16) and tax rebates received during the period.
Total non-current liabilities	2,437	2,299	6.1%	The change is primarily the result of the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Total equity attributable to the Company's shareholders	2,106	2,096	0.5%	The change is primarily the result of an increase in net income attributable to the majority shareholders, which was partly offset by a dividend paid in the period and by negative translation differences following the depreciation of the Brazilian Real and the US Dollar against the Shekel based on exchange rates at the end of the period.
Total equity attributable to non-controlling interests	143	150	(4.7%)	The change is primarily the result of a dividend paid in the period, which was partially offset by an increase in the profit of investees.

Following is the outstanding debt balance as at June 30, 2019 and December 31, 2018 (in NIS millions)*:

	As at June 30, 2019	As at December 31, 2018	Change	Explanations
Gross debt – Non-GAAP Reports	2,934	2,650	284	The change primarily originates in the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Gross debt – Financial Statements	2,579	2,340	239	
Net debt – Non-GAAP Reports	2,388	1,964	424	
Net debt – Financial Statements	2,175	1,843	332	

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

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

Adjustments for IFRS 11 – change from the equity method in the Financial Statements to the proportionate consolidation method (according to the segmental information based on the Group's Management (Non-GAAP) internal reports):

	First Half 2019			**First Half 2018**			**Second Quarter 2019**			**Second Quarter 2018**		
	Equity method	**Change**	**Propor-tionate consoli-dation method (formerly applied)**	**Equity method**	**Change**	**Propor-tionate consoli-dation method (formerly applied)**	**Equity method**	**Change**	**Propor-tionate consoli-dation method (formerly applied)**	**Equity method**	**Change**	**Propor-tionate consoli-dation method (formerly applied)**
Sales	2,768	1,411	4,179	2,794	1,476	4,270	1,338	735	2,073	1,348	755	2,103
Cost of sales excluding impact of commodity hedges	1,623	889	2,512	1,664	960	2,624	793	458	1,251	808	482	1,290
Adjustments for commodity hedges	-	-	-	(13)	-	(13)	(13)	-	(13)	(2)	-	(2)
Cost of sales	1,623	889	2,512	1,651	960	2,611	780	458	1,238	806	482	1,288
Gross profit	**1,145**	**522**	**1,667**	**1,143**	**516**	**1,659**	**558**	**277**	**835**	**542**	**273**	**815**
% of sales	41.4%		39.9%	40.9%		38.9%	41.7%		40.2%	40.2%		38.7%
Selling and marketing expenses	636	285	921	640	295	935	322	150	472	325	153	478
General and administrative expenses	198	76	274	198	69	267	99	38	137	103	36	139
Company's share of profit of equity-accounted investees	153	(138)	15	134	(125)	9	85	(76)	9	76	(69)	7
Operating profit before other expenses	**464**	**23**	**487**	**439**	**27**	**466**	**222**	**13**	**235**	**190**	**15**	**205**
% of sales	16.7%		11.7%	15.7%		10.9%	16.5%		11.3%	14.1%		9.8%
Other income (expenses), net	(3)	1	(2)	2	1	3	(2)	1	(1)	-	1	1
Operating profit after other expenses	**461**	**24**	**485**	**441**	**28**	**469**	**220**	**14**	**234**	**190**	**16**	**206**
Financing expenses, net	(65)	(6)	(71)	(38)	(5)	(43)	(38)	(3)	(41)	(22)	(4)	(26)
Income before tax	**396**	**18**	**414**	**403**	**23**	**426**	**182**	**11**	**193**	**168**	**12**	**180**
Income tax	(87)	(18)	(105)	(113)	(23)	(136)	(41)	(11)	(52)	(46)	(12)	(58)
Effective tax rate	22.0%		25.3%	28.1%		32.0%	22.5%		26.8%	27.8%		32.4%
Income for the period	**309**	**-**	**309**	**290**	**-**	**290**	**141**	**-**	**141**	**122**	**-**	**122**
Attributable to: The Company's shareholders	**283**	**-**	**283**	**263**	**-**	**263**	**127**	**-**	**127**	**110**	**-**	**110**
Non-controlling interests	26	-	26	27	-	27	14	-	14	12	-	12

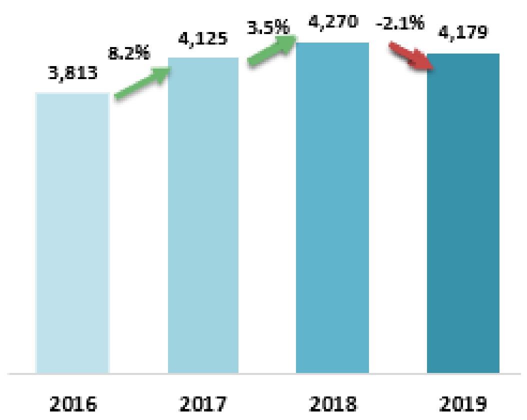
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

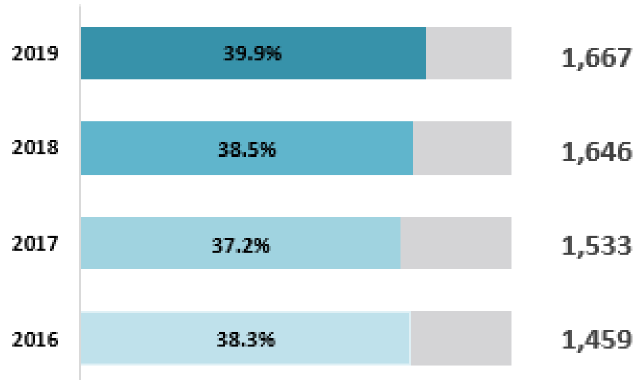
	First Half			Second Quarter		
	2019	2018	% Chg	2019	2018	% Chg
Operating profit (according to proportionate consolidation method) after other expenses	**485**	**469**	***3.4%***	**234**	**206**	***13.3%***
Share-based payment	9	8		5	4	
Adjustments for commodity hedges	-	(13)		(13)	(2)	
Other expenses, net	2	(3)		1	(1)	
Operating profit – non-GAAP	**496**	**461**	***7.4%***	**227**	**207**	***9.4%***
Financing expenses, net	(71)	(43)		(41)	(26)	
Income tax	(105)	(136)		(52)	(58)	
Taxes in respect of adjustments to the above non-GAAP operating profit	-	3		2	1	
Income for the period – non-GAAP	**320**	**285**	***12.4%***	**136**	**124**	***10.4%***
Attributable to: The Company's shareholders	**293**	**258**	***13.6%***	**121**	**112**	***9.5%***
Non-controlling interests	**27**	**27**	***0.0%***	**15**	**12**	***18.7%***

<u>Key financial data for the half year ended June 30 – non-GAAP (NIS millions)</u>*:

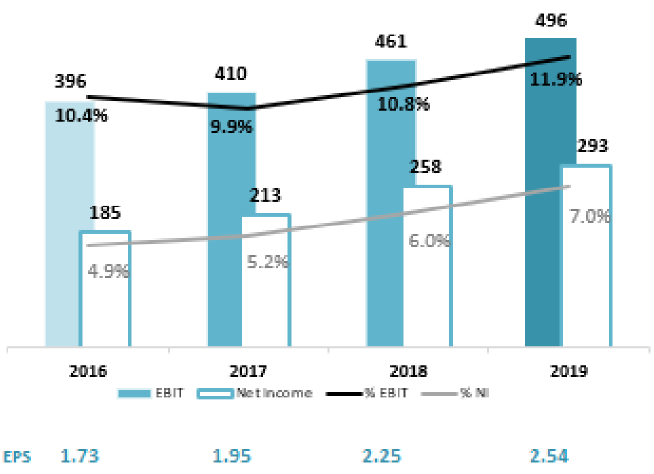
Net sales



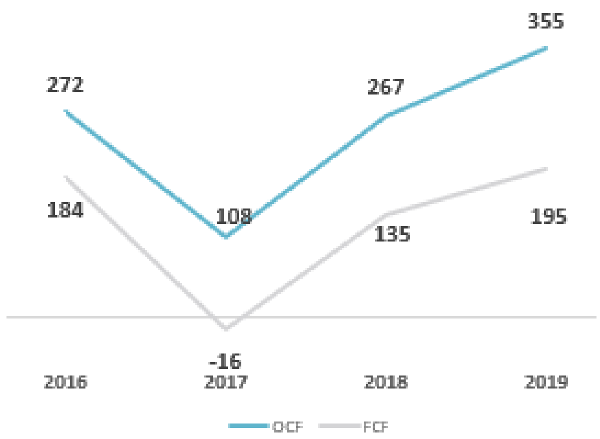
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow**

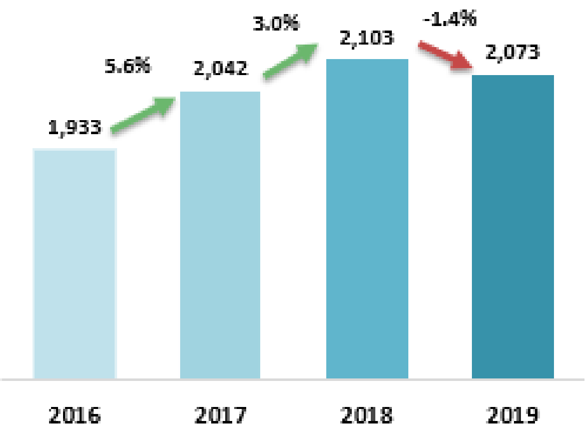


* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.
**The figures for 2016-2018 were reclassified - for further information see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

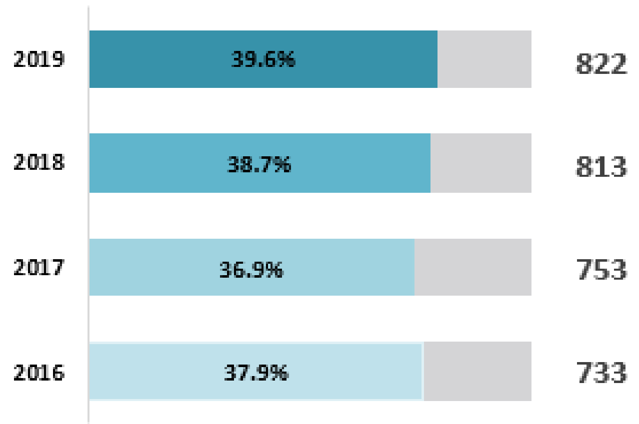
For the effects of first-time adoption of IFRS 16, *Leases*, see section 3.2.6 below.

<u>Key financial data for the quarters ended June 30 – non-GAAP (NIS millions)</u>*:

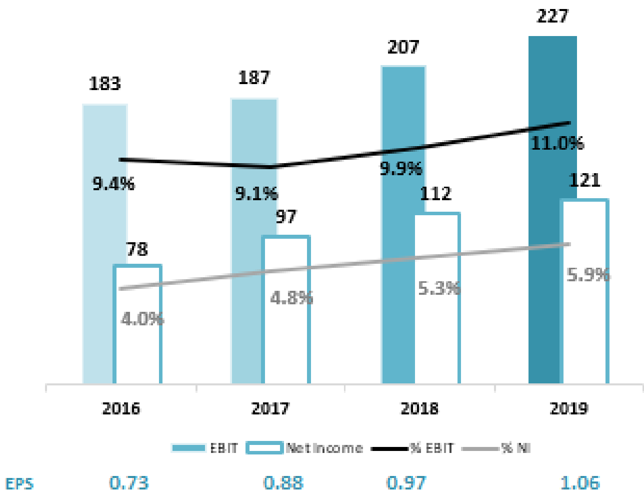
Net sales



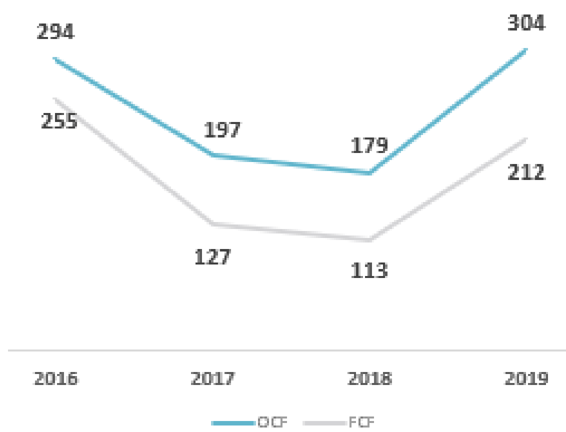
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow**



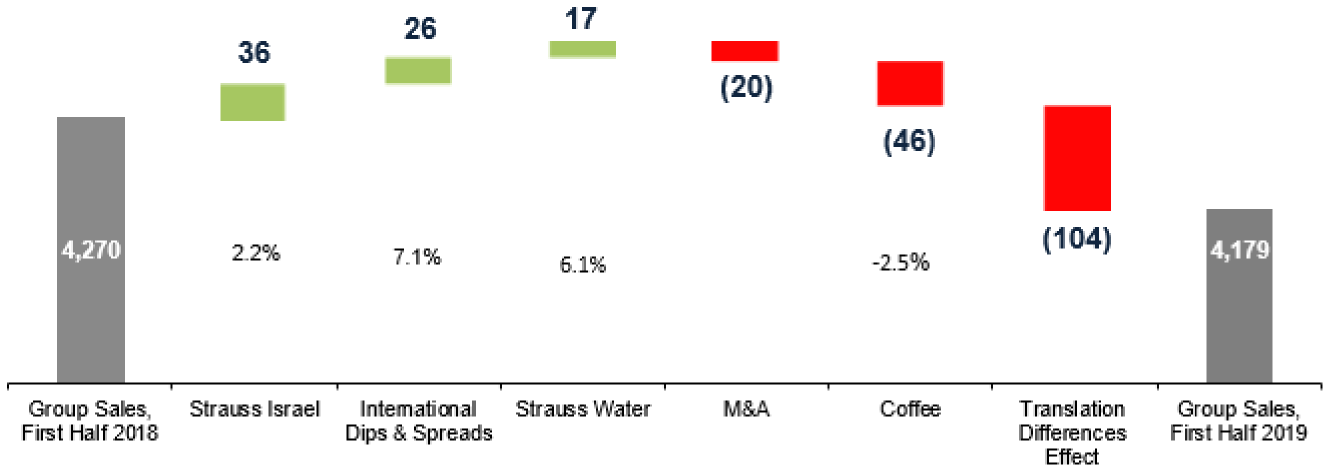
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.
**The figures for 2016-2018 were reclassified - for further information see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

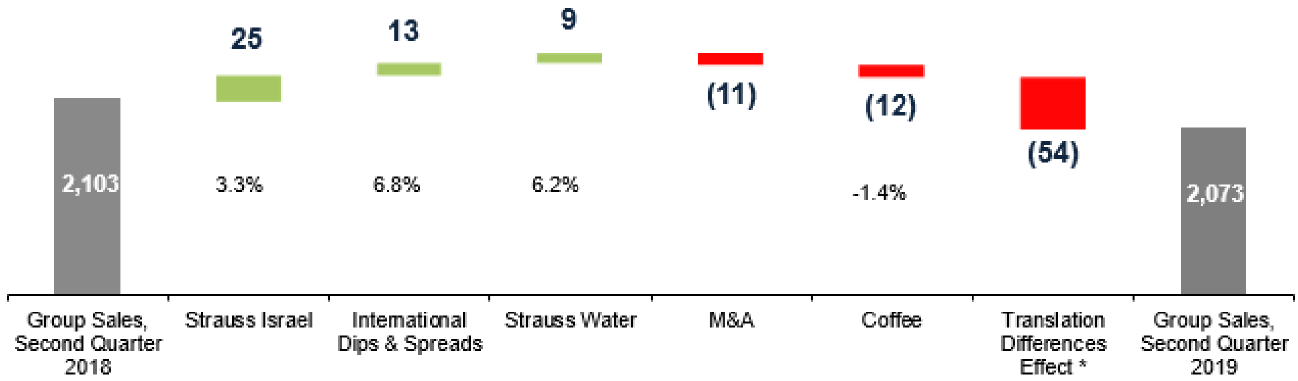
For the effects of first-time adoption of IFRS 16, *Leases*, see section 3.2.6 below.

