STRAUSS GROUP LTD.
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Strauss

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 nine months ended September 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 September 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 September 30, 2019.

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

   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).

   On August 13, 2019 Ms. Dorit Salinger and Ms. Dalia Lev took office as external directors of the Company in accordance with the approval of the meeting of shareholders, as described in Regulation 29 in the Additional Information Report below.

5. **Regulation 29 in the Additional Information Report**

   On August 13, 2019 the Special General Meeting of Shareholders of the Company approved 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 August 25, 2019 (reference no. 2019-01-073125).

   On September 26, 2019 the Special Annual General Meeting of Shareholders of the Company approved the Company's revised remuneration policy, the extension of the terms of office and employment of the Chairperson of the Board of Directors of the Company, Ms. Ofra Strauss, who is the controlling shareholder of the Company together with her father, Mr. Michael Strauss ((indirectly) through their holdings in Strauss Holdings Ltd. and through a direct holding of the Company's shares by Mr. Michael Strauss), and the extension of the letter of undertaking of indemnification to Mr. Adi Strauss, a director of the Company and a relative of the controlling shareholder, for a further three years. For further information, see the Immediate Report of September 26, 2019 (reference no. 2019-01-099991).

Date: November 19, 2019

Names and titles of signatories:

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Chief Executive Officer

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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 SEPTEMBER 30,
2019

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED SEPTEMBER 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 third 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 third quarter of 2019 the Group held an 11.7% share of the total domestic food and beverage market (in value terms[1]) compared to 11.4% in the corresponding period last year, 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 nine months and third 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 fourth quarter of 2019 the price of raw milk (the "target price") was revised downward by approximately 0.1% for the months of October to December 2019 and by approximately 2.6% 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[1] 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 nine months and third quarter of 2019 the average prices of Brent oil were approximately 11% and 18% 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 15%. 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 nine months and third quarter of 2019. In terms of change in exchange rates in the first nine months and third 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 nine months and third quarter, the average exchange rates of most of the 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 nine months and third quarter of 2019 compared to the corresponding periods last year:

Currency		Average Exchange Rate in the First Nine Months		% Change	Average Exchange Rate in the Third Quarter		% Change
		2019	2018		2019	2018	
United States Dollar	USD	3.589	3.558	*0.9%*	3.525	3.635	*(3.0%)*
Euro	EUR	4.033	4.250	*(5.1%)*	3.920	4.226	*(7.2%)*
Ukrainian Hryvnia	UAH	0.136	0.132	*3.1%*	0.140	0.133	*5.0%*
Russian Ruble	RUB	0.055	0.058	*(5.1%)*	0.055	0.056	*(1.7%)*
Serbian Dinar	RSD	0.034	0.036	*(4.9%)*	0.033	0.036	*(6.9%)*
Romanian Leu	RON	0.851	0.913	*(6.8%)*	0.829	0.909	*(8.8%)*
Polish Zloty	PLN	0.938	1.000	*(6.2%)*	0.908	0.982	*(7.5%)*
Brazilian Real	BRL	0.925	0.995	*(7.1%)*	0.890	0.923	*(3.6%)*
Chinese Renminbi	CNY	0.523	0.547	*(4.3%)*	0.503	0.534	*(5.9%)*
Canadian Dollar	CAD	2.700	2.764	*(2.3%)*	2.671	2.779	*(3.9%)*
Australian Dollar	AUD	2.510	2.695	*(6.9%)*	2.417	2.657	*(9.0%)*
Mexican Peso	MXN	0.186	0.187	*(0.3%)*	0.181	0.192	*(5.3%)*
Pound Sterling	GBP	4.570	4.808	*(5.0%)*	4.347	4.734	*(8.2%)*

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

Currency		Average Exchange Rate in the First Nine Months		% Change	Average Exchange Rate in the Third Quarter		% Change
		2019	2018		2019	2018	
New Israeli Shekel	ILS	0.279	0.281	*(0.9%)*	0.284	0.275	*3.1%*
Ukrainian Hryvnia	UAH	0.038	0.037	*2.3%*	0.040	0.037	*8.3%*
Russian Ruble	RUB	0.015	0.016	*(6.0%)*	0.015	0.015	*1.4%*
Serbian Dinar	RSD	0.010	0.010	*(5.7%)*	0.009	0.010	*(4.0%)*
Romanian Leu	RON	0.237	0.257	*(7.6%)*	0.235	0.250	*(6.0%)*
Polish Zloty	PLN	0.261	0.281	*(7.1%)*	0.258	0.270	*(4.7%)*
Brazilian Real	BRL	0.258	0.280	*(8.0%)*	0.252	0.254	*(0.6%)*
Chinese Renminbi	CNY	0.146	0.154	*(5.2%)*	0.143	0.147	*(3.0%)*
Pound Sterling	GBP	1.273	1.352	*(5.8%)*	1.233	1.302	*(5.3%)*

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 account 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. In the Company's estimate, as at the date of this report, no material impact on the Company's business results is expected when the Regulations enter into effect.

In July 2019 the Ministry of Health published draft recommendations for marking food products with a green symbol for public comment. In the context of this undertaking, 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 definitive criteria that are to be determined. In the Company's estimate, as at the date of this report, no material impact on the Company's business results is expected following the publication of the final recommendations.

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 generally accepted accounting principles, in the financial statements of the Company, the statement of income and the statements pertaining to financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses jointly controlled by the companies in the Group and other partners are presented 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 Group's non-GAAP reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies, the Group presents the activity segments by presenting the Group's relative holding in the income and expenses of the jointly controlled companies (50%), as well as other adjustments described below (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.