3.1 <u>Analysis of the Business Results of the Group</u>

3.1.1 <u>Sales – non-GAAP</u>

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





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

The Group's sales in the first half of 2019 were impacted by negative translation differences amounting to approximately NIS 104 million, of which NIS 84 million are due to the depreciation of the Brazilian Real against the Shekel (see also the foreign exchange rate table in section 2.3 in this report).

The Group sales in the second quarter of the year were impacted by negative translation differences amounting to approximately NIS 54 million, of which NIS 40 million are due to the depreciation of the Brazilian Real against the Shekel (see also the foreign exchange rate table in section 2.3 in this report).

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

- Inorganic growth in the Group's sales (a decrease of approximately NIS 20 million and NIS 11 million, respectively, in the first half and second quarter, compared to the corresponding periods last year), primarily as a result of the sale of the salsa operation by Sabra (for further information, see Note 3.2.3.1 below).
- See section 3.2.1.1 below for further explanations on organic growth in sales by the Coffee segment.
- See section 3.2.2 below for further explanations on organic growth in sales by the Strauss Israel segment.
- See section 3.2.3 below for further explanations on organic growth in sales by the International Dips & Spreads segment.
- See section 3.2.4 below for further explanations on organic growth in sales by the Strauss Water segment.

3.1.2 Gross Profit – Non-GAAP

	First Half				Second Quarter			
	2019	2018	% Chg	% chg less translation differences effect	2019	2018	% Chg	% chg less translation differences effect
Gross profit	1,667	1,646	*1.2%*	*3.2%*	822	813	*1.1%*	*3.2%*
Gross profit margin	39.9%	38.5%			39.6%	38.7%		

The Group's non-GAAP gross profit in the first half of 2019 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 31 million. Most of the translation differences were the result of the depreciation of the Brazilian Real against the Shekel compared to the corresponding period last year (approximately NIS 25 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the second quarter of 2019 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 17 million. Most of the translation differences were the result of the depreciation of the Brazilian Real against the Shekel compared to the corresponding period last year (approximately NIS 12 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the first half and second quarter of 2019 rose by approximately NIS 21 million and NIS 9 million, respectively, compared to the corresponding periods last year:

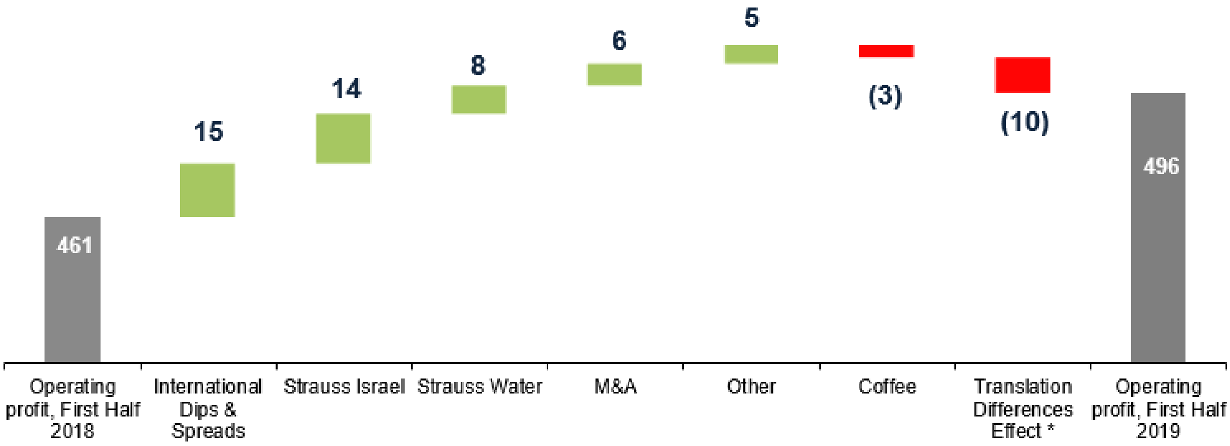
- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments rose by approximately NIS 36 million and NIS 14 million, respectively, in the half and quarter, compared to the corresponding periods last year. The increase in gross profit is mainly the result of growth in Strauss Water's customer base and price increases by Sabra.
- See section 3.2.1 below for further explanations on the change in gross profit in the Coffee segment.
- See section 3.2.2 below for further explanations on the change in gross profit in the Strauss Israel segment.

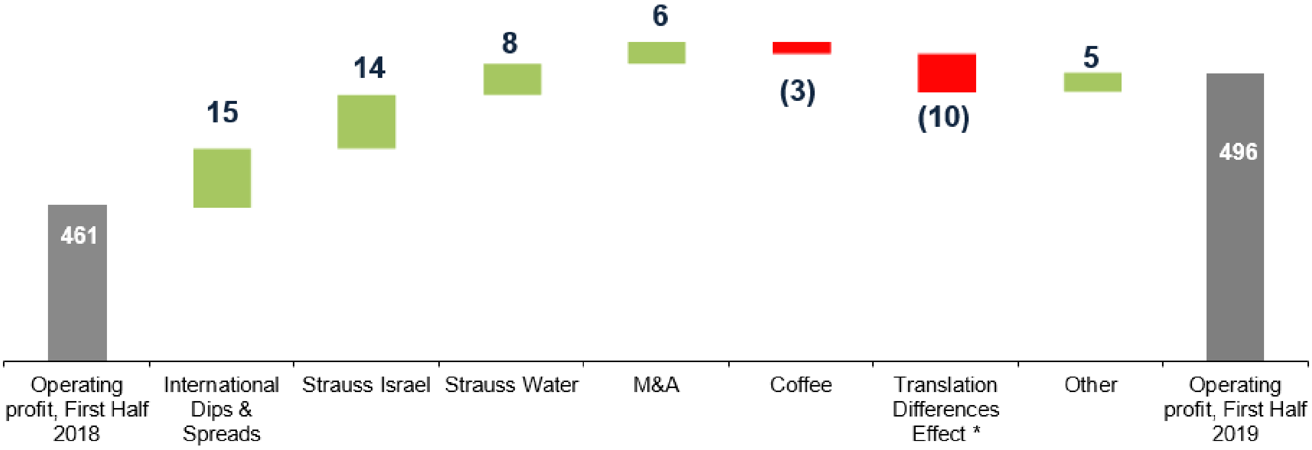
3.1.3 Operating Profit before Other Expenses – Non-GAAP

	First Half				Second Quarter			
	2019	2018	% Chg	% chg less translation differences effect	2019	2018	% Chg	% chg less translation differences effect
Operating profit	496	461	*7.4%*	*9.9%*	227	207	*9.4%*	*12.7%*
Operating profit margin	11.9%	10.8%			11.0%	9.9%		

The Group's non-GAAP operating profit (EBIT) increased in the first half and second quarter of 2019 by approximately NIS 35 million and NIS 20 million, respectively, and was negatively affected by translation differences into Shekels, which amounted to approximately NIS 10 million and NIS 5 million, respectively, compared to the corresponding periods last year (see also the exchange rate table in section 2.3 in this report).

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





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

The change in the Group's operating profit in the first half and second quarter of 2019 was the result of the following:

- An increase of approximately NIS 5 million and NIS 6 million in the operating profit of the Other Operations segment in the half and quarter, respectively, compared to the corresponding periods last year. The increase is due to non-recurring expenses in the corresponding periods last year and to profit that recognized following a decrease in holdings in equity-accounted investees active in Strauss's incubator.
- See section 3.2.1 below for further explanations on the change in operating profit in the Coffee segment.
- See section 3.2.2 below for further explanations on the change in operating profit in the Strauss Israel segment.
- See section 3.2.3 below for further explanations on the change in operating profit in the International Dips & Spreads segment.
- See section 3.2.4 below for further explanations on the change in operating profit in the Strauss Water segment.

3.1.4 Comprehensive Income for the Period (according to the Financial Statements)

In the first half of 2019 GAAP comprehensive income amounted to approximately NIS 241 million, compared to comprehensive income of NIS 250 million in the corresponding period last year. In the reporting period losses from translation differences, which are the main component of other comprehensive income, amounted to approximately NIS 66 million, compared to foreign currency translation losses of NIS 42 million in the corresponding period last year.

Foreign currency translation losses in the first half of the year are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 26 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of 2018.

In the second quarter GAAP comprehensive income amounted to approximately NIS 135 million, compared to comprehensive income of NIS 40 million in the corresponding period last year. In the reporting period losses from translation differences, the main component of other comprehensive income, amounted to approximately NIS 5 million, compared to foreign currency translation gains of NIS 84 million in the corresponding period last year.

Foreign currency translation losses in the second quarter of 2019 are primarily due to the operations of Strauss Water; of said losses, approximately NIS 8 million are the result of the depreciation of the Chinese Yuan against the Shekel compared to the exchange rate at the end of the first quarter this year.

3.1.5 Liquidity, Sources of Finance and Financial Position (According to the Financial Statements)

	First Half			Explanation
	2019	2018	Change	
Cash flows from operating activities	311	*208	103	The change is mainly the result of tax rebates in respect of prior years that were received in the period as well as the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Cash flows from (used in) investing activities	(8)	91	(99)	The change is primarily due to the encashment of a deposit in the first quarter of 2018.
Cash flows used in financing activities	(330)	*(391)	61	The change is primarily the result of higher repayments of long-term loans and debentures in the corresponding period last year as well as a long-term loan raised in the current period, and was partially offset by the payment of lease liabilities following the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16) and an increase in dividends paid to shareholders compared to the corresponding period.

	Second Quarter			Explanations
	2019	2018	Change	
Cash flows from operating activities	221	*147	74	The change is mainly the result of tax rebates in respect of prior years that were received in the period as well as the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16), which were partially offset by a change in working capital compared to the corresponding period, mainly due to a change in trade payables.
Cash flows used in investing activities	(32)	(10)	(22)	The change is primarily due to investment in a deposit in the second quarter of 2019.
Cash flows used in financing activities	(203)	*(181)	(22)	The change is primarily the result of an increase in dividends paid to shareholders and in dividends paid to non-controlling interests in a subsidiary compared to the corresponding period last year, as well as payment of lease liabilities following the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16), which were partially offset by a long-term loan raised in the current period.

* Reclassified – for further information see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

Following is information on average credit volumes:

	First Half			Second Quarter			Explanations
	2019	2018	Change	2019	2018	Change	
Average long-term credit volume according to the Non-GAAP Report	2,728	*2,652	76	2,765	*2,588	177	Increase in gross debt due to the first-time adoption of IFRS 16, Leases, partially offset by surplus payments in respect of new credit raised.
Average short-term credit volume according to the Non-GAAP Report	141	91	50	153	106	47	
Average long-term credit volume according to the Financial Statements	2,503	*2,407	96	2,541	*2,353	188	
Average short-term credit volume according to the Financial Statements	24	28	(4)	28	30	(2)	

* Reclassified - for further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

Following is the change in net working capital (based on cash flow):

	First Half		Second Quarter	
	2019	2018	2019	2018
Change in net working capital, Financial Statements	(92)	*(74)	19	*49
Change in net working capital, Non-GAAP Report	(233)	*(179)	2	*(5)

* Reclassified - for further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

Additional information

	June 30, 2019	December 31, 2018
Liquidity ratio	*1.13	1.27
Liabilities in respect of long-term loans and credit (including current maturities)	2,554	2,316
Short-term credit (excluding current maturities)	25	24
Supplier credit	700	730
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	*32.1%	33.6%
Net financial debt-to-EBITDA ratio	**2.0	1.9
Equity attributable to the shareholders of the Company	2,106	2,096

* See section 3.2.6 for the impacts of IFRS 16, Leases.
** EBITDA for the 12 months ended June 30, 2019 was adjusted to reflect the effects of IFRS 16, Leases.

As at June 30, 2019, the Company is in compliance with the required covenants.

On March 12, 2019 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 200 million (approximately NIS 1.74 dividend per share), which will be paid on April 2, 2019.

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

In April 2019 the Company announced Standard & Poor's Maalot's reaffirmation of an ilAA+ rating with stable outlook.

In May 2019 the Company announced the upgrade of Midroog's rating to Aa1.il with stable outlook.

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

	First Half		**Second Quarter**		**Year Ended December 31**
	2019	**2018**	**2019**	**2018**	**2018**
Cash flow from operating activities (according to the Non-GAAP Report)	355	*267	304	*179	783
Acquisition of fixed assets and investment in intangibles, net (according to the Non-GAAP Report)	160	132	92	66	309
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,388	*2,281	2,388	*2,281	1,964
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	162	114	81	57	237
Strauss Israel:					
Health & Wellness	38	28	20	15	56
Fun & Indulgence	29	18	15	8	38
Strauss Coffee:					
Israel Coffee	17	7	8	4	15
International Coffee	37	27	19	13	57
International Dips & Spreads	14	13	7	6	27
Strauss Water	18	10	9	5	23
Other	9	11	4	6	21

* Reclassified - for further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

For the effects of first-time adoption of IFRS 16, *Leases*, see section 3.2.6 below.

The Group's EBITDA (non-GAAP) amounted to approximately NIS 658 million in the first half of 2019 compared to approximately NIS 575 million in the corresponding period last year, an increase of 14.3%.

In the second quarter, the Group's EBITDA (non-GAAP) amounted to approximately NIS 309 million compared to approximately NIS 264 million in the corresponding period, an increase of 16.9%.

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

3.2.1 Strauss Coffee

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reportable segments for the half year ended June 30, 2019 and 2018 (in NIS millions)*:

	First Half			Explanation
	2019	**2018**	**% Chg**	
Israel Coffee				
Net sales	387	375	3.3%	Sales growth in the first half of 2019 compared to the corresponding period is primarily due to an increase in quantities sold and improvement of the sales mix.
Operating profit	86	59	44.2%	The increase in operating profit in the first half compared to the corresponding period is primarily the result of sales growth as mentioned, a change in the sales mix, erosion of raw material costs and a decrease in operating expenses.
% operating profit	22.2%	15.9%		
International Coffee				
Net sales	1,420	1,589	(10.7%)	Coffee sales in the first half of 2019 were negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year. The decrease in coffee sales in local currency in the half mainly reflects a drop in sales volumes and price reductions introduced in certain regions. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	125	167	(24.8%)	The change in the operating profit of the International Coffee segment in the first half reflects: • A drop in the operating profit of the Três Corações joint venture in Brazil[1] in the half, mainly as a result of a decrease in sales prices at a rate that exceeded the drop in green coffee prices, as well as an increase in logistics and distribution expenses; • A drop in operating profit in most CEE countries in the half, mainly as a result of a decrease in sales in most countries; • The operating profit and profit margin in Russia in the first half dropped compared to the corresponding period as a result of an increase in the cost of sales following the depreciation of the Ruble against the US Dollar and a decrease in sales as a result of the challenging competitive environment. Operating profit in the first half of 2019 was negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% operating profit	8.8%	10.5%		
Total Strauss Coffee				
Net sales	**1,807**	**1,964**	**(8.0%)**	In the first half Strauss Coffee's sales dropped by approximately NIS 157 million compared to the corresponding period. Translation differences into Shekels in the first half of 2019 had a negative impact on sales by the coffee company and amounted to NIS 113 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 84 million.
Organic growth excluding foreign currency effects	**(2.5%)**	**6.4%**		
Gross profit	**664**	**704**	**(5.7%)**	The increase in the gross profit margin in the half is the result of the adjustment of prices to reflect changes in raw material costs and currencies in certain regions following the drop in green coffee prices. Gross profit in the half was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**36.8%**	**35.9%**		
Operating profit	**211**	**226**	**(6.6%)**	The increase in the operating profit margin is mainly the result of the improvement in the gross profit margin in the period, as well as savings in the timing of marketing expenses.
% operating profit	**11.7%**	**11.5%**		

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

[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 of Strauss Coffee by reportable segments for the quarters ended June 30, 2019 and 2018 (in NIS millions)*:

	Second Quarter			Explanation
	2019	2018	% Chg	
Israel Coffee				
Net sales	165	158	4.5%	Sales growth in the second quarter of 2019 compared to the corresponding period is primarily due to an increase in quantities sold and improvement of the sales mix.
Operating profit	28	18	54.2%	The increase in operating profit in the second quarter compared to the corresponding period is primarily the result of sales growth as mentioned, a change in the sales mix and erosion of raw material costs.
% operating profit	17.1%	11.6%		
International Coffee				
Net sales	748	820	(8.8%)	Coffee sales in the second quarter of 2019 were negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year. The decrease in coffee sales in local currency in the quarter mainly reflects a drop in sales volumes and price reductions introduced in certain regions. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	71	89	(20.4%)	The change in the operating profit of the International Coffee segment in the second quarter reflects: • A drop in the operating profit of the Três Corações joint venture in Brazil[1] in the quarter, mainly as a result of a decrease in sales prices at a rate that exceeded the drop in green coffee prices, as well as an increase in logistics and distribution expenses; • A drop in operating profit in most CEE countries in the quarter, mainly as a result of a decrease in sales in most countries; • The operating profit and profit margin in Russia in the quarter dropped compared to the corresponding period mainly as a result of the challenging competitive environment. Operating profit in the second quarter of 2019 was negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% operating profit	9.5%	10.9%		
Total Strauss Coffee				
Net sales	**913**	**978**	**(6.6%)**	In the second quarter Strauss Coffee's sales dropped by approximately NIS 65 million compared to the corresponding period. Translation differences into Shekels in the quarter had a negative impact on sales by the coffee company and amounted to NIS 54 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 40 million.
Organic growth excluding foreign currency effects	**(1.4%)**	**5.5%**		
Gross profit	**331**	**352**	**(5.8%)**	The increase in the gross profit margin in the second quarter is the result of the adjustment of prices to reflect changes in raw material costs and currencies in certain regions following the drop in green coffee prices. Gross profit in the quarter was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**36.3%**	**36.0%**		
Operating profit	**99**	**107**	**(7.6%)**	The change in the operating profit margin is mainly the result of the improvement in the gross profit margin in the period, which was set off against an increase in selling expenses.
% operating profit	**10.9%**	**11.0%**		

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

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

3.2.1.1 Strauss Coffee sales by major geographical regions

Following are sales by the coffee business in the major geographical regions (not including intercompany sales) and growth rates for the half year ended June 30, 2019 and 2018 (in NIS millions)*:

Geographical region	First Half				Explanation
	2019	**2018**	**% Chg**	**% Chg in domestic currency****	
Israel Coffee	**387**	**375**	**3.3%**	**3.3%**	Most of the sales growth in the first half compared to the corresponding period is the result of an increase in quantities sold and an improved sales mix.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	880	973	(9.5%)	(1.0%)	The decrease in the Três Corações joint venture's[1] sales in domestic currency is the result of the product mix, as well as price reductions introduced in the period. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	252	286	(11.8%)	(8.2%)	Most of the drop in domestic currency sales is the result of the challenging competitive environment in Russia, as well as discounts granted to customers during the period. The Company's sales in the first half of 2019 were negatively impacted by the appreciation of the Shekel against the Russian Ruble, and in parallel, the depreciation of the Shekel against the Ukrainian Hryvnia, which amounted to NIS 11 million compared to the corresponding period in 2018.
Poland	135	156	(14.0%)	(8.9%)	Most of the drop in domestic currency sales is the result of discounts granted to customers and a drop in sales volumes in the period due to challenging competitive conditions compared to the corresponding period last year. The Company's sales in Poland in the first half of 2019 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 9 million) compared to the corresponding period.
Romania	88	105	(16.5%)	(11.3%)	Most of the drop in domestic currency sales is the result of the growing competition, which led to a drop in quantities sold, and of discounts granted to customers. The Company's sales in the first half were negatively affected by the depreciation of the Romanian Leu against the Shekel (approximately NIS 6 million) compared to the corresponding period last year.
Serbia	65	69	(6.4%)	(2.4%)	The Company's sales in 2019 were negatively affected by the depreciation of the Serbian Dinar against the Shekel (approximately NIS 3 million) compared to the corresponding period last year.
Total International Coffee	**1,420**	**1,589**	**(10.7%)**	**(3.9%)**	
Total Coffee	**1,807**	**1,964**	**(8.0%)**	**(2.4%)**	

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

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

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

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

Following are sales by the coffee business in the major geographical regions (not including intercompany sales) and growth rates for the quarters ended June 30, 2019 and 2018 (in NIS millions)*:

Geographical region	Second Quarter				Explanation
	2019	2018	% Chg	% Chg in domestic currency**	
Israel Coffee	**165**	**158**	**4.5%**	**4.5%**	Most of the sales growth in the second quarter compared to the corresponding period last year is the result of an increase in quantities sold and an improved sales mix.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	470	501	(6.1%)	1.7%	The increase in the Três Corações joint venture's[1] sales in domestic currency is the result of the product mix and an increase in volumes sold. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	133	153	(13.0%)	(10.5%)	Most of the drop in domestic currency sales is the result of the challenging competitive environment in Russia, as well as discounts granted to customers during the period. The Company's sales in the second quarter of 2019 were negatively impacted by the appreciation of the Shekel against the Russian Ruble, and in parallel, the depreciation of the Shekel against the Ukrainian Hryvnia, which amounted to NIS 4 million compared to the corresponding period last year.
Poland	64	72	(11.2%)	(6.0%)	Most of the drop in domestic currency sales is the result of a drop in sales volumes and discounts granted to customers in the period due to challenging competitive conditions compared to the corresponding period last year. The Company's sales in Poland in the second quarter of 2019 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 4 million) compared to the corresponding period.
Romania	45	55	(18.5%)	(12.3%)	Most of the drop in domestic currency sales is the result of the growing competition, which led to a drop in quantities sold, and of discounts granted to customers. The Company's sales in the second quarter were negatively affected by the depreciation of the Romanian Leu against the Shekel (approximately NIS 4 million) compared to the corresponding period last year.
Serbia	36	39	(8.3%)	(3.4%)	The Company's sales in 2019 were negatively affected by the depreciation of the Serbian Dinar against the Shekel (approximately NIS 2 million) compared to the corresponding period last year.
Total International Coffee	**748**	**820**	**(8.8%)**	**(2.5%)**	
Total Coffee	**913**	**978**	**(6.6%)**	**(1.3%)**	

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

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

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

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

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

In the first half of 2019 the Três Corações joint venture's[1] average value market share in roast and ground (R&G) coffee amounted to approximately 28.4%, compared to 27.0% in the corresponding period last year (value market share reflecting 100% of the Três Corações joint venture's[1] sales according to A.C. Nielsen figures). In the Financial Statements, the Group's share of the joint venture is accounted for in the equity method.

The Três Corações joint venture's domestic currency sales in the first half decreased by 1.0% (0.8% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee), despite an increase in volumes sold.

The Três Corações joint venture's domestic currency sales in the second quarter of the year grew by 1.7% (1.9% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee), despite a decrease in sales prices.

The drop in Três Corações'[1] domestic currency sales, particularly in R&G, reflects price reductions introduced as a result of the drop in green coffee prices, which encompassed most of the products sold by the company in Brazil.

The Três Corações joint venture's[1] Shekel sales in the first half and second quarter of 2019 were adversely affected by the appreciation of the Shekel against the Brazilian Real, which amounted to approximately NIS 84 million and NIS 44 million, respectively, compared to the corresponding periods in 2018.

The Três Corações joint venture's[1] gross profit in domestic currency dropped by 0.4% in the first half and amounted to approximately BRL 283 million (approximately NIS 266 million). In the first half Três Corações' gross profit margin rose and amounted to 30.2%.

In the second quarter, the Três Corações joint venture's[1] gross profit in domestic currency rose by 2.4% and amounted to BRL 161 million (approximately NIS 148 million). Três Corações' gross profit margin rose in the quarter and amounted to 31.4%. The gross profit margin primarily reflects a decrease in the cost of green coffee at a rate similar to the decrease in the Três Corações joint venture's[1] shelf prices.

Operating profit (before other income/expenses) in Brazilian Reals fell 13.4% in the first half and amounted to BRL 84 million (NIS 79 million) as a result of the drop in gross profit and increased operating expenses.

In the second quarter, operating profit (before other income/expenses) in Brazilian Reals fell 5.1% and amounted to BRL 52 million (NIS 49 million) as a result of the drop in gross profit and increased operating expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

The company markets and distributes coffee capsules and machines under the TRES brand. In April 2017 a manufacturing site for the production of coffee capsules designated for the domestic market began operating in Brazil. The plant is a joint venture between the Três Corações joint venture[1] and the Italian company, Caffitaly. The plant is currently operating at full capacity.

The overall impact of the TRES brand on Três Corações' operating profit in the first half and second quarter of the year amounted to an operating loss of approximately NIS 2.2 million and NIS 2 million, respectively (approximately BRL 2.5 million and BRL 2.3 million, respectively), compared to a loss of NIS 6.8 million and NIS 5.1 million, respectively (approximately BRL 6.7 million and BRL 5.1 million, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)), which is mainly the result of an improvement in the gross profit margin following an increase in quantities sold.

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

In July 2019 Três Corações distributed a dividend of approximately NIS 28 million to shareholders (reflecting the Group's share).

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

3.2.2 The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the second quarter of 2019, according to StoreNext[1] figures, held an 11.9% share of the total domestic retail food and beverage market in value terms (compared to 11.7% in the corresponding period last year), an increase of 0.2% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew 2.2% in value terms, whereas according to StoreNext, in the first half of the year the Israeli food and beverage market grew 2.4% in value.

Sales by all operations of Strauss Group in Israel include sales by the Health & Wellness and Fun & Indulgence divisions, the coffee operation in Israel and Strauss Water Israel (Tami 4).

In the first half of 2019 Strauss Group's Israel sales totaled approximately NIS 2,355 million versus NIS 2,289 million last year, an increase of 2.9%.

In the second quarter the Group's total sales in Israel amounted to NIS 1,120 million, compared to NIS 1,078 million last year, an increase of 3.9%.

Strauss Israel

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments for the quarters and half year ended June 30, 2019 and 2018 (in NIS millions)*:

	First Half			Second Quarter			Explanation
	2019	2018	% Chg	2019	2018	% Chg	
Net sales	1,680	1,644	2.2%	803	778	3.3%	Sales growth in the first half and second quarter of 2019 compared to the corresponding periods reflects volume growth due, among other things, to the launch of new products in the yogurt, dairy dessert, milk beverage, butter, and salty snack categories.
Gross profit	666	641	3.9%	316	300	5.3%	The increase in gross profit is attributed to growth in sales volumes and an improvement in the gross profit margin in the first half and second quarter as a result of a positive sales mix and efficiency enhancement processes implemented at manufacturing, logistics and distribution sites.
% gross profit	39.6%	39.0%		39.3%	38.6%		
Operating profit	192	178	7.3%	80	69	15.4%	The increase in operating profit mainly reflects growth in sales volumes, an improvement in the gross profit margin and the streamlining of general overhead costs as a result of cross organizational efficiency enhancement.
% operating profit	11.4%	10.9%%		10.0%	8.9%		

	First Half			Second Quarter		
	2019	2018	% Chg	2019	2018	% Chg
Health & Wellness						
Net sales	1,099	1,068	3.0%	561	536	4.7%
Operating profit	119	110	8.0%	64	56	14.1%
% operating profit	10.8%	10.3%		11.3%	10.4%	
Fun & Indulgence						
Net sales	581	576	0.8%	242	242	0.1%
Operating profit	73	68	6.2%	16	13	20.1%
% operating profit	12.6%	12.0%		7.0%	5.8%	

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

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

3.2.3 The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes refrigerated dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia, New Zealand 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 Financial Statements, the Group's share of the operations of Sabra and Obela is accounted for in the equity method.

Sabra is the largest refrigerated dips and spreads company in the US. According to IRI, Sabra's value market share of the hummus category in the 24 weeks ended June 30 was 61.6%, compared to 59.9% in the corresponding period last year.

Obela is leader of the hummus market in Australia and Mexico in terms of market share.

3.2.3.1 Sabra

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

	First Half			Second Quarter			Explanation
	2019	2018	% Chg	2019	2018	% Chg	
Sales	698	679	2.9%	357	357	0.2%	Sabra's sales in the first half increased by approximately NIS 19 million and remained unchanged in the second quarter compared to the corresponding periods. The change is primarily the result of the adjustment of hummus prices in the US and guacamole prices in the US and Canada to reflect changes in manufacturing costs, which were offset by the sale of the salsa operation in the third quarter of 2018. Sabra's sales in the half and quarter were positively influenced by translation differences of NIS 20 million and NIS 3 million, respectively, compared to the corresponding periods. Organic growth in Sabra's Shekel sales in the first half and second quarter amounted to 7.2% and 9.8%, respectively, compared to the corresponding periods last year.
Organic growth excluding foreign currency effects	6.6%	15.0%		6.7%	10.00%		
Operating profit before other expenses	114	69	66.8%	60	40	49.7%	The operating profit in the first half and second quarter of 2019 grew by NIS 45 million and NIS 20 million, respectively, compared to the corresponding periods last year. The growth in operating profit is the result of the continued improvement of processes that were modified following the voluntary recall as well as the abovementioned price adjustments. The increase in the operating profit margin is due, among other things, to the sale of the salsa operation in the third quarter of 2018.
% operating profit	16.4%	10.1%		16.7%	11.2%		

On September 4, 2018 Sabra sold its salsa business for USD 10.5 million (approximately NIS 19 million represents the Group's share). The sale of the salsa business is in alignment with Sabra's strategy to focus on its core business, which mainly includes hummus, tahini and guacamole, sold under the Sabra brand. The impact of the transaction on Strauss Group's business results is immaterial.