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 nine months ended September 30, 2019 and 2018 (in NIS millions)*:

	First Nine Months			Explanation
	2019	**2018**	**% Chg**	
Sales	**6,422**	**6,428**	**(0.1%)**	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. In most activity segments an increase in quantities sold was registered: in Strauss Israel following innovation, new launches and the sales mix, in the International Dips & Spreads segment following the adjustment of hummus and guacamole prices in North America, 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	2.6%	5.6%		
Cost of sales	3,868	3,970	(2.6%)	Most of the increase in the gross profit margin is the result of an increase in quantities sold, 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	**2,554**	**2,458**	**3.9%**	
% of sales	39.8%	38.2%		
Selling and marketing expenses	1,426	1,403	1.6%	There was no substantial change in the percentage of selling and marketing expenses in relation to total sales.
General and administrative expenses	398	373	6.8%	The increase is primarily due to non-recurring expenses.
Total operating expenses	**1,824**	**1,776**		
Company's share of profit of equity-accounted investees	22	14	55.6%	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 gains were recognized on the disposal of equity-accounted investees active in Strauss's incubator.
Operating profit – non-GAAP	**752**	**696**	**8.1%**	The change in the operating profit margin is primarily due, among other things, to an increase in quantities sold and an improvement in gross profit margins in the International Dips & Spreads segment, Strauss Coffee and Strauss Israel, as well as 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	11.7%	10.8%		
Financing expenses, net	(107)	(73)	47.3%	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 the Dollar, Euro and Pound Sterling against the Shekel in the first nine months 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	**645**	**623**	**3.5%**	
Income tax	(158)	(180)	(12.7%)	The decrease in the effective tax rate in the first nine months 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	24.4%	29.0%		
Income for the period – non-GAAP	**487**	**443**	**10.1%**	The change is primarily due to the 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	**446**	**402**	**11.1%**	
% of sales	6.9%	6.2%		
Attributable to non-controlling interests	41	41	0.5%	
EPS (NIS)	3.86	3.50	10.5%	

* 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 September 30, 2019 and 2018 (in NIS millions)*:

	Third Quarter			Explanation
	2019	**2018**	**% Chg**	
Sales	**2,243**	**2,158**	**4.0%**	Sales growth is primarily due to an increase in quantities sold in Strauss Israel following innovation, new launches and the sales mix as well as the timing of Rosh Hashanah and the Jewish holidays, Strauss Water as a result of growth in the customer base, and Strauss Coffee, mainly as a result of the timing of the Jewish holidays, which were partially offset by 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, alongside growth in quantities sold and in market share in Brazil. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effects	6.1%	2.9%		
Cost of sales	1,356	1,346	0.7%	Most of the increase in the gross profit margin is the result of an increase in quantities sold in most activity segments, 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	**887**	**812**	**9.3%**	
% of sales	39.6%	37.6%		
Selling and marketing expenses	505	468	7.9%	There was no substantial change in the percentage of selling and marketing expenses in relation to total sales.
General and administrative expenses	133	114	16.5%	The increase is primarily due to non-recurring expenses in the period, compared to the corresponding period last year.
Total operating expenses	**638**	**582**		
Company's share of profit of equity-accounted investees	7	5	38.7%	Most of the increase is the result of growth in the profit of Haier Strauss Water (HSW). For further information, see section 3.2.4.
Operating profit – non-GAAP	**256**	**235**	**9.4%**	The change in the operating profit margin is primarily due to Strauss Coffee, Strauss Israel as a result of 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	11.4%	10.9%		
Financing expenses, net	(36)	(30)	24.3%	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 the Euro, Dollar and Pound Sterling against the Shekel in the third quarter, 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	**220**	**205**	**7.3%**	
Income tax	(53)	(47)	11.5%	The increase in the effective tax rate in the third quarter of 2019 is the result of the profit mix for tax purposes between the companies in the various countries.
Effective tax rate	23.8%	22.9%		
Income for the period – non-GAAP	**167**	**158**	**6.0%**	The change is primarily due to the increase in operating profit, which was partially offset by the increase in financing expenses as well as higher tax expenses.
Attributable to the Company's shareholders	**153**	**144**	**6.5%**	
% of sales	6.8%	6.6%		
Attributable to non-controlling interests	14	14	1.2%	
EPS (NIS)	1.32	1.25	5.8%	

* 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 quarter and nine months ended September 30, 2019 and 2018 (in NIS millions)*:

	First Nine Months			**Third Quarter**		
	2019	**2018**	**% Chg**	**2019**	**2018**	**% Chg**
Israel						
Net sales	2,579	2,481	*4.0%*	899	837	*7.4%*
Operating profit	290	268	*8.0%*	98	90	*9.2%*
Coffee						
Net sales	2,793	2,932	*(4.8%)*	986	968	*1.8%*
Operating profit	338	337	*0.5%*	127	111	*15.2%*
International Dips & Spreads						
Net sales	583	573	*1.7%*	193	196	*(1.3%)*
Operating profit	62	41	*49.9%*	10	12	*(11.5%)*
Water						
Net sales	467	442	*5.8%*	165	157	*5.4%*
Operating profit	55	45	*23.9%*	20	18	*11.3%*
Other						
Net sales	-	-	*N/A*	-	-	*N/A*
Operating profit	7	5	*32.8%*	1	4	*87.5%*
Total						
Net sales	**6,422**	**6,428**	***(0.1%)***	**2,243**	**2,158**	***4.0%***
Operating profit	**752**	**696**	***8.1%***	**256**	**235**	***9.4%***

Following are the condensed financial accounting (GAAP) statements of income for the quarter and nine months ended September 30, 2019 and 2018 (in NIS millions)*:

	First Nine Months			**Third Quarter**		
	2019	**2018**	**% Chg**	**2019**	**2018**	**% Chg**
Sales	4,272	4,205	*1.6%*	1,504	1,411	*6.6%*
Cost of sales excluding impact of commodity hedges	2,512	2,520	*(0.3%)*	889	856	*3.9%*
Adjustments for commodity hedges**	3	-		3	13	
Cost of sales	2,515	2,520	*(0.2%)*	892	869	*2.6%*
Gross profit	**1,757**	**1,685**	***4.3%***	**612**	**542**	***13.0%***
% of sales	41.1%	40.1%		40.7%	38.4%	
Selling and marketing expenses	979	954	*2.7%*	343	314	*9.4%*
General and administrative expenses	297	284	*4.4%*	99	86	*14.9%*
Total expenses	**1,276**	**1,238**		**442**	**400**	
Share of profit of equity-accounted investees	218	200	*9.2%*	65	66	*(1.6%)*
Operating profit before other expenses	**699**	**647**	***8.0%***	**235**	**208**	***13.0%***
% of sales	16.4%	15.4%		15.6%	14.7%	
Other income (expenses), net	(3)	-		-	(2)	
Operating profit after other expenses	**696**	**647**	***7.5%***	**235**	**206**	***14.0%***
Financing expenses, net	(96)	(63)	*50.3%*	(31)	(25)	*21.0%*
Income before tax	**600**	**584**	***2.9%***	**204**	**181**	***13.0%***
Income tax	(131)	(151)	*(13.2%)*	(44)	(38)	*16.5%*
Effective tax rate	21.8%	25.9%		21.5%	20.8%	
Income for the period	**469**	**433**	***8.5%***	**160**	**143**	***12.0%***
Attributable to: The Company's shareholders	**428**	**392**	***9.3%***	**145**	**129**	***13.0%***
Non-controlling interests	41	41	*0.5%*	15	14	*3.6%*

* 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 September 30, 2019 and December 31, 2018 (in NIS millions)*:

	As at September 30, 2019	As at December 31, 2018	% Chg	Explanation
Total current assets	2,198	2,150	2.2%	The change is primarily the result of an increase in receivables balances, versus a reduction in cash balances and deposits.
Of which: Cash and cash equivalents balance	386	426	(9.4%)	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	4,346	4,093	6.2%	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	2,005	1,698	18.0%	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	2,283	2,299	(0.6%)	No material change.
Total equity attributable to the Company's shareholders	2,117	2,096	1.1%	The change is primarily the result of an increase in net income attributable to the majority shareholders, which was partially offset by a dividend paid in the period and by negative translation differences, mainly 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	139	150	(7.3%)	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 September 30, 2019 and December 31, 2018 (in NIS millions)*:

	As at September 30, 2019	As at December 31, 2018	Change	Explanations
Gross debt – Non-GAAP Reports	2,852	2,650	202	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	2,497	2,340	157	
Net debt – Non-GAAP Reports	2,275	1,964	311	
Net debt – Financial Statements	2,100	1,843	257	

* 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 the Non-GAAP Reports – change from the equity method in the GAAP Financial Statements to the proportionate consolidation method, before other adjustments to the Management (Non-GAAP) Reports (share-based payment, valuation of hedging transactions, other expenses and taxes referring to those adjustments) (according to the segmental information based on the Group's Management (Non-GAAP) internal reports):

	First Nine Months 2019			First Nine Months 2018			Third Quarter 2019			Third Quarter 2018		
	Financial State-ments	Change	Propor-tionate consoli-dation method	Financial State-ments	Change	Propor-tionate consoli-dation method	Financial State-ments	Change	Propor-tionate consoli-dation method	Financial State-ments	Change	Propor-tionate consoli-dation method
Sales	4,272	2,150	6,422	4,205	2,223	6,428	1,504	739	2,243	1,411	747	2,158
Cost of sales excluding impact of commodity hedges	2,512	1,356	3,868	2,520	1,450	3,970	889	467	1,356	856	490	1,346
Adjustments for commodity hedges	3	-	3	-	1	1	3	-	3	13	1	14
Cost of sales	2,515	1,356	3,871	2,520	1,451	3,971	892	467	1,359	869	491	1,360
Gross profit	**1,757**	**794**	**2,551**	**1,685**	**772**	**2,457**	**612**	**272**	**884**	**542**	**256**	**798**
% of sales	41.1%		39.7%	40.1%		38.2%	40.7%		39.4%	38.4%		37.0%
Selling and marketing expenses	979	447	1,426	954	449	1,403	343	162	505	314	154	468
General and administrative expenses	297	115	412	284	101	385	99	39	138	86	32	118
Company's share of profit of equity-accounted investees	218	(196)	22	200	(186)	14	65	(58)	7	66	(61)	5
Operating profit before other expenses	**699**	**36**	**735**	**647**	**36**	**683**	**235**	**13**	**248**	**208**	**9**	**217**
% of sales	16.4%		11.5%	15.4%		10.6%	15.6%		11.1%	14.7%		10.0%
Other income (expenses), net	(3)	1	(2)	-	4	4	-	-	-	(2)	3	1
Operating profit after other expenses	**696**	**37**	**733**	**647**	**40**	**687**	**235**	**13**	**248**	**206**	**12**	**218**
Financing expenses, net	(96)	(11)	(107)	(63)	(10)	(73)	(31)	(5)	(36)	(25)	(5)	(30)
Income before tax	**600**	**26**	**626**	**584**	**30**	**614**	**204**	**8**	**212**	**181**	**7**	**188**
Income tax	(131)	(26)	(157)	(151)	(30)	(181)	(44)	(8)	(52)	(38)	(7)	(45)
Effective tax rate	21.8%		25.1%	25.9%		29.5%	21.5%		24.5%	20.8%		24.1%
Income for the period	**469**	**-**	**469**	**433**	**-**	**433**	**160**	**-**	**160**	**143**	**-**	**143**
Attributable to: **The Company's shareholders**	**428**	**-**	**428**	**392**		**392**	**145**	**-**	**145**	**129**	**-**	**129**
Non-controlling interests	41	-	41	41	-	41	15	-	15	14	-	14