3.2.3.2 Obela

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

	First Half			Second Quarter		
	2019	2018	% Chg	2019	2018	% Chg
Sales	82	77	6.8%	38	37	1.5%
Organic growth excluding foreign currency effects	12.0%	22,7%		7.7%	19.5%	
Operating loss	(11)	(10)	(19.5%)	(6)	(4)	(82.5%)

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

3.2.4 Strauss Water

Through Strauss Water the Group is active in the drinking water market in the development, assembly, marketing, sale and servicing of POU (point-of-use) systems for the filtration, purification and carbonation of drinking water, mainly in Israel and the UK. Strauss Water also has insubstantial activities in a number of other countries, which are carried out through local franchisees. In addition, Strauss Water has a material investment (49%) in an associate, which is a joint venture that was established by Strauss Water and Haier Group of China, which is active in the filtration and purification of drinking water in China.

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

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Water for the quarters and half year ended June 30, 2019 and 2018 (in NIS millions)*:

	First Half			Second Quarter			Explanation
	2019	2018	% Chg	2019	2018	% Chg	
Net sales	302	285	6.0%	159	150	6.0%	Most of the growth in the first half and second quarter of 2019 compared to the corresponding periods originated in the business in Israel and is primarily the result of increased sales of new appliances and growth of the customer base.
Operating profit	35	27	32.5%	19	17	12.2%	The increase in operating profit mainly reflects growth in the customer base, volume growth in sales versus the corresponding periods last year and operational efficiency enhancement, as well as an improvement in the results of the joint venture. For further information, see section 3.2.4.1 below. Excluding the profits of the joint venture, in the first half and second quarter of 2019 the operating profit rose by approximately NIS 5 million and NIS 3 million, respectively, and the operating profit margin rose by 1.4% and 1.5%, respectively, compared to last year. The operating profit margin was 7% in the half and 7.4% in the quarter.
% operating profit	11.7%	9.4%		11.9%	11.3%		

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

3.2.4.1 Results of the joint venture

Sales by the Haier Strauss Water joint venture in China, which are not included in the Non-GAAP Report, totaled NIS 295 million in the first half of 2019 compared to NIS 263 million in the corresponding period last year, an increase of 12.2%. Sales growth in the half, excluding foreign currency effects, amounted to 16.6% compared to the corresponding period last year (unaudited, reflecting 100%).

In the second quarter, sales by the Haier Strauss Water joint venture in China, which are not included in the Non-GAAP Report, totaled NIS 141 million compared to NIS 142 million* in the corresponding period last year, a decrease of 1%. Sales growth in the quarter, excluding foreign currency effects, amounted to 5.7% compared to last year (unaudited, reflecting 100%).

The first half and second quarter were marked by an improved growth trend. The improvement is due to focus placed on various sales channels and the launch of new products.

The net profit of the joint venture amounted to approximately NIS 32 million in the half compared to NIS 23 million* in the corresponding period last year, an increase of 40.8%. Excluding foreign currency effects, growth was 47.1% (reflecting 100%).

The net profit of the joint venture amounted to approximately NIS 16 million in the second quarter compared to NIS 16 million* in the corresponding period last year, an increase of 1.5%. Excluding foreign currency effects, growth was 8.4% (reflecting 100%).

In the context of the joint venture's interest in expanding into additional categories in the water business, including the point of entry (POE) category (point of entry filtration and purification systems treat the water as it enters the home by connecting directly to the water line, improving water quality for general use and not only for consumption), in the second quarter the HSW joint venture entered into a distribution agreement for POE products manufactured by a company owned by Haier Electronics (which holds 51% of the HSW joint venture) and BWT.

* Restated.

3.2.5 Other Operations

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

3.2.6 Effects of first-time adoption of IFRS 16, *Leases*

Following are the effects of IFRS 16, *Leases*, on selected indices as at the date of initial application*:

	January 1, 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Liquidity ratio – Financial Statements	1.27	(0.06)	1.21
Percentage equity attributable to the Company's shareholders of total assets on the statement of financial position – Financial Statements	33.6%	(1.8%)	31.8%
Equity attributable to the Company's shareholders – Financial Statements	2,096	(13)	2,083

* Financial data were rounded to NIS millions.

Following are the effects of IFRS 16, *Leases*, on the Group's outstanding debt*:

	June 30, 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Gross debt – Non-GAAP Reports	2,592	342	2,934
Gross debt – Financial Statements	2,284	295	2,579
Net debt – Non-GAAP Reports	2,046	342	2,388
Net debt – Financial Statements	1,880	295	2,175

Following are the effects of IFRS 16, *Leases*, on the Group's cash flows*:

	First Half 2019			Second Quarter 2019		
	Under the previous policy	**Change**	**Under IFRS 16**	**Under the previous policy**	**Change**	**Under IFRS 16**
Cash flows from operating activities – Non-GAAP Reports	309	46	355	281	23	304
Cash flows from operating activities – Financial Statements	272	39	311	202	19	221
Cash flows from investing activities – Financial Statements	(11)	3	(8)	(34)	2	(32)
Cash flows used in financing activities – Financial Statements	(288)	(42)	(330)	(182)	(21)	(203)

Following are the effects of IFRS 16, *Leases*, on the EBITDA of the Group's operating segments in the Non-GAAP Report*:

	First Half 2019			Second Quarter 2019		
	Under the previous policy	**Change**	**Under IFRS 16**	**Under the previous policy**	**Change**	**Under IFRS 16**
Strauss Israel						
Health & Wellness	146	11	157	79	5	84
Fun & Indulgence	91	11	102	26	5	31
Strauss Coffee						
Israel Coffee	93	10	103	31	5	36
International Coffee	154	8	162	86	4	90
International Dips & Spreads	66	-	66	34	-	34
Strauss Water	46	7	53	24	4	28
Other	13	2	15	5	1	6

Following are the effects of IFRS 16, *Leases*, on depreciation and amortization expenses of the Group's operating segments in the Non-GAAP Report*:

	First Half 2019			Second Quarter 2019		
	Under the previous policy	**Change**	**Under IFRS 16**	**Under the previous policy**	**Change**	**Under IFRS 16**
Strauss Israel						
Health & Wellness	28	10	38	15	5	20
Fun & Indulgence	19	10	29	10	5	15
Strauss Coffee						
Israel Coffee	7	10	17	3	5	8
International Coffee	30	7	37	15	4	19
International Dips & Spreads	14	-	14	7	-	7
Strauss Water	12	6	18	6	3	9
Other	7	2	9	3	1	4

* Financial data were rounded to NIS millions.

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

In the Company's separate financial information ("solo report") for the second quarter of 2019 there is a working capital deficiency of approximately NIS 235 million. There is no such deficiency in the consolidated financial statements of the Company for the second quarter. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 220 million. In light of the working capital deficiency in the solo report, on August 12, 2019 the Board of Directors of the Company examined the Company's liquidity as described below, and determined that said working capital deficiency is not indicative of a liquidity issue in the Company. This decision is based on a review, *inter alia*, of the Company's financial results as reported in the Financial Statements of the Company as at June 30, 2019, and is also based on data pertaining to the Company's projected cash flow for the next two years given the Company's existing and anticipated liabilities, including the Company's liabilities to the holders of its debentures (Series D and Series E) and to banking corporations and their maturity dates, and on an inspection of existing and anticipated sources for the repayment of these liabilities and the resources arising from the Company's holdings in its major investees, including the receipt of dividends, repayment of loans made available to investees, raising capital from banking corporations and/or other sources if necessary; as well as on the financial strength of the major investees of the Company and their leading competitive position in the markets where these companies operate. The Board of Directors also reviewed sensitivity analyses of the Company's projected cash flow for the next two years, and determined that the working capital deficiency is not indicative of a liquidity issue in the Company.

It is emphasized that the abovementioned assessment by the Board of Directors is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts and on its analysis of its actual cash flows in the period since the end of the quarter and its future cash flows, its existing and anticipated liabilities, its existing assets, its expectations as to future profits and dividend distributions by investees, etc. There can be no assurance that these assessments, in whole or in part, will, in fact, occur, or that they will not occur in a different form, including materially, than estimated, among other things as a result of market behavior and the occurrence of the risk factors set forth in section 29 in the Description of the Company's Business Report as at December 31, 2018.

5. ASPECTS OF CORPORATE GOVERNANCE

As at the date of publication of this report, the Company has not adopted a provision in its Articles of Association with regard to the percentage of independent directors, as this term is defined in the Companies Law, 1999.

On July 22, 2019 Dr. Samer Haj-Yehia ceased to serve as an external director of the Company. For further information, see the Company's immediate report of July 22, 2019 (reference number 2019-01-063258).

On July 9, 2019 the Company summoned a meeting of shareholders to convene on August 13, 2019, on the agenda of which is a proposal to appoint Ms. Dorit Salinger and Ms. Dalia Lev as external directors of the Company. For further information, see the Company's immediate report of July 9, 2019 (reference number 2019-01-059040).

6. GENERAL

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

7. INFORMATION ON DEBENTURE SERIES

		Series D Debentures	Series E Debentures
A.	Nominal/par value	204	603
B.	Carrying value of debentures	206	599
C.	Carrying value of interest payable	2	-
D.	Market value	226	636

8. STATUS OF LIABILITIES REPORT ACCORDING TO PAYMENT DATES

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

9. MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see the update to the chapter Description of the Company's Business and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

10. POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

For a review of events occurring after the statement of financial position date, see Note 9 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019.

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

Ofra Strauss Chairperson of the Board	Giora Bardea Chief Executive Officer

August 12, 2019

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT JUNE 30, 2019

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at June 30, 2019

Contents

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	June 30 2019*	June 30 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	394	303	426
Securities and deposits	10	32	71
Trade receivables	986	1,024	978
Income tax receivables	3	26	6
Other receivables and debt balances	112	98	93
Inventory	604	573	557
Assets held for sale	14	13	19
Total current assets	2,123	2,069	2,150
Investments and non-current assets			
Investment in equity-accounted investees	1,384	1,260	1,315
Other investments and long-term debt balances	92	83	80
Fixed assets	1,734	1,713	1,738
Right-of-use assets	270	-	-
Intangible assets	936	949	938
Investment property	5	12	5
Deferred tax assets	17	18	17
Total investments and non-current assets	4,438	4,035	4,093
Total assets	6,561	6,104	6,243

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

Ofra Strauss Chairperson of the Board of Directors	Giora Bardea Chief Executive Officer	Ariel Chetrit Chief Financial Officer

Date of approval of the interim financial statements: August 12, 2019

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)

	June 30 2019*	June 30 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Current liabilities			
Current maturities of debentures	62	28	15
Short-term credit and current maturities of long-term loans and other liabilities	321	**288	347
Current maturities of lease liabilities	88	-	-
Trade payables	700	749	730
Income tax payables	118	30	53
Other payables and credit balances	555	**532	522
Provisions	31	32	31
Total current liabilities	1,875	1,659	1,698
Non-current liabilities			
Debentures	743	797	805
Long-term loans and other liabilities	1,152	**1,292	1,173
Lease liabilities	213	-	-
Long-term payables and credit balances	21	**36	19
Employee benefits, net	50	47	47
Deferred tax liabilities	258	248	255
Total non-current liabilities	2,437	2,420	2,299
Equity and reserves			
Share capital	252	252	252
Share premium	1,051	1,051	1,051
Reserves	(1,741)	(1,663)	(1,674)
Retained earnings	2,544	2,244	2,467
Total equity attributable to the shareholders of the Company	2,106	1,884	2,096
Non-controlling interests	143	141	150
Total equity	2,249	2,025	2,246
Total liabilities and equity	6,561	6,104	6,243

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

** Reclassified (see Note 1.3)

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2019*	June 30 2018	June 30 2019*	June 30 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Sales	2,768	2,794	1,338	1,348	5,604
Cost of sales	1,623	1,651	780	806	3,353
Gross profit	1,145	1,143	558	542	2,251
Selling and marketing expenses	636	640	322	325	1,293
General and administrative expenses	198	198	99	103	394
	834	838	421	428	1,687
Share of profit of equity-accounted investees	153	134	85	76	250
Operating profit before other income (expenses)	464	439	222	190	814
Other income	-	4	-	1	7
Other expenses	(3)	(2)	(2)	(1)	(13)
Other income (expenses), net	(3)	2	(2)	-	(6)
Operating profit	461	441	220	190	808
Financing income	3	16	-	9	28
Financing expenses	(68)	(54)	(38)	(31)	(121)
Financing expenses, net	(65)	(38)	(38)	(22)	(93)
Profit before income tax	396	403	182	168	715
Income tax	(87)	(113)	(41)	(46)	(181)
Income for the period	309	290	141	122	534
Attributable to:					
The Company's shareholders	283	263	127	110	478
Non-controlling interests	26	27	14	12	56
Income for the period	309	290	141	122	534
Earnings per share					
Basic earnings per share (in NIS)	2.45	2.29	1.10	0.96	4.16
Diluted earnings per share (in NIS)	2.43	2.28	1.09	0.95	4.13

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2019*	June 30 2018	June 30 2019*	June 30 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Income for the period	309	290	141	122	534
Other comprehensive income (loss) items that will be classified to profit or loss in subsequent periods:					
Foreign currency translation differences	(11)	5	6	(24)	(25)
Other comprehensive loss from equity-accounted investees	(55)	(47)	(11)	(60)	(28)
Total other comprehensive loss items that will be classified to profit or loss in subsequent periods, net	(66)	(42)	(5)	(84)	(53)
Other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods, net:					
Changes in employee benefits, net	(2)	2	(1)	2	1
Total other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods, net	(2)	2	(1)	2	
Comprehensive income for the period	241	250	135	40	482
Attributable to:					
The Company’s shareholders	214	223	120	27	426
Non-controlling interests	27	27	15	13	56
Comprehensive income for the period	241	250	135	40	482

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions								
Six-month period ended June 30, 2019 - unaudited									
Balance as at January 1, 2019	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246
*Impact of first-time adoption of IFRS 16**	-	-	-	-	-	(13)	(13)	-	(13)
Balance as at January 1, 2019 after first-time adoption	252	1,051	(20)	(392)	(1,262)	2,454	2,083	150	2,233
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	283	283	26	309
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(12)	-	(12)	1	(11)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(55)	-	(55)	-	(55)
Change in employee benefits, net	-	-	-	-	-	(2)	(2)	-	(2)
Total other comprehensive income (loss) for the period, net	-	-	-	-	(67)	(2)	(69)	1	(68)
Total comprehensive income (loss) for the period	-	-	-	-	(67)	281	214	27	241
Share-based payment	-	-	-	-	-	9	9	-	9
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(34)	(34)
Balance as at June 30, 2019	252	1,051	(20)	(392)	(1,329)	2,544	2,106	143	2,249

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Condensed Consolidaed 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								
Six-month period ended June 30, 2018 - unaudited:									
Balance as at January 1, 2018	252	1,051	(20)	(392)	(1,209)	2,135	1,817	138	1,955
Impact of first-time adoption of IFRS 9	-	-	-	-	-	(4)	(4)	-	(4)
Balance as at January 1, 2018 after first-time adoption	252	1,051	(20)	(392)	(1,209)	2,131	1,813	138	1,951
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	263	263	27	290
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	5	-	5	-	5
Other comprehensive loss from equity-accounted investees	-	-	-	-	(47)	-	(47)	-	(47)
Change in employee benefits, net	-	-	-	-	-	2	2	-	2
Total other comprehensive income (loss) for the period, net	-	-	-	-	(42)	2	(40)	-	(40)
Total comprehensive income (loss) for the period	-	-	-	-	(42)	265	223	27	250
Share-based payment	-	-	-	-	-	8	8	-	8
Dividend paid	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(24)	(24)
Balance as at June 30, 2018	252	1,051	(20)	(392)	(1,251)	2,244	1,884	141	2,025

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								
Three-month period ended June 30, 2019 - unaudited:									
Balance as at April 1, 2019	252	1,051	(20)	(392)	(1,323)	2,413	1,981	162	2,143
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	127	127	14	141
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	5	-	5	1	6
Other comprehensive loss from equity-accounted investees	-	-	-	-	(11)	-	(11)	-	(11)
Change in employee benefits, net	-	-	-	-	-	(1)	(1)	-	(1)
Total other comprehensive income (loss) for the period, net	-	-	-	-	(6)	(1)	(7)	1	(6)
Total comprehensive income (loss) for the period	-	-	-	-	(6)	126	120	15	135
Share-based payment	-	-	-	-	-	5	5	-	5
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(34)	(34)
Balance as at June 30, 2019	252	1,051	(20)	(392)	(1,329)	2,544	2,106	143	2,249

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								
Three-month period ended June 30, 2018 - unaudited:									
Balance as at April 1, 2018	252	1,051	(20)	(392)	(1,166)	2,288	2,013	152	2,165
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	110	110	12	122
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(25)	-	(25)	1	(24)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(60)	-	(60)	-	(60)
Change in employee benefits, net	-	-	-	-	-	2	2	-	2
Total other comprehensive income (loss) for the period, net	-	-	-	-	(85)	2	(83)	1	(82)
Total comprehensive income (loss) for the period	-	-	-	-	(85)	112	27	13	40
Share-based payment	-	-	-	-	-	4	4	-	4
Dividend paid	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(24)	(24)
Balance as at June 30, 2018	252	1,051	(20)	(392)	(1,251)	2,244	1,884	141	2,025

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								
Year ended December 31, 2018 - audited:									
Balance as at January 1, 2018	252	1,051	(20)	(392)	(1,209)	2,135	1,817	138	1,955
Impact of first-time adoption of IFRS 9	-	-	-	-	-	(4)	(4)	-	(4)
Balance as at January 1, 2018 after first-time adoption	252	1,051	(20)	(392)	(1,209)	2,131	1,813	138	1,951
Total comprehensive income (loss) for the year									
Profit for the year	-	-	-	-	-	478	478	56	534
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(25)	-	(25)	-	(25)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(28)	-	(28)	-	(28)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the year, net	-	-	-	-	(53)	1	(52)	-	(52)
Total comprehensive income (loss) for the year	-	-	-	-	(53)	479	426	56	482
Share-based payment	-	-	-	-	-	17	17	-	17
Dividend paid	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(44)	(44)
Balance as at December 31, 2018	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246

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 six months ended		For the three months ended		For the year ended
	June 30 2019*	June 30 2018	June 30 2019*	June 30 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Profit for the period	309	290	141	122	534
Adjustments:					
Depreciation	111	71	56	36	145
Amortization of intangible assets and deferred expenses	15	18	8	9	36
Impairment (reversal of impairment) loss of fixed assets, intangible assets and investment property, net	-	(1)	-	1	(1)
Other income, net	1	(2)	1	(1)	-
Expenses in respect of share-based payment	9	8	5	4	17
Financing expenses, net	65	38	38	22	93
Income tax expenses	87	113	41	46	181
Share of profit of equity-accounted investees	(153)	(134)	(85)	(76)	(250)
Change in inventory	(53)	(33)	(16)	(21)	(25)
Change in trade and other receivables	(27)	(70)	92	102	(26)
Change in long-term trade receivables	(7)	(2)	(6)	(3)	1
Change in trade and other payables	(7)	**29	(52)	**(29)	(7)
Change in employee benefits	2	2	1	-	7
Interest paid	(41)	(52)	(17)	(23)	(124)
Interest received	3	1	-	-	6
Income tax received (paid), net	(3)	(68)	14	(42)	(85)
Net cash flows provided by operating activities	311	**208	221	**147	502
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	61	150	(9)	1	110
Proceeds from sale of fixed assets, intangible assets and investment property	6	14	5	9	19
Investment in fixed assets and investment property	(78)	(74)	(44)	(38)	(169)
Investment in intangible assets	(23)	(21)	(11)	(11)	(46)
Acquisition of operations, net cash acquired	-	(1)	-	-	(1)
Repayment of loans granted	7	7	3	3	17
Loans granted	(9)	(12)	(4)	(3)	(16)
Income from sublease	3	-	2	-	-
Dividends from investee companies	31	35	31	35	118
Investment in investee companies	(6)	(7)	(5)	(6)	(15)
Net cash flows provided by (used in) investing activities	(8)	91	(32)	(10)	17

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

** Reclassified (see Note 1.3)

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 six months ended		For the three months ended		For the year ended
	June 30 2019*	June 30 2018	June 30 2019*	June 30 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Cash flows from financing activities					
Acquisition of non-controlling interests in a subsidiary	-	(31)	-	(13)	(36)
Short-term bank credit, net	-	9	2	25	(14)
Proceeds from issue of debentures, net of issuance costs	-	-	-	-	200
Receipt of long-term loans	50	-	50	-	-
Repayment of long-term loans and debentures	(120)	(217)	(4)	(31)	(280)
Early redemption of debentures	-	-	-	-	(203)
Change in liabilities in respect of credit card factoring	16	**29	4	**12	53
Redemption of share options	-	(7)	-	-	(7)
Repayment of lease liabilities	(42)	-	(21)	-	-
Dividends paid	(200)	(160)	(200)	(160)	(160)
Dividend to non-controlling interests in subsidiaries	(34)	(14)	(34)	(14)	(44)
Net cash flows provided by (used in) financing activities	(330)	**(391)	(203)	**(181)	(491)
Increase (decrease) in cash and cash equivalents	(27)	(92)	(14)	(44)	28
Cash and cash equivalents as at beginning of period	426	390	409	346	390
Effect of exchange rate fluctuations on cash balances	(5)	5	(1)	1	8
Cash and cash equivalents as at end of period	394	303	394	303	426

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

** Reclassified (see Note 1.3)

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, carbonation and purification products. The condensed consolidated interim financial statements as at June 30, 2019 and for the six- and three-month periods then ended (hereinafter - the "Interim Statements") comprise the Company and its subsidiaries and the Group's rights in joint arrangements.

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

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

These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2018 and for the year then ended together with their accompanying notes (hereinafter: the "Annual Financial Statements"). Other than as described in section 1.2 below, the accounting principles applied in preparing these Interim Statements were applied consistently with the Annual Financial Statements.

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

1.1.4 These Interim Statements were approved by the Board of Directors of the Group on August 12, 2019.

1.2 First-time adoption of IFRS 16, *Leases*

Since the first quarter of 2019 the Group has applied IFRS 16, *Leases*, which replaces the guidance of IAS 17, *Leases*. The main impact of implementing the standard is expressed in the elimination of the current requirement that lessees classify leases as either operating leases (off balance sheet) or finance leases, and the introduction of a single lessee accounting model for the accounting treatment of all leases, similar to the treatment of finance leases under the earlier accounting standard that addressed the subject. Accordingly, until the implementation date the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all risks and rewards arising from the assets.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

Under IFRS 16, for agreements in which the Group is the lessee it applies a single accounting model, according to which it recognizes a right-of-use asset in respect of the lease at contract inception date for all leases in which the Group has the right to control the use of identified assets for a defined period, excluding exceptions specified in the standard.

Accordingly, the Group recognizes depreciation expenses in respect of right-of-use assets, performs an impairment review for right-of-use assets according to IAS 36, *Impairment of Assets*, and recognizes financing expenses in respect of lease liabilities. Commencing on the first-time adoption date, lease payments for assets under operating leases, which were presented as expenses in the income statement, are discounted as assets and depreciated as depreciation and amortization expenses.

Commencing at initial application, the Group has applied the standard using the modified retrospective approach, adjusting retained earning balances as at January 1, 2019 without restating comparative figures.

For all leases, the Group chose to apply the transition option in which, on initial application, it recognized a lease liability at the present value of the remaining future lease payments discounted at the lessee's incremental borrowing rate on that date, which was calculated according to the weighted average lease term from the date of initial application, and, in parallel, recognized a right-of-use asset at its carrying amount as if the standard had been applied since the lease commencement date, discounted at the same interest rate as the liability and depreciated until the date of initial application. Consequently, on the date of initial application of the standard, there was a negative effect of approximately NIS 13 million on the Group's equity.

Additionally, within the context of first-time adoption of the standard, the Group has chosen to also apply the following expedients for leases in which it is the lessee:

- Apply the exemption not to recognize a right-of-use asset and a lease liability for short-term leases of up to one year, and apply the exemption not to recognize a right-of-use asset and a lease liability for leases for which the term ends within 12 months or fewer from the date of initial application.

- Not to separate non-lease components from lease components, but to account for each lease component and any associated non-lease components as a single lease component.

- Apply the exemption not to recognize a right-of-use asset and a lease liability for leases pertaining to low value assets.

- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

- Reliance on a prior assessment of whether a lease is onerous under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as at the transition date as an alternative to testing right-of-use assets for impairment.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

- Exclusion of direct costs incurred in the lease from the measurement of the right-of-use asset on the transition date.

The following table presents the cumulative impact on the items in the statement of financial position affected by first-time adoption, as at January 1, 2019 (in NIS millions):

	Under IAS 17 (audited)	Change	Under IFRS 16 (unaudited)
Receivables and debit balances	93	16	109
Right-of-use assets	-	286	286
Investment in equity-accounted investees	1,315	(2)	1,313
Deferred tax assets	17	3	20
Lease liabilities	-	(321)	(321)
Provisions	(31)	2	(29)
Payables and credit balances	(522)	(1)	(523)
Long-term payables and credit balances	(19)	4	(15)
Retained earnings	(2,467)	13	(2,454)
Non-controlling interests	(150)	-	(150)

The nominal discount rate used to measure the lease liability is mainly within a range of 0.9% to 4.7%. This range is influenced by differences in the lease term, differences in the various asset groups, and differences arising from the identity of lessees in the Group and from the different markets and geographies in which the Group companies operate.

The difference between commitments in respect of operating leases disclosed when applying IAS 17 in the financial statements for the year ended December 31, 2018 at an amount of NIS 311 million, and lease liabilities recognized in the statement of financial position on initial application at an amount of NIS 321 million, primarily arises from options to extend the lease where exercise of the option, in the estimate of Company management, is reasonably certain, which were not included in the commitments relating to operating leases. Conversely, the commitments relating to operating leases were stated in non-discounted nominal amounts and also included contracts under which, on the transition date, the term ends within less than 12 months.

Effects of implementation of the Standard in the reporting period

In the six- and three-month periods ended June 30, 2019, the Group recognized additional depreciation expenses of approximately NIS 39 million and NIS 20 million, respectively, and additional financing expenses of NIS 4 million and NIS 2 million, respectively, in lieu of recognizing rental costs.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

Following are the main changes in accounting policy following application of the standard commencing January 1, 2019:

1.2.1 Determining whether an arrangement contains a lease

At inception of a contract, the Group determines whether the contract is, or contains, a lease, by reviewing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses if throughout the period of use, it has both of the following rights:

(a) The right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) The right to direct the use of the identified asset.

For lease contracts that include non-lease components, such as services or maintenance, which are associated with the lease component, the Group has chosen to account for the contract as a single lease component, without separating the components.

1.2.2 Leased assets and lease liabilities

Contracts that grant the Group control of the use of a leased asset for a period of time in exchange for consideration are accounted for as leases. On initial recognition the Group recognizes a liability at the present value of the future lease payments (these payments do not include certain variable lease payments), and, in parallel, a right-of use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, plus direct costs created in the lease.

Since the interest rate included in the lease cannot be easily determined, the lessee's incremental borrowing rate was used.

Subsequent to initial recognition the asset is accounted for under the cost model and depreciated to the earlier of the end of the lease term or the useful life of the asset.

The Group has chosen to apply the practical expedient in which short-term leases of up to one year and/or leases in which the underlying asset is of low value are accounted for by recognizing the lease payments in profit or loss on a straight-line basis over the lease term, without recognizing an asset and/or liability in the statement of financial position.

1.2.3 Lease term

The lease term is determined as the period in which the lease is non-cancellable, together with periods covered by an option to extend or terminate the lease if it is reasonably certain that the lessee will exercise or not exercise the option, respectively.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

1.2.4 Variable lease payments

Variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date of the lease and are included in the measurement of the lease liability. When there is a change in contractual cash flows resulting from a change in the index or rate, the remaining liability is revised against the right-of-use asset.

Other variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss on the date when the conditions for these payments are satisfied.

1.2.5 Depreciation of a right-of-use asset

After the commencement date of the lease, a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for remeasurements of the lease liability. Depreciation is calculated on a straight-line basis to the earlier of the useful life of the right-of-use asset or the end of the lease term, as follows:

- Buildings 3.8%-40%
- Vehicles 14%-33%
- Coffee stands 10%-50%

1.2.6 Reassessment of lease liabilities

Upon the occurrence of either a significant event or a significant change in circumstances that is within the Group's control and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term, the Group remeasures the lease liability according to the revised lease payments using a revised discount rate that reflects changes in the interest rate. The change in the carrying amount of the liability is recognized against a right-of-use asset or recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1.2.7 Lease modifications

The Group accounts for lease modifications as a separate lease when the modification increases the scope of the lease by adding the right to use one or more underlying assets, and the consideration for the lease has increased by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

In other cases, at the effective date of the lease modification, the Group allocates the consideration in the modified contract between the contract components, determines the lease term of the modified lease and remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

1.2.7 Lease modifications (cont'd)

For modifications that decrease the scope of the lease, the Group decreases the carrying amount of the right-of-use asset to reflect partial or full termination of the lease and recognizes the gain or loss arising from the difference between the decrease in the right-of-use asset and the remeasurement of lease liability in profit or loss.
For other lease modifications, the Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the corresponding right-of-use asset.

1.2.8 Subleases

In leases where the Group subleases the underlying asset, the Group classifies the sublease as a finance lease or operating lease according to the right of use obtained in the head lease. The Group reviewed the subleases in effect on the date of first-time adoption according to their remaining contractual conditions on that date.

1.3 Immaterial adjustment of comparative figures

Further to the contents of Note 2.6 to the Annual Financial Statements with regard to a classification error arising from the accounting treatment of credit card factoring transactions in the subsidiary Strauss Water, the effects of correcting the error on the data contained in the 2018 quarterly financial statements are presented below.