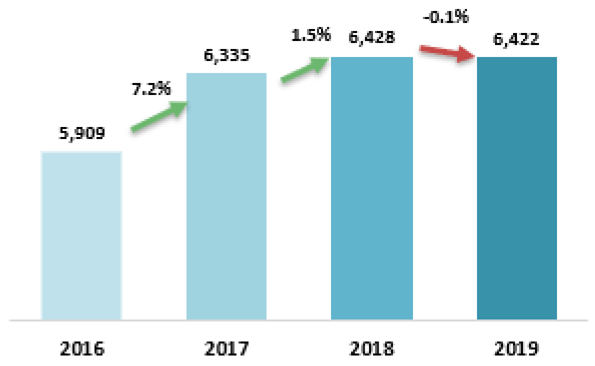
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

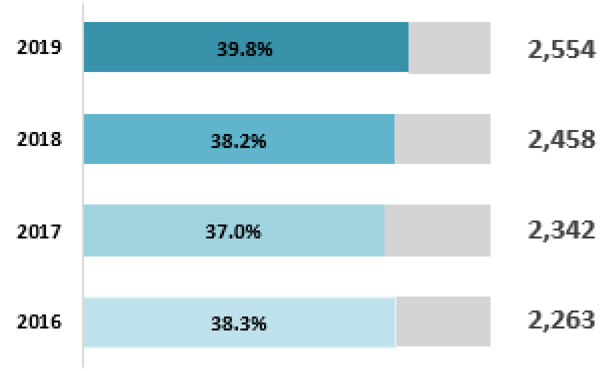
	First Nine Months			Third Quarter		
	2019	2018	% Chg	2019	2018	% Chg
Operating profit (according to proportionate consolidation method) after other expenses	**733**	**687**	***6.8%***	**248**	**218**	***14.2%***
Share-based payment	14	12		5	4	
Adjustments for commodity hedges	3	1		3	14	
Other expenses, net	2	(4)		-	(1)	
Operating profit – non-GAAP	**752**	**696**	***8.1%***	**256**	**235**	***9.4%***
Financing expenses, net	(107)	(73)		(36)	(30)	
Income tax	(157)	(181)		(52)	(45)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(1)	1		(1)	(2)	
Income for the period – non-GAAP	**487**	**443**	***10.1%***	**167**	**158**	***6.0%***
Attributable to: The Company's shareholders	**446**	**402**	***11.1%***	**153**	**144**	***6.5%***
Non-controlling interests	**41**	**41**	***0.5%***	**14**	**14**	***1.2%***

Key financial data for the nine months ended September 30 – non-GAAP (NIS millions)*:

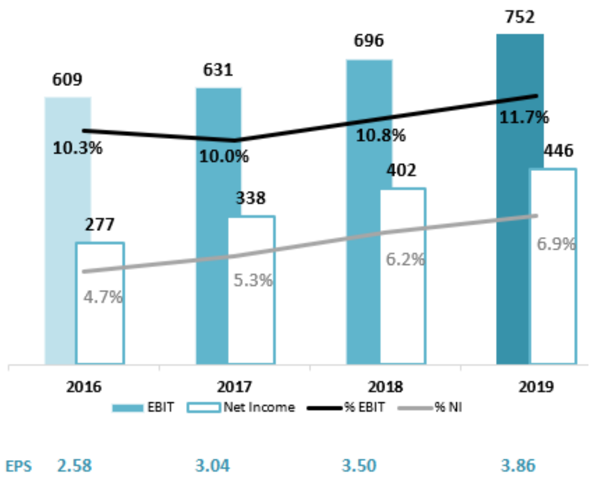
Net sales



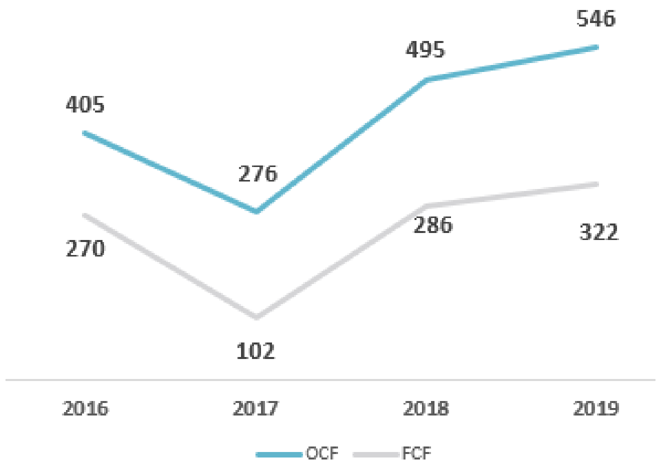
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow**



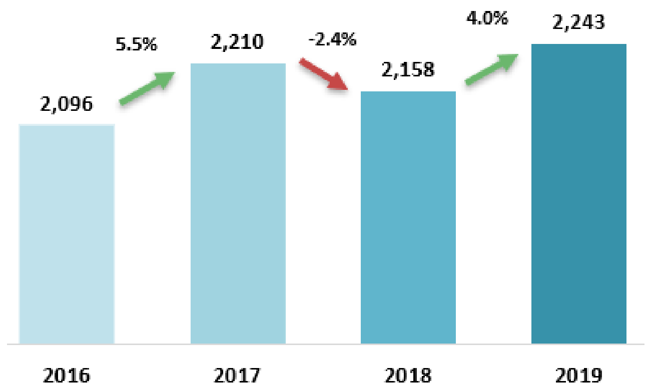
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

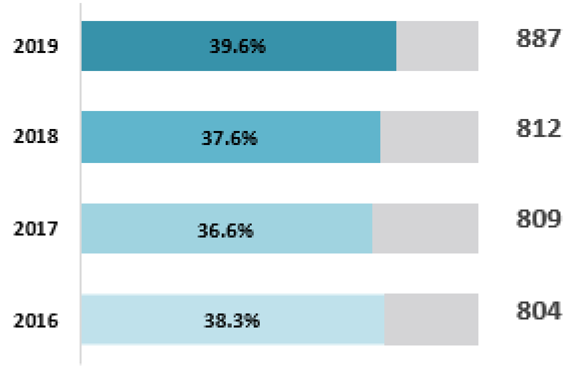
For the effects of first-time adoption of IFRS 16, *Leases*, see section 3.2.6 below.

Key financial data for the quarter ended September 30 – non-GAAP (NIS millions)*:

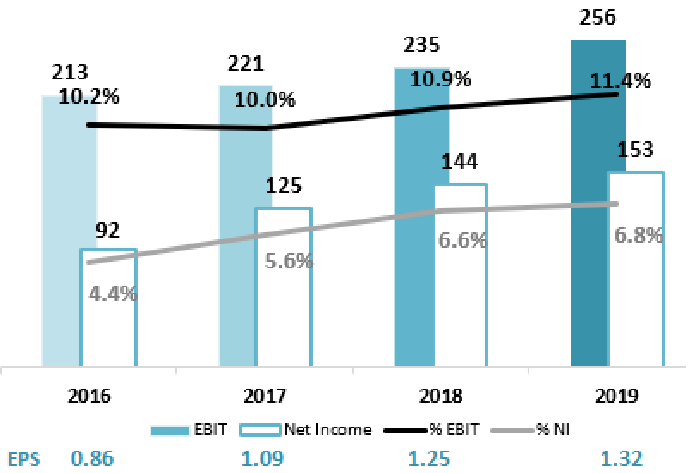
Net sales



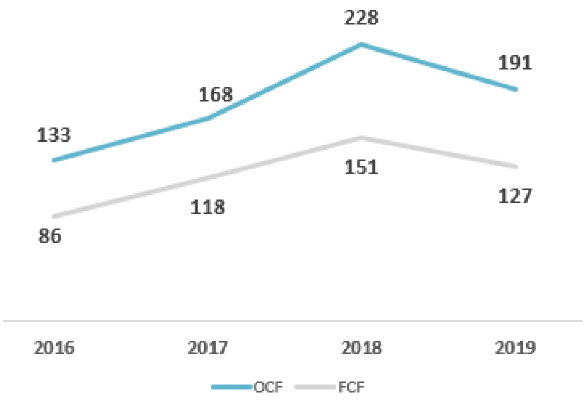
Gross profit and gross profit margin



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.

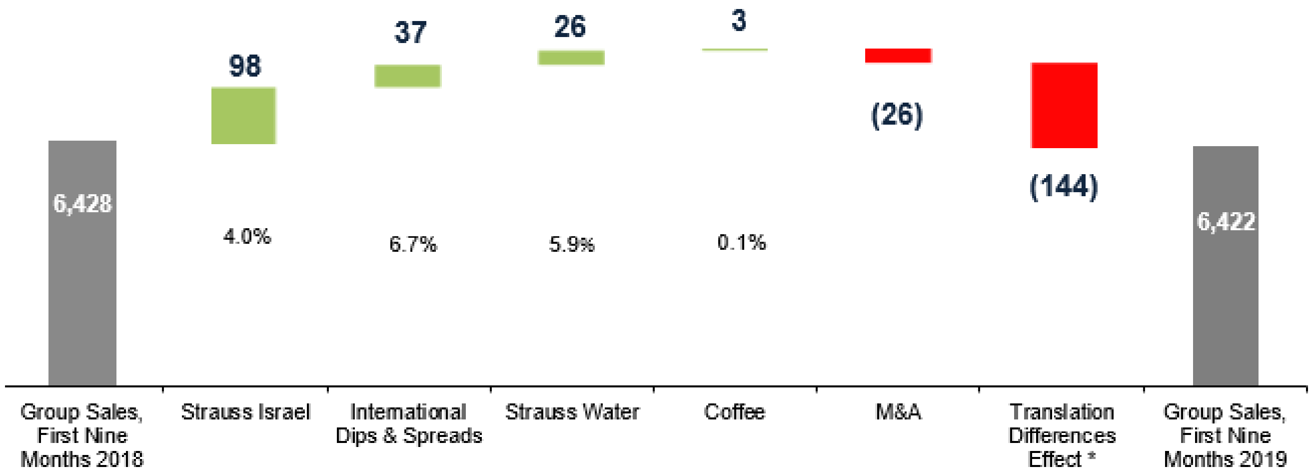
**Reclassified - for further information see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at September 30, 2019.