In a test of the materiality of the error according to the guidelines for testing materiality, quantitatively as well as qualitatively, the error was found to be immaterial with respect to the quarterly financial statements for 2018. The Company rectified the error by correcting the comparative figures included in those financial statements. The items in the financial statements that were affected by the correction are indicated as an "immaterial adjustment of comparative figures".

1.3.1 Effect of the correction on the statement of financial position

	As at June 30, 2018 (unaudited)		
	NIS millions		
	As formerly reported	**Effect of the correction**	**As reported in these financial statements**
Payables and credit balances	(607)	75	(532)
Long-term payables and credit balances	(98)	62	(36)
Short-term credit and current maturities of long-term loans and other liabilities	(213)	(75)	(288)
Long-term loans and other liabilities	(1,230)	(62)	(1,292)

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

1.3 Immaterial adjustment of comparative figures (cont'd)

1.3.2 Effect of the correction on the statement of cash flows

	For the six-month period ended June 30, 2018 (unaudited)		
	NIS millions		
	As formerly reported	Effect of the correction	As reported in these financial statements
Operating activities	237	(29)	208
Financing activities	(420)	29	(391)

	For the three-month period ended June 30, 2018 (unaudited)		
	NIS millions		
	As formerly reported	Effect of the correction	As reported in these financial statements
Operating activities	159	(12)	147
Financing activities	(193)	12	(181)

Note 2 – Seasonality

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

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

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

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

There is no distinct trend of seasonality in the water business. However, sales of the Group's water bars are generally higher in the summer months (April-October) compared to the rest of the year, with a corresponding increase in servicing the fourth quarter of the year as a result of the increase in sales of water bars in the summer.

Note 3 - Operating Segments

Segment information and reconciliation to the consolidated financial statements:

	For the six months ended		For the three months ended		For the year ended
	June 30 2019	June 30 2018	June 30 2019	June 30 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	1,099	1,068	561	536	2,177
Fun & Indulgence	581	576	242	242	1,099
Total Israel	1,680	1,644	803	778	3,276
Israel Coffee	387	375	165	158	737
International Coffee	1,420	1,589	748	820	3,214
Total Coffee	1,807	1,964	913	978	3,951
International Dips and Spreads	390	377	198	197	759
Water	302	285	159	150	591
Other	-	-	-	-	-
Sales to other segments:					
Health & Wellness	3	3	1	1	7
Fun & Indulgence	6	5	3	2	10
Total Israel	9	8	4	3	17
Israel Coffee	1	1	-	-	2
International Coffee	1	1	-	-	2
Total Coffee	2	2	-	-	4
Total segment revenues	4,190	4,280	2,077	2,106	8,598
Elimination of inter-segment sales	(11)	(10)	(4)	(3)	(21)
Total segment revenues excluding inter-segment sales	4,179	4,270	2,073	2,103	8,577
Adjustment to the equity method	(1,411)	(1,476)	(735)	(755)	(2,973)
Total consolidated revenues	2,768	2,794	1,338	1,348	5,604

Note 3 - Operating Segments (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2019	June 30 2018	June 30 2019	June 30 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Profit (loss)					
Health & Wellness	119	110	64	56	229
Fun & Indulgence	73	68	16	13	114
Total Israel	192	178	80	69	343
Israel Coffee	86	59	28	18	119
International Coffee	125	167	71	89	299
Total Coffee	211	226	99	107	418
International Dips and Spreads	52	29	27	18	49
Water	35	27	19	17	65
Other	6	1	2	(4)	(10)
Total segment profit	496	461	227	207	865
Unallocated income (expenses):					
Adjustments for commodity hedges (1)	-	13	13	2	10
Other income (expenses), net	(2)	3	(1)	1	(2)
Share-based payment	(9)	(8)	(5)	(4)	(17)
Total segment operating profit	485	469	234	206	856
Adjustment to the equity method	(24)	(28)	(14)	(16)	(48)
Total operating profit in the consolidated financial statements	461	441	220	190	808
Financing expenses, net	(65)	(38)	(38)	(22)	(93)
Profit before income tax	396	403	182	168	715

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

Note 4 - Material Events in the Reporting Period

4.1 On March 12, 2019 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 200 million (approximately NIS 1.74 per share). The dividend was paid on April 2, 2019.

4.2 Further to Note 35.7.1 to the Annual Financial Statements, in the reporting period the Company and the subsidiaries received additional tax refunds. Following said refunds, and to the extent that the Group's position with regard to entitlement to benefits under the Law for the Encouragement of Capital Investments is not accepted, the Group will be subject to an obligation of approximately NIS 54 million.

Note 5 - Share-Based Payment

5.1 Grants in the reporting period

Following is information on the fair value of new option warrants granted in the reporting period:

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Expected annual volatility	Discount rate
		NIS M	NIS	NIS	Years	%	%
March 6, 2019	886,654 to 19 managers	13.7	93.33	89.62	3.96-4.96	18.64	(0.29)-(0.57)
March 12, 2019	266,666 to 2 managers	3.9	92.80	90.50	3.96-4.96	18.32-18.51	(0.33)-(0.61)
May 19, 2019	133,333 to 1 manager	1.9	93.51	91.53	3.96-4.96	17.89-18.43	(0.41)-(0.63)

The exercise price of each option is linked to the known CPI on the grant date. Entitlement to exercise the options will vest in two equal tranches in each of the years 2021 and 2022 according to the grant date of each option. The benefit arising from these grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

5.2 Exercise of options during the period

In the reporting period 949,265 options warrants granted to employees were exercised for 373,939 shares in consideration for their nominal value.

Note 6 - Contingent Liabilities

6.1 For information on claims and contingent liabilities pending as at December 31, 2018 against the Company and its investees, see Note 24.1.1 to the Annual Financial Statements.

6.2 Further to Note 24.1.2 to the Annual Financial Statements with regard to a claim for approximately NIS 38 million against the Company pertaining to alleged excessive pricing by a monopoly of the Elite cocoa product, on January 16, 2019 the Central District Court rejected the motion to hear the claim as a class action.

6.3 Further to Note 24.1.1 to the Annual Financial Statements with regard to a claim against the Company pertaining to alleged excessive pricing by a monopoly of an instant coffee product at an amount of approximately NIS 80 million, on May 26, 2019 the Central District Court rejected the motion to hear the claim as a class action.

The Company did not recognize a provision for pending claims as at June 30, 2019, which, in the opinion of its legal counsel, are not expected to be accepted, or the chances of which cannot be estimated. The amount of claims of which the chances cannot be estimated is immaterial.

Note 7 –Investment in Equity-Accounted Investees

7.1 Concise information on material equity-accounted investees:

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	June 30		December 31	June 30		December 31
	2019	2018	2018	2019	2018	2018
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Current assets	350	300	289	1,123	1,214	1,115
Of which:						
Cash and cash equivalents	94	65	68	147	190	214
Non-current assets	545	573	580	922	678	764
Total assets	895	873	869	2,045	1,892	1,879
Current liabilities	150	158	180	907	853	755
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	45	49	37	399	354	266
Non-current liabilities	84	126	108	133	146	169
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	75	119	97	100	117	140
Total liabilities	234	284	288	1,040	999	924

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

7.1 Concise information on material equity-accounted investees:

	Sabra Dipping Company					Três Corações Alimentos S.A.				
	For the six months ended June 30		For the three months ended June 30		For the year ended December 31	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2019	2018	2019	2018	2018	2019	2018	2019	2018	2018
	Unaudited				Audited	Unaudited				Audited
	NIS millions									
Income	698	679	357	357	1,352	1,765	1,947	944	1,004	3,937
Profit for the period	81	48	43	28	85	129	159	77	87	294
Other comprehensive income (loss)	(29)	28	(11)	21	43	(42)	(92)	(1)	(101)	(77)
Total comprehensive income (loss)	52	76	32	49	128	87	67	76	(14)	217
Of which:										
Depreciation and amortization	22	22	11	11	46	33	19	15	9	41
Interest income	-	-	-	-	-	5	7	3	3	14
Interest expenses	3	3	2	2	6	13	11	7	6	22
Income tax expenses	*(31)	*(18)	*(16)	*(10)	*(33)	(20)	(35)	(14)	(19)	(52)

* Statutory income tax in respect of Sabra Dipping Company, which is assessed in the holding company, S.E. USA, Inc.

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

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

The investee's presentation currency is the Brazilian Real.

7.3 Following are the average exchange rates and rates of change in the Real to Shekel exchange rates during the reporting period:

	Shekel-Real Exchange Rate		
	Average exchange rate for the period	Closing exchange rate for the period	% change
For the six-month period ended on:			
June 30, 2019	0.94	0.93	(3.3)
June 30, 2018	1.03	0.95	(9.3)
For the three-month period ended on:			
June 30, 2019	0.92	0.93	0.4
June 30, 2018	1.00	0.95	(10.3)
For the year ended December 31, 2018	0.99	0.97	(7.6)

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:

	June 30, 2019		June 30, 2018		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited				Audited	
	NIS millions					
Series D Debentures	208	226	430	466	224	239
Series E Debentures	599	636	405	410	598	604

Note 8 - Financial Instruments (cont'd)

8.2 Fair value hierarchy of financial instruments measured at fair value

The different levels are defined as follows:

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

	June 30, 2019		**June 30, 2018**		**December 31, 2018**	
	Level 1	**Level 2**	**Level 1**	**Level 2**	**Level 1**	**Level 2**
	Unaudited				**Audited**	
	NIS millions					
Financial assets (liabilities)						
Marketable securities	-	-	31	-	-	-
Trade receivables- derivatives	12	4	5	13	7	11
Trade payables- derivatives	(22)	(3)	(14)	(1)	(22)	-
	(10)	1	22	12	(15)	11

As at June 30, 2019 and 2018 and December 31, 2018, the Group has no material financial instruments measured at Level 3.

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

Note 9 – Post-Statement of Financial Position Date Events

9.1 In July 2019 a dividend of approximately NIS 28 million (the Group's share) was received from Três Corações Alimentos S.A., a joint venture in Brazil 50% owned by the subsidiary, Strauss Coffee.

STRAUSS GROUP LTD.

SEPARATE FINANCIAL INFORMATION AS AT JUNE 30, 2019

Unofficial Translation from Hebrew

Strauss Group Ltd.

<u>Condensed Separate Interim Financial Information as at June 30, 2019</u>

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Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Interim Information on Financial Position

	June 30 2019*	June 30 2018	December 31 2018
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	261	16	222
Securities and deposits	-	-	70
Trade receivables	183	190	183
Income tax receivables	-	11	-
Other receivables and debit balances	46	30	33
Investee receivables	98	**175	**202
Inventory	114	125	123
Assets held for sale	7	13	13
Total current assets	709	**560	**846
Investments and non-current assets			
Investments in investees	2,128	1,785	1,931
Other investments and long-term debt balances	635	**917	**663
Right-of-use assets	136	-	-
Fixed assets	928	927	934
Investment property	3	4	3
Intangible assets	45	48	46
Total investments and non-current assets	3,875	**3,681	**3,577
Total assets	4,584	4,241	4,423

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

** Reclassified

Ofra Strauss Chairperson of the Board of Directors	Giora Bardea Chief Executive Officer	Ariel Chetrit Chief Financial Officer

Date of approval of the separate financial information: August 12, 2019

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

Strauss Group Ltd.

Condensed Interim Information on Financial Position (cont'd)

	June 30 2019*	June 30 2018	December 31 2018
	Unaudited	Unaudited	Audited
		NIS Millions	
Current liabilities			
Current maturities of debentures	62	28	15
Short-term credit and current maturities of long-term loans and other long-term liabilities	154	146	198
Current maturities of lease liabilities	34	-	-
Trade payables	200	192	195
Income tax	42	-	17
Other payables and credit balances	193	203	202
Investee payables	259	160	159
Provisions	-	1	2
Total current liabilities	944	730	788
Non-current liabilities			
Debentures	743	797	805
Long-term loans and other long-term liabilities	526	679	584
Lease liabilities	108	-	-
Long-term payables and credit balances	16	17	14
Employee benefits, net	26	20	24
Deferred tax liabilities	115	114	112
Total non-current liabilities	1,534	1,627	1,539
Total equity attributable to the shareholders of the Company	2,106	1,884	2,096
Total liabilities and equity	4,584	4,241	4,423

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Strauss Group Ltd.

Condensed Interim Information on Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2019*	June 30 2018	June 30 2019*	June 30 2018	December 31 2018
	(Unaudited)				(Audited)
	NIS Millions				
Sales	529	537	224	229	1,032
Cost of sales	334	330	146	146	644
Gross profit	195	207	78	83	388
Selling and marketing expenses	116	122	59	62	247
General and administrative expenses	42	40	21	24	82
	158	162	80	86	329
Operating profit (loss) before other income (expenses)	37	45	(2)	(3)	59
Other income	-	4	-	2	4
Other expenses	(1)	(2)	(1)	(1)	(4)
Other income (expenses), net	(1)	2	(1)	1	-
Operating profit (loss)	36	47	(3)	(2)	59
Financing income	11	32	5	18	61
Financing expenses	(51)	(41)	(27)	(23)	(97)
Financing expenses, net	(40)	(9)	(22)	(5)	(36)
Profit (loss) before taxes	(4)	38	(25)	(7)	23
Income tax	(13)	(25)	(4)	(13)	(28)
Profit (loss) after income tax	(17)	13	(29)	(20)	(5)
Income from investees	300	250	156	130	483
Income for the period attributable to the shareholders of the Company	283	263	127	110	478

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated

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

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2019*	June 30 2018	June 30 2019*	June 30 2018	December 31 2018
	(Unaudited)				(Audited)
	NIS Millions				
Income for the period attributable to the shareholders of the Company	283	263	127	110	478
Other comprehensive loss items that will be classified to profit or loss in subsequent periods:					
Other comprehensive loss from investees	(67)	(42)	(6)	(85)	(53)
Total other comprehensive loss items that will be classified to profit or loss in subsequent periods, net of tax	(67)	(42)	(6)	(85)	(53)
Other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods:					
Changes in employee benefits, net	(2)	2	(1)	2	1
Total other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods, net	(2)	2	(1)	2	1
Comprehensive income for the period attributable to the shareholders of the Company	214	223	120	27	426

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated

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

Strauss Group Ltd.