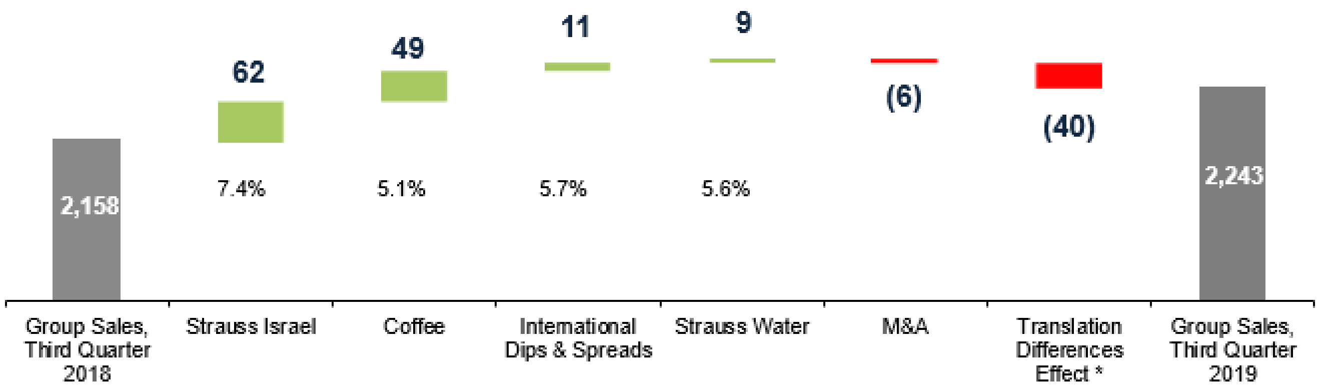
For the effects of first-time adoption of IFRS 16, *Leases*, see section 3.2.6 below.

3.1 Analysis of the Business Results of the Group

3.1.1 Sales – non-GAAP

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 segments in local currency, together with the overall impact of translation differences (the "translation differences effect") and inorganic growth (M&A):





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

The Group's sales in the first nine months of 2019 were impacted by negative translation differences amounting to approximately NIS 144 million, of which NIS 102 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 third quarter of the year were impacted by negative translation differences amounting to approximately NIS 40 million, of which NIS 18 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 **in local currency** was the result of the following factors:

- Inorganic growth in the Group's sales (a decrease of approximately NIS 26 million and NIS 6 million, respectively, in the first nine months and third 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 section 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 Nine Months				Third Quarter			
	2019	**2018**	**% Chg**	**% Chg less translation differences effect**	**2019**	**2018**	**% Chg**	**% Chg less translation differences effect**
Gross profit	2,554	2,458	*3.9%*	*5.8%*	887	812	*9.3%*	*11.1%*
Gross profit margin	39.8%	38.2%			39.6%	37.6%		

The Group's non-GAAP gross profit in the first nine months of 2019 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 45 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 31 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the third quarter of 2019 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 14 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 6 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the first nine months and third quarter of 2019 rose by approximately NIS 96 million and NIS 75 million, respectively, compared to the corresponding periods last year:

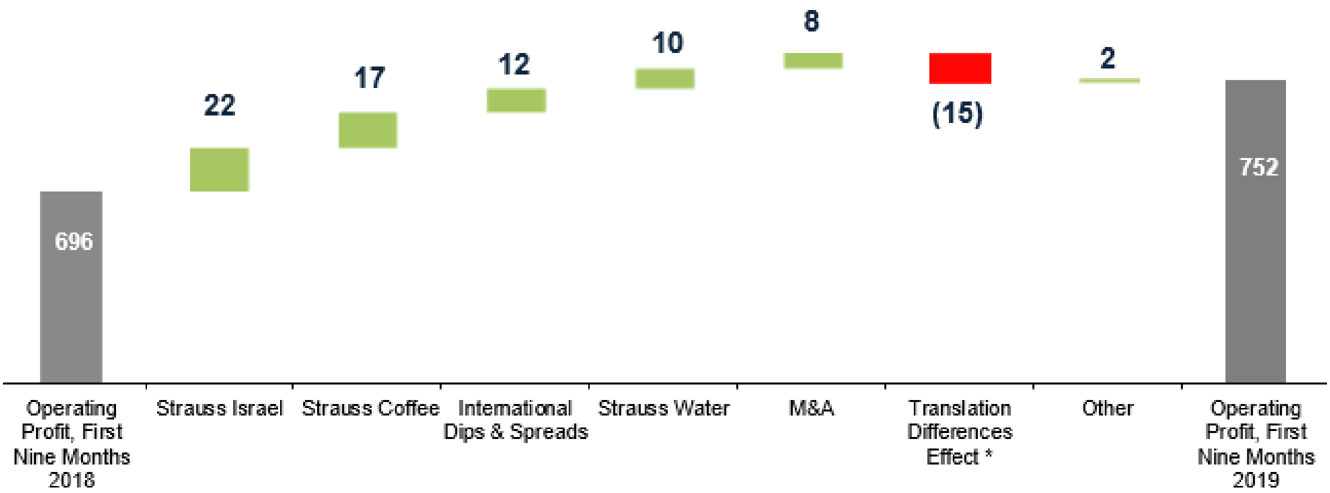
- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments rose by approximately NIS 48 million and NIS 12 million, respectively, in the nine months and quarter, compared to the corresponding periods last year. The increase in gross profit is mainly 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.