Condensed Interim Information on Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2019*	June 30 2018	June 30 2019*	June 30 2018	December 31 2018
	(Unaudited)				(Audited)
	NIS Millions				
Cash flows from operating activities					
Income for the period attributable to the shareholders of the Company	283	263	127	110	478
Adjustments:					
Depreciation	43	26	22	13	52
Amortization of intangible assets	6	9	3	5	18
Other income, net	-	(3)	-	(1)	(3)
Expenses in respect of share-based payment	6	6	3	3	12
Income from investees	(300)	(250)	(156)	(130)	(483)
Financing expenses, net	40	9	22	5	36
Income tax expense	13	25	4	13	28
Change in inventory	9	12	(10)	(5)	12
Change in trade and other receivables	(12)	**(4)	50	**63	**(13)
Change in investee receivables	45	**21	50	**18	**(21)
Change in trade and other payables	(13)	(19)	(48)	(55)	(2)
Change in investee payables	100	40	105	10	40
Change in employee benefits	2	1	2	1	4
Interest paid	(26)	(32)	(11)	(13)	(97)
Interest received	2	3	-	3	13
Income tax received (paid), net	22	(6)	15	(5)	15
Net cash flows from operating activities	220	101	178	35	89
Cash flows from investing activities					
Sale of marketable securities and deposits, net	70	150	-	-	80
Proceeds from sale of fixed and other assets	5	13	5	9	14
Acquisition of fixed assets	(28)	(25)	(13)	(13)	(55)
Investment in intangible assets	(5)	(5)	(3)	(3)	(13)
Repayment long-term loans	3	3	2	2	11
Loans granted	(6)	(8)	(3)	(1)	(11)
Dividends from investees	27	37	27	37	117
Cash received in respect of investing activities with investees	90	10	15	8	307
Cash paid in respect of investing activities with investees	(4)	(6)	(4)	(6)	(16)
Net cash flows from investing activities	152	169	26	33	434
Cash flows from financing activities					
Repayment of debentures and long-term loans	(116)	(212)	-	(28)	(227)
Early redemption of debentures	-	-	-	-	(203)
Short-term bank credit, net	-	29	-	29	-
Dividends paid	(200)	(160)	(200)	(160)	(160)
Proceeds from issue of debentures, net of issuance costs	-	-	-	-	200
Repayment of principal of lease liabilities	(17)	-	(9)	-	-
Net cash flows used in financing activities	(333)	(343)	(209)	(159)	(390)
Net increase (decrease) in cash and cash equivalents	39	(73)	(5)	(91)	133
Cash and cash equivalents as at beginning of period	222	89	266	107	89
Cash and cash equivalents as at end of period	261	16	261	16	222

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.
** Reclassified

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 Group Headquarters, the Group's salads (dips and spreads) operation 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, 2018, and in conjunction with the Condensed Consolidated Interim Financial Statements as at June 30, 2019 (hereinafter: the "Condensed Consolidated Interim Financial Statements").

Except as stated at Note 1 to the Condensed Consolidated Interim Financial Statements as at June 30, 2019, the accounting policy applied in this Interim Separate Financial Information is in accordance with the accounting policy rules described in the Separate Financial Information as at December 31, 2018.

Commencing on January 1, 2019 the Company has applied IFRS 16, *Leases*.

The following table presents the cumulative impact on the items in the statement of financial position affected by first-time adoption, as at January 1, 2019 (in NIS millions):

	Under IAS 17 (audited)	Change	Under IFRS 16 (unaudited)
Right-of-use assets	-	143	143
Investment in investees	1,931	(14)	1,917
Deferred tax liabilities	(112)	1	(111)
Lease liabilities	-	(148)	(148)
Provisions	(2)	2	-
Payables and credit balances	(202)	(1)	(203)
Long-term payables and credit balances	(14)	4	(10)
Total equity	(2,096)	13	(2,083)

Effects of implementation of the Standard in the reporting period

In the six- and three-month periods ended June 30, 2019, the Company recognized additional depreciation expenses of approximately NIS 17 million and NIS 9 million, respectively, and additional financing expenses of NIS 2 million and NIS 1 million, respectively, in lieu of recognizing rental costs.

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, 2018.

1.1.4 The Interim Separate Financial Information is presented in NIS, which is the Company's functional currency. 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. There is no clear trend of seasonality in the salads category in Israel.

Note 3 - Material Events during the Reported Period

3.1 In the reporting period the Company and the subsidiary, Strauss Coffee, signed a prepayment agreement for a loan granted by the Company to the subsidiary, such that the subsidiary repaid the outstanding balance of the principal of the loan at an amount of approximately NIS 88 million and accrued interest at an amount of approximately NIS 0.4 million.

For further information on material events in the reporting period, see Note 4 to the Condensed Consolidated Interim Financial Statements.

Note 4 - Share-Based Payment

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

Note 5 - Contingent Liabilities

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

Note 6 - Financial Instruments

6.1 Fair value of financial instruments

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

6.2 Fair value hierarchy of financial instruments measured at fair value

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

Note 7 - Events after the Reporting Date

For further 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. Giora Bardea, Chief Executive Officer;
2. Ariel Chetrit, Chief Financial Officer;
3. Shahar Florence, EVP Growth and Innovation;
4. Mike Avner, EVP, CLO, Company Secretary;
5. Hila Mukevisius, 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, 2018 (hereinafter: the "Latest Annual Report on Internal Control"), the Board of Directors and Management evaluated internal control in the Corporation; Based on this estimate, the Board of Directors and Management of the corporation reached the conclusion that internal control as at December 31, 2018 is effective.

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

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

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

Managers' Statement

Statement of the Chief Executive Officer

I, Giora Bardea, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the second quarter of 2019 (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, 2018) and the date of the Reports, which could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

August 12, 2019

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Giora Bardea, Chief Executive Officer

<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, Ariel Chetrit, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the second quarter of 2019 (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, 2018) and the date of the Reports that refers to the Interim Financial Statements and to any other financial information included in the Interim Report, which I estimate could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

August 12, 2019

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Ariel Chetrit, Chief Financial Officer

STRAUSS GROUP LTD.

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

Três Corações Alimentos S.A.

Condensed consolidated interim financial statements as of and for the three and six month periods ended 30 June 2019 and 2018 and independent auditors’ limited review report on condensed consolidated interim financial statements

Contents

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Independent auditors' report on review of condensed consolidated interim financial statements

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

Introduction
We have reviewed the accompanying 30 June 2019 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 June 2019;
- the condensed consolidated statement of income and other comprehensive income for the three and six month periods ended 30 June 2019;
- the condensed consolidated statement of changes in equity for the three and six month periods ended 30 June 2019;
- the condensed consolidated statement of cash flows for the three and six month periods ended 30 June 2019 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 June 2019 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, 02 August 2019

KPMG Auditores Independentes
CRC SP-014428/O-6 S-CE

Eliardo Araújo Lopes Vieira
Contador CRC SP-241582/O-1 T-CE

Três Corações Alimentos S.A.

Condensed consolidated interim statements of financial position as of 30 June 2019 and 31 December 2018

(In thousand of Brazilian Reais)

Assets	30 June 2019	31 December 2018
Current		
Cash and cash equivalents	157,655	221,467
Deposits	2,923	3,678
Trade receivables	565,402	397,223
Inventories	407,886	450,147
Recoverable taxes	40,520	52,356
Income tax receivable	4,267	5,162
Other current assets	24,875	23,919
	1,203,528	1,153,952
Non-current		
Judicial deposits	9,264	8,068
Loans to related parties	15,126	22,203
Recoverable taxes	67,699	33,429
Other non-current assets	13,230	5,257
Deferred tax assets	1,225	7,126
Investments	9,458	6,815
Fixed assets	502,617	407,985
Intangible assets	298,731	300,592
Right-of-use assets	70,322	-
	987,672	791,475
Total assets	2,191,200	1,945,427

Liabilities and equity	30 June 2019	31 December 2018
Current		
Short term loans	410,534	275,446
Trade payables	276,975	278,367
Short term lease liabilities	17,172	-
Income tax payables	8,434	1,180
Employees and other payroll related liabilities	63,212	55,767
Proposed dividends	59,782	59,782
Interest on equity payable	85,248	54,668
Payable taxes	22,906	22,318
Other current liabilities	27,418	34,410
	971,681	781,938
Non-current		
Long term loans	42,735	144,711
Long term lease liabilities	63,988	-
Other non-current liabilities	12,695	4,366
Deferred tax liabilities	6,735	9,130
Provision for legal proceedings	16,822	16,317
	142,975	174,524
Equity		
Share capital	275,531	274,546
Translation reserve	(111,318)	(101,867)
Retained earnings	912,331	816,286
	1,076,544	988,965
Total liabilities and equity	2,191,200	1,945,427

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

Três Corações Alimentos S.A.

Condensed consolidated interim satements of income

Six and three month periods ended 30 June 2019 and 2018

(In thousand of Brazilian Reais)

	Six month periods ended 30 June		Three month periods ended 30 June	
	2019	**2018**	**2019**	**2018**
Revenue	1,879,207	1,894,777	1,029,382	1,010,127
Cost of sales	(1,312,354)	(1,325,875)	(706,431)	(694,848)
Gross profit	566,853	568,902	322,951	315,279
Selling and marketing expenses	(333,899)	(315,416)	(182,851)	(171,027)
General and administrative expenses	(66,209)	(59,966)	(36,268)	(34,156)
Equity method	1,200	352	971	308
Other income (expenses), net	1,317	217	246	231
Operating profit	169,262	194,089	105,049	110,635
Financial income	5,072	7,102	2,872	2,911
Financial expenses	(14,816)	(11,974)	(8,729)	(6,275)
Profit before income tax	159,518	189,217	99,192	107,271
Income tax expenses	(21,586)	(33,790)	(15,263)	(19,035)
Profit for the period	137,932	155,427	83,929	88,236

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

Três Corações Alimentos S.A.

Condensed consolidated interim statements of comprehensive income

Six and three month periods ended 30 June 2019 and 2018

(In thousand of Brazilian Reais)

	Six month periods ended 30 June		Three month periods ended 30 June	
	2019	**2018**	**2019**	**2018**
Profit for the period	137,932	155,427	83,929	88,236
Other comprehensive income (loss) items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences	(9,451)	(3,590)	(3,889)	(2,131)
Comprehensive income for the period	128,481	151,837	80,040	86,105

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

Três Corações Alimentos S.A.

Condensed consolidated interim statements of changes in equity

Three month periods ended 30 June 2019 and 2018

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments	Accumulated profit	Total
Balance as of 31 March, 2018	273,442	54,688	260,795	381,584	(93,376)	-	877,133
Profit for the period	-	-	-	-	-	88,236	88,236
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	(2,131)	-	(2,131)
Total other comprehensive gain:	-	-	-	-	(2,131)	88,236	86,105
Internal equity changes							
Profit destination							
State VAT and Federal tax incentives	-	-	13,635	-	-	(13,635)	-
Interest on equity credited	-	-	-	-	-	(21,000)	(21,000)
Reserve for profit to be distributed	-	-	-	53,601	-	(53,601)	-
	-	-	13,635	53,601	-	(88,236)	(21,000)
Balance as of 30 June, 2018	273,442	54,688	274,430	435,185	(95,507)	-	942,238
Balance as of 31 March, 2019	274,546	54,909	328,339	463,639	(107,429)	-	1,014,004
Profit for the period	-	-	-	-	-	83,929	83,929
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	(3,889)	-	(3,889)
Total other comprehensive gain:	-	-	-	-	(3,889)	83,929	80,040
Internal equity changes							
Capitalization of tax incentives	985	-	(985)	-	-	-	-
Profit destination							
State VAT and Federal tax incentives	-	-	15,987	-	-	(15,987)	-
Legal reserve	-	197	-	-	-	(197)	-
Interest on equity credited	-	-	-	-	-	(17,500)	(17,500)
Reserve for profit to be distributed	-	-	-	50,245	-	(50,245)	-
	985	197	15,002	50,245	-	(83,929)	(17,500)
Balance as of 30 June, 2019	275,531	55,106	343,341	513,884	(111,318)	-	1,076,544

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

Três Corações Alimentos S.A.

Condensed consolidated interim statements of changes in equity

Six month periods ended 30 June 2019 and 2018

(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, 2017	273,442	54,688	248,180	334,399	(91,917)	-	818,792
Effect of new standards							
Adjustment from adoption of IFRS 9 (net of tax)	-	-	-	488	-	-	488
Adjustment from adoption of IFRS 15 (net of tax)	-	-	-	121	-	-	121
Total effect of new standards as of 1 January, 2018	-	-	-	609	-	-	609
Profit for the period	-	-	-	-	-	155,427	155,427
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	(3,590)	-	(3,590)
Total other comprehensive gain:	-	-	-	609	(3,590)	155,427	152,446
Internal equity changes							
Profit destination							
State VAT and Federal tax incentives	-	-	26,250	-	-	(26,250)	-
Interest on equity credited	-	-	-	-	-	(29,000)	(29,000)
Reserve for profit to be distributed	-	-	-	100,177	-	(100,177)	-
	-	-	26,250	100,177	-	(155,427)	(29,000)
Balance as of 30 June, 2018	273,442	54,688	274,430	435,185	(95,507)	-	942,238
Balance as of 31 December, 2018	274,546	54,909	313,513	447,864	(101,867)	-	988,965
Effect of new standards							
Adjustment from adoption of IFRS 16 (net of tax)	-	-	-	(7,842)	-	-	(7,842)
Total effect of new standards as of 1 January, 2019	-	-	-	(7,842)	-	-	(7,842)
Profit for the period	-	-	-	-	-	137,932	137,932
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	(9,451)	-	(9,451)
Total other comprehensive gain:	-	-	-	-	(9,451)	137,932	128,481
Internal equity changes							
Capitalization of tax incentives	985	-	(985)	-	-	-	-
Profit destination							
State VAT and Federal tax incentives	-	-	30,813	-	-	(30,813)	-
Legal reserve	-	197	-	-	-	(197)	-
Interest on equity credited	-	-	-	-	-	(33,060)	(33,060)
Reserve for profit to be distributed	-	-	-	73,862	-	(73,862)	-
	985	197	29,828	73,862	-	(137,932)	(33,060)
Balance as of 30 June, 2019	275,531	55,106	343,341	513,884	(111,318)	-	1,076,544

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

Três Corações Alimentos S.A.

Condensed consolidated interim statements of cash flow

Six and three month periods ended 30 June 2019 and 2018

(In thousand of Brazilian Reais)

	Six month periods ended 30 June		Three month periods ended 30 June	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
Profit for the period	137,932	155,427	83,929	88,236
Adjustments for:				
Depreciation and amortization	34,922	18,430	17,898	9,348
Gains in tax lawsuits	(38,337)	(5,535)	(28,889)	-
Provision for legal proceedings	505	(796)	1,218	(193)
Other income, net	(1,317)	(217)	(246)	(231)
Equity method	(1,200)	(352)	(971)	(308)
Finance expenses, net	9,744	4,872	5,857	3,364
Income tax expenses	21,586	33,790	15,263	19,035
Change in:				
Trade receivables	(168,084)	(85,020)	(72,915)	(60,082)
Inventories	6,998	(77,152)	2,024	(75,854)
Recoverable and payable taxes, net	9,569	(9,942)	(7,281)	(6,960)
Judicial deposits	(1,196)	393	(595)	(452)
Trade payables	(1,392)	37,337	48,921	61,303
Employees and other payroll related liabilities	7,445	10,718	11,243	8,881
Other current and non-current assets and liabilities	(5,741)	(1,855)	(1,760)	(659)
Change provided by operating activities	11,434	80,098	73,696	45,428
Interest paid	(12,982)	(20,226)	(9,614)	(13,820)
Interest received	5,770	7,102	3,947	2,911
Income tax paid	(234)	(6,838)	(20)	(6,572)
Net cash flows provided by operating activities	3,988	60,136	68,009	27,947
Cash flows from investing activities				
Change in deposits	725	(2,924)	(477)	(3,885)
Payment for acquisition of operations	(6,233)	(16,325)	(1,348)	(16,111)
Proceeds from sales of fixed assets	3,059	1,565	1,689	1,116
Acquisition of fixed assets	(85,631)	(58,386)	(59,974)	(22,117)
Investments in intangible assets	(2,985)	(4,322)	(1,480)	(2,551)
Long term loans to related parties	6,325	731	6,325	731
Net cash flows used in investing activities	(84,740)	(79,661)	(55,265)	(42,817)
Cash flows from financing activities				
Proceeds from loans	297,432	289,597	269,094	208,914
Repayment of loans	(272,047)	(183,161)	(208,828)	(110,119)
Payment of lease liabilities	(8,445)	-	(4,060)	-
Net cash flows provided by financing activities	16,940	106,436	56,206	98,795
Net increase (decrease) in cash and cash equivalents	(63,812)	86,911	68,950	83,925
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents as of beginning of period	221,467	113,110	88,705	116,096
Cash and cash equivalents as of end of period	157,655	200,021	157,655	200,021
	(63,812)	86,911	68,950	83,925

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

Notes to the condensed consolidated interim financial statements

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

1 Reporting entity

Três Corações Alimentos S.A. (the "Company") together with its controlled entities (the "Group") are an industrial and commercial group of companies, which operate in Brazil, in producing and selling branded coffee products, multi-beverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports, lending Away-From-Home machines, operation of cafeterias and investing in other companies, mainly related to specialty coffees.

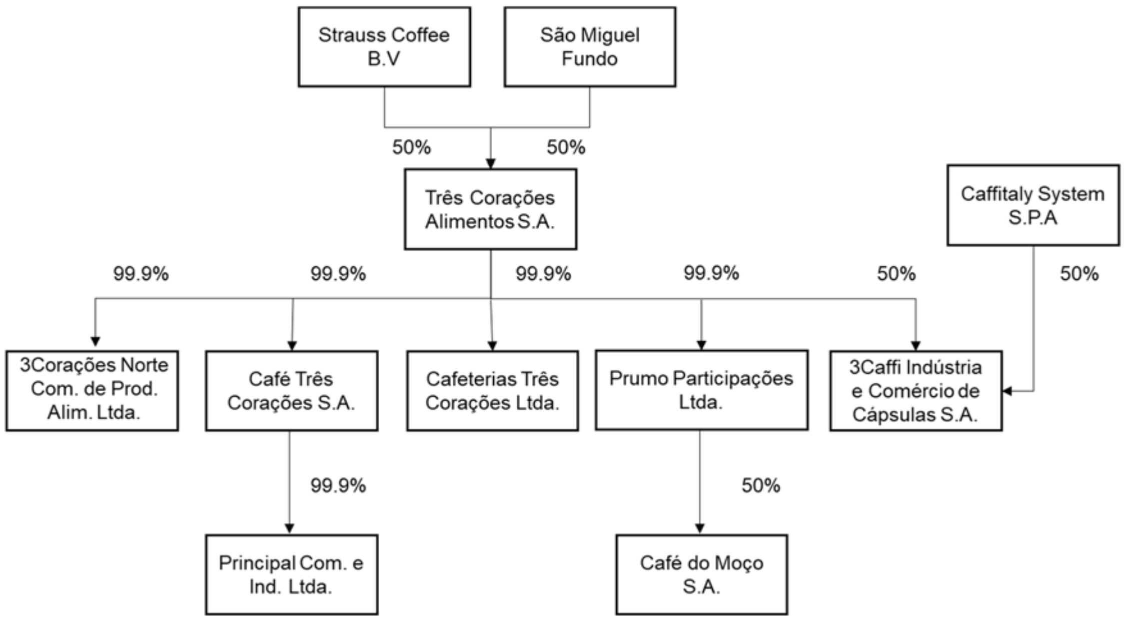
The Company controls the entities Cafeterias Três Corações Ltda., Prumo Participações Ltda., which controls the entity Café do Moço S.A. (see Note 3.2), 3Corações Norte Comércio de Produtos Alimentícios Ltda., and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company is a 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"), which is not consolidated in this report, as the Company 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 (information not reviewed by independent auditors), 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, Realmil, Toko, Astoria, Manaus, Tapajós, Betânia, Tribo and the brands Bar Barista and Café do Moço, belonging to the most recent controlled company Café do Moço. The Apollo brand is used as a result of a License agreement, with purchase option.

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais, Rio de Janeiro and Amazonas 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 these financial statements, since it is not part of the Group structure presented below. Três Corações Imóveis Armazéns Gerais e Serviços Ltda. is owned by São Miguel Holding e Investimentos S.A. (50%) and Strauss Coffee B.V. (50%). The Group also owns cafeterias that are located in the cities of Fortaleza, Natal and most recently in Curitiba, after the acquisition of Café do Moço S.A. Café do Moço also operates roasting and selling coffee in e-commerce and to other companies.

As of 30 June 2019, the Group had the following structure:



2 Basis of preparation

2.1 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 Group as of 31 December 2018 and for the year then ended, together with its accompanying notes (hereinafter - the "Annual Consolidated Financial Statements").

These condensed consolidated interim financial statements were authorized for issue by the Group's Management as of August 02, 2019.

2.2 Changes in significant accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not adopted early any other standards, interpretations or amendments that have been issued but are not yet effective.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group applies in 2019 for the first time, IFRS 16 - Leases.

The nature and effect of these changes are disclosed below.

IFRS 16 - Leases

IFRS 16 supersedes IAS 17 - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 - Operating Leases-Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adopting IFRS 16 as at 1 January 2019 (increase/decrease) is as follows:

	1 January 2019
Assets	
Non-current assets:	
Right of use asset	77,257
Deferred tax asset	1,160
Total Assets	**78,417**
Liabilities and equity	
Current liabilities:	
Lease liability	18,324
Non-current liabilities:	
Lease liability	69,528
Deferred tax liability	(1,592)
Equity:	
Retained earnings	(7,843)
Total Liabilities and equity	**78,417**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 7.44%.

a. *Significant new accounting policies*

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or as appropriate, change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that controls the renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

b. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group has balance of R$ 70,322 of right-of-use assets and R$ 81,160 of lease liabilities as at 30 June 2019.

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognized R$ 8,689 (R$ 4,202 for three months ended 30 June 2019) of depreciation charges, R$ 2,933 (R$ 1,474 for three months ended 30 June 2019) of interest for these leases and R$ 1,752 of new lease agreements. The payments of the lease liabilities were R$ 8,445.

3 Material events during the reported period

3.1 Manaus Coffee final purchase price allocation

On March 31st, 2019, Management received the purchase price allocation of Manaus Coffee acquisition performed by Ernst & Young Assessoria Empresarial Ltda. The impact of this independent valuation has been recognized and is presented below:

	Before independent valuation	**Adjustment**	**After independent valuation**
Acquisition cost			
Consideration transferred, paid or to be paid	22,138	-	22,138
Identifiable assets			
Tax credit	5,130	-	5,130
Machinery and equipment	1,936	(90)	1,846
Brands and trademarks	484	3,516	4,000
List of customers	1,506	2,394	3,900
Total identifiable assets	9,056	5,820	14,876
Goodwill	13,082	(5,820)	7,262

3.2 Café do Moço Acquisition

As of 11 August 2018 Prumo Participações Ltda. was created with the purpose to invest in other entities, mainly related to specialty coffees.

As of 16 January 2019 Prumo Participações acquired 50% participation in Café do Moço S.A. ("Café do Moço"). Café do Moço operates in Curitiba, State of Paraná, preparing and selling specialty coffees, as well as food and beverages, in coffee shops and e-commerce. Café do Moço also operates roasting and selling coffee to other companies. The total investment for the six month period ended 30 June 2019 was R$ 1,534 (R$ 499 for three months ended 30 June 2019). The remaining 50% participation in Café do Moço belongs to Moço Bento Participações Societárias Ltda.

This acquisition is part of the Group's strategy of participating in the segment of specialty coffees, including higher value-added products in its portfolio.

Management understands that carrying amounts of the assets acquired approximate their fair values. The total proceeds paid for the acquisition were R$ 868. After the acquisition, the Group increased its investment by the amount of R$ 666. Despite the additional investment in Café do Moço by the Group, Prumos's agreed participation remained 50%. The Group did not identify any contingent liability in the transaction.

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

Although the Group owns 50% of Café do Moço, Management concluded that the Group controls this entity, once Prumo has the deciding vote in case of a deadlock or disagreement.

The expenses related to the transaction are mainly represented by attorneys and auditors fees and were included in the consolidated statement of income as part of the administrative expenses.

3.3 Non-inclusion of State VAT (ICMS) in the basis of calculation of Federal VAT (PIS and COFINS)

In March 2017, in a judgment with general repercussion effects (Extraordinary Appeal No. 574.706/PR), which means that the decision will serve as a precedent for other legal proceedings involving the same tax issue, the Federal Supreme Court ruled that the State VAT paid does not comprise the taxpayer's equity and should not therefore be included in the calculation basis of the Federal VAT taxes (PIS and COFINS).

As of 6 February 2019 the Federal Regional Court of Fifth Region, judged definitively and favorably to Três Corações Alimentos S.A. the process nº 0013304-93.2007.4.05.8100, which had requested the non-inclusion of State VAT in the basis of calculation of Federal VAT for the period from 2002 to 2018. Accordingly, the Group has recognized as of 30 June 2019.the amount of R$ 51,843 (R$ 13,506 as of 31 December 2018) of "Recoverable taxes" in non-current assets.

After receiving the final decision, the Group started the calculations of the tax credits and adopted the method established in the judicial decision, which considers the amount of State VAT mentioned in the sales invoices, following the practice adopted by other companies in Brazil. The calculations are still being performed and this process is expected to be concluded by September 2019.

While the Group claim in this case has now been fully confirmed by the courts, the actual receipt of the benefit via tax compensation is still subject to lengthy administrative proceedings of the Brazilian Federal Revenues. The compensation process is also expected to begin in September 2019.

The Group also has additional claims related to other Group companies, such as Café Três Corações S.A. and Principal Comércio e Indústria de Café Ltda,, which have not yet been judged definitively.

4 Net debt

	30 June 2019	**31 December 2018**
Short term loans	410,534	275,446
Long term loans	42,735	144,711
Cash and cash equivalents	(157,655)	(221,467)
Net debt	295,614	198,690

In April and May 2019 the Group entered into new loan agreements with Itaú Bank and Santander Bank in the total amount of R$ 200,000, with cost of debt of 102,85% and 99% of the Brazilian Interbank Deposit CDI rate respectively, with a 1 year payment term.

This amount was used to repay maturing loans and the excess was applied to bank deposits.

The Administration considers the apparent variation between long and short term financing as only temporary, caused by maturity of certain existing loans. The situation will be corrected by early 2020, with entry of 10-year financing of the new Eusébio headquarters and other long term loans under negotiation.

Below is presented the cash flow use for the six month periods ended 30 June 2019:

- Cash flows provided by operating activities, in the amount of R$ 3,988;
- Cash flows used in investing activities, in the amount of R$ (84,740);
- Cash flows provided by financing activities, in the amount of R$ 16,940.

For further information, see the statements of cash flows.

5 Contingent liabilities

5.1 Federal Industrialized Goods Tax (IPI) for Powder Juice for the period from January 2011 to March 2014

On 17 April 2019, the Group obtained favorable outcome in the Board of Tax Appeals (CARF), first administrative instance, on the IPI treatment applied for powder juice process in the period from January 2011 to March 2014.

Tax authorities claimed, that the tax treatment applied, in respect to federal IPI tax - due on powder juice was incorrect. According to the Group's understanding of the regulation, powder juice is a product classified as entitled to zero IPI tax, which is the rate the Group continues applying. According to the tax authorities, the Group should have used tax rates of 27% for the period from January 2011 to December 2011, 20% for the period from January 2012 to May 2012 and 10% since June 2012. The total updated (unrecorded) claim, as of 30 June 2019 is R$ 66,237 (R$ 62,578 as of 31 December 2018). The Group and its tax advisors are of the opinion that there is no need to record any liability. The remaining increase is due to interest incurred.

There is another process related to the same case, for the period from April to December 2014, in which the Group also obtained favorable outcome (see Note 9.1).

The Government may still contest the current outcome of both of these processes at higher administrative and judicial instances.

6 Financial instruments

6.1 Fair value of financial instruments

The carrying amounts of 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 June 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Short term loans	410,534	366,228	275,446	262,072
Long term loans	42,735	37,033	144,711	126,104

The fair value is based on the contractual cash flow, discounted at 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.

7 Fair value hierarchy

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

- **Level 1:** quoted prices in an active market for identical assets and liabilities;

- **Level 2:** values determined by other techniques, for which all of the data, having a significant effect on the recorded fair value, are observable, directly or indirectly;

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

(i) Quoted market prices or dealer quotes for similar instruments;

(ii) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

(iii) Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

- **Level 3:** inputs for valuing a financial instrument that are not based on observable market data (that is, unobservable inputs). As of 30 June 2019 and 31 December 2018, the Group had no financial instruments classified at Level 3.

8 Revenue

8.1 Disaggregated revenue information

	R$		
	Products	**Service**	**30 June 2019**
Geographical markets			
Domestic	1,779,601	87	1,779,688
Foreign	99,519	-	99,519
	1,879,120	87	1,879,207

	R$		
	Products	**Service**	**30 June 2018**
Geographical markets			
Domestic	1,791,843	110	1,791,953
Foreign	102,824	-	102,824
	1,894,667	110	1,894,777

8.2 Revenue reconciliation

	R$			
	Six month periods ended June 30		Three month periods ended June 30	
	2019	2018	2019	2018
Gross revenue:				
Products – domestic	2,228,117	2,201,653	1,204,440	1,180,723
Products – foreign	99,519	102,823	57,414	53,358
Services	103	122	49	63
Other	106	109	50	(1,104)
Taxes on sales	(180,169)	(217,042)	(85,691)	(118,540)
State VAT incentives	43,850	44,962	23,884	23,519
Discounts	(230,487)	(172,738)	(125,386)	(93,322)
Other deductions	(81,832)	(65,112)	(45,378)	(34,570)
	1,879,207	1,894,777	1,029,382	1,010,127

9 Subsequent events

9.1 Federal Industrialized Goods Tax (IPI) for Powder Juice for the period from April 2014 to December 2014

On July 15, 2019 the Group obtained another favorable outcome in the Board of Tax Appeals (CARF), the first administrative instance, on the IPI treatment applied to powder juice process in the period from April 2014 to December 2014. As mentioned in Note 3.3, the Group's understanding of the regulation is that powder juice is a product classified as entitled to zero IPI tax, but the tax authorities do not agree. The favorable outcome confirmed the understanding of the Group and of its tax advisors, that there is no need to record any liability.

9.2 Dividends paid

On May 27, 2019, the profit destination related to 2018 was approved by the General Shareholders' Meeting in the amount of R$ 118,882. The amount of R$ 118,882 includes R$ 59,782 to be paid as dividends, with the remaining R$ 59,100 to be paid as interest on equity (on the amount of interest on equity credited to the foreign shareholders, there is withholding income tax of R$ 4,432). The dividends in the amount of R$59,782 were fully paid on July 23, 2019.

* * *

Pedro Alcântara Rêgo de Lima
Chief Executive Officer

Danisio Costa Lima Barbosa
Chief Financial Officer

Adenise Evangelista de Melo
Accountant