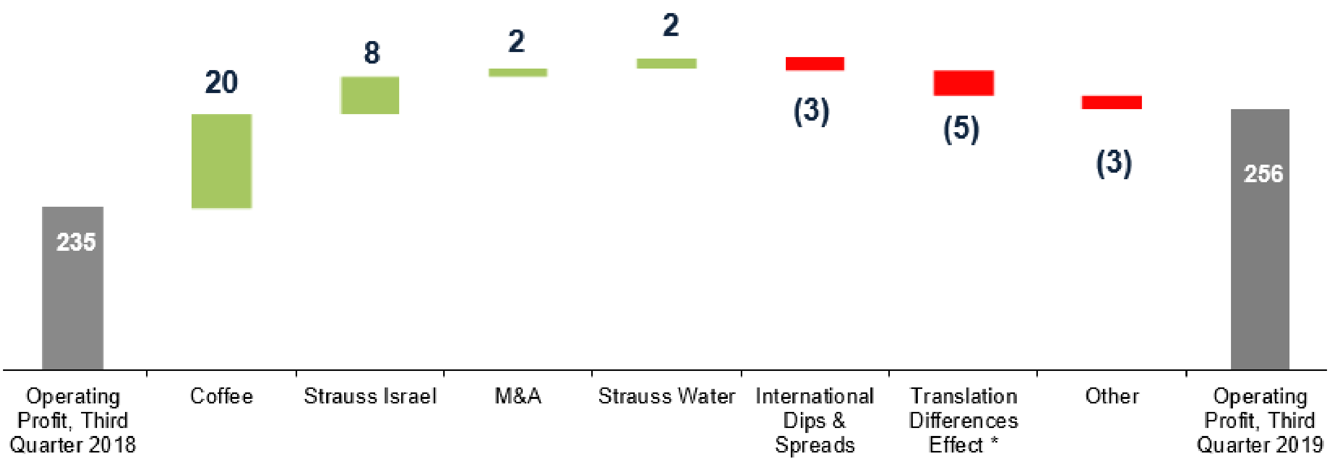
3.1.3 Operating Profit before Other Expenses – Non-GAAP

	First Nine Months				Third Quarter			
	2019	**2018**	**% Chg**	**% Chg less translation differences effect**	**2019**	**2018**	**% Chg**	**% Chg less translation differences effect**
Operating profit	752	696	*8.1%*	*10.3%*	256	235	*9.4%*	*11.2%*
Operating profit margin	11.7%	10.8%			11.4%	10.9%		

The Group's non-GAAP operating profit (EBIT) increased in the first nine months and third quarter of 2019 by approximately NIS 56 million and NIS 21 million, respectively, and was negatively affected by translation differences into Shekels, which amounted to approximately NIS 15 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 nine months and third quarter of 2019 was the result of the following:

- An increase of approximately NIS 2 million and a decrease of NIS 3 million in the operating profit of the Other Operations segment in the nine months and quarter, respectively, compared to the corresponding periods last year. The increase is in the nine-month period is due to non-recurring expenses in the corresponding period last year and to gains 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 nine months of 2019 GAAP comprehensive income amounted to approximately NIS 263 million, compared to comprehensive income of NIS 329 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 202 million, compared to foreign currency translation losses of NIS 105 million in the corresponding period last year.

Foreign currency translation losses in the first nine months of the year are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 90 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 third quarter GAAP comprehensive income amounted to approximately NIS 22 million, compared to comprehensive income of NIS 79 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 136 million, compared to foreign currency translation losses of NIS 63 million in the corresponding period last year.

Foreign currency translation losses in the third quarter of 2019 are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 64 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of the second quarter this year.

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

	First Nine Months			Explanation
	2019	2018	Change	
Cash flows from operating activities	431	*396	35	The change is mainly 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), tax rebates in respect of prior years that were received in the period and a decrease in the Group's interest payments, which were partially offset by the change in working capital compared to the corresponding period, mainly as a result of a change in receivables balances following the timing of the Jewish holidays.
Cash flows from (used in) investing activities	(23)	51	(74)	The change is primarily due to the encashment of a deposit in the first quarter of 2018, which was partially offset by the receipt of dividends from associates.
Cash flows used in financing activities	(440)	(434)	(6)	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, which were 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.

	Third Quarter			Explanation
	2019	2018	Change	
Cash flows from operating activities	120	*188	(68)	The decrease is mainly the result of a change in working capital compared to the corresponding period, primarily due to a change in receivables balances following the timing of the Jewish holidays, as well as tax rebates in respect of prior years that were received in the corresponding period, which were partially offset by the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Cash flows used in investing activities	(15)	(40)	25	The change is primarily due to the timing of the receipt of dividends from associates compared to the corresponding period.
Cash flows used in financing activities	(110)	*(43)	(67)	The change is primarily the result of higher long-term loan repayments in the current period compared to the corresponding period, 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).

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

Following is information on average credit volumes:

	First Nine Months			Third Quarter			Explanation
	2019	2018	Change	2019	2018	Change	
Average long-term credit volume according to the Non-GAAP Report	2,723	*2,626	97	2,726	*2,571	155	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	146	105	41	160	148	12	
Average long-term credit volume according to the Financial Statements	2,502	*2,392	110	2,513	*2,357	156	
Average short-term credit volume according to the Financial Statements	21	26	(5)	16	29	(13)	

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

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

	First Nine Months		Third Quarter	
	2019	2018	2019	2018
Change in net working capital, Financial Statements	(160)	(47)	(68)	27
Change in net working capital, Non-GAAP Report	(315)	(181)	(82)	(2)

Additional information

	September 30, 2019	December 31, 2018
Liquidity ratio	*1.10	1.27
Liabilities in respect of long-term loans and credit (including current maturities)	2,480	2,316
Short-term credit (excluding current maturities)	17	24
Supplier credit	710	730
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	*32.4%	33.6%
Net financial debt-to-EBITDA ratio	**1.9	1.9
Equity attributable to the shareholders of the Company	2,117	2,096

* See section 3.2.6 for the impacts of IFRS 16, Leases.

** EBITDA for the 12 months ended September 30, 2019 was adjusted to reflect the effects of IFRS 16, Leases.

As at September 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 was 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.

Following is additional data based on the proportionate consolidation method (Management (Non-GAAP) Report. The Company reserves the right not to include this information in the future.

	First Nine Months		**Third Quarter**		**Year Ended December 31**
	2019	**2018**	**2019**	**2018**	**2018**
Cash flow from operating activities (according to the Non-GAAP Report)	546	*495	191	*228	783
Acquisition of fixed assets and investment in intangibles, net (according to the Non-GAAP Report)	224	209	64	77	309
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,275	*2,132	2,275	*2,132	1,964
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	248	173	86	59	237
Strauss Israel:					
Health & Wellness	59	42	21	14	56
Fun & Indulgence	44	28	15	10	38
Strauss Coffee:					
Israel Coffee	27	10	10	3	15
International Coffee	56	42	19	15	57
International Dips & Spreads	20	21	6	8	27
Strauss Water	28	15	10	5	23
Other	14	15	5	4	21

* Reclassified - for further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at September 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 1,000 million in the first nine months of 2019 compared to approximately NIS 869 million in the corresponding period last year, an increase of 14.9%.

In the third quarter, the Group's EBITDA (non-GAAP) amounted to approximately NIS 342 million compared to approximately NIS 294 million in the corresponding period, an increase of 16.3%.

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 nine months ended September 30, 2019 and 2018 (in NIS millions)*:

	First Nine Months			Explanation
	2019	2018	% Chg	
Israel Coffee				
Net sales	583	551	5.8%	Sales growth in the first nine months of 2019 compared to the corresponding period is primarily due to an increase in quantities sold, among other things as a result of the timing of the Jewish holidays.
Operating profit	128	90	42.0%	The increase in operating profit in the first nine months 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	22.0%	16.4%		
International Coffee				
Net sales	2,210	2,381	(7.2%)	Coffee sales in the first nine months 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 nine months mainly reflects price reductions introduced as a result of the drop in green coffee prices in certain regions, and was offset by an increase in quantities sold in the major geographies. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	210	247	(14.7%)	The change in the operating profit of the International Coffee segment in the first nine months reflects: • A drop in the operating profit of the Três Corações joint venture in Brazil[1] in the nine months, 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 nine months, mainly as a result of a decrease in sales in most countries; • The operating profit and profit margin in Russia in the nine months rose compared to the corresponding period as a result of growth in quantities sold, which was partially offset by an increase in the cost of sales following the depreciation of the Ruble against the US Dollar. Operating profit in the first nine months 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%	10.3%		
Total Strauss Coffee				
Net sales	**2,793**	**2,932**	**(4.8%)**	In the first nine months Strauss Coffee's sales dropped by approximately NIS 139 million compared to the corresponding period. Translation differences into Shekels in the first nine months of 2019 had a negative impact on sales by the coffee company and amounted to NIS 144 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 102 million.
Organic growth excluding foreign currency effects	**0.1%**	**4.4%**		
Gross profit	**1,022**	**1,040**	**(1.7%)**	The increase in the gross profit margin in the nine months is the result of changes in raw material costs and currencies in certain regions following the drop in green coffee prices. Gross profit in the nine months was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**36.6%**	**35.5%**		
Operating profit	**338**	**337**	**0.5%**	The increase in the operating profit margin is mainly the result of the improvement in the gross profit margin in the period, as well the timing of marketing expenses.
% operating profit	**12.1%**	**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 September 30, 2019 and 2018 (in NIS millions)*:

	Third Quarter			Explanation
	2019	**2018**	**% Chg**	
Israel Coffee				
Net sales	196	176	11.2%	Sales growth in the third quarter of 2019 compared to the corresponding period is primarily due to an increase in quantities sold, among other things as a result of the timing of the Jewish holidays.
Operating profit	42	31	37.5%	The increase in operating profit in the third 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	21.5%	17.4%		
International Coffee				
Net sales	790	792	(0.2%)	Coffee sales in the third quarter of 2019 were negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year. The increase in coffee sales in local currency in the quarter mainly reflects an increase in quantities sold in certain regions. For further information, see “Strauss Coffee Sales by Major Geographical Regions” in section 3.2.1.1 below.
Operating profit	85	80	6.6%	The change in the operating profit of the International Coffee segment in the third quarter reflects: • An increase in the operating profit of the Três Corações joint venture in Brazil[1] in the quarter, mainly as a result of an increase in quantities sold, which was partially offset by an increase in logistics and distribution expenses; • An increase in operating profit in most CEE countries in the quarter, mainly as a result of sales growth in most countries; • The operating profit and profit margin in Russia in the quarter rose compared to the corresponding period, mainly as a result of an increase in quantities sold. Operating profit in the third 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	10.8%	10.1%		
Total Strauss Coffee				
Net sales	**986**	**968**	**1.8%**	In the third quarter Strauss Coffee’s sales grew by approximately NIS 18 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 31 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 18 million.
Organic growth excluding foreign currency effects	**5.1%**	**0.9%**		
Gross profit	**358**	**336**	**6.7%**	The increase in the gross profit margin in the third quarter is the result of 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%**	**34.6%**		
Operating profit	**127**	**111**	**15.2%**	The increase in the operating profit margin is mainly the result of the improvement in the gross profit margin in the period, which was offset by an increase in selling expenses.
% operating profit	**12.9%**	**11.4%**		

* 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 nine months ended September 30, 2019 and 2018 (in NIS millions)*:

Geographical region	First Nine Months				Explanation
	2019	2018	% Chg	% Chg in local currency**	
Israel Coffee	**583**	**551**	**5.8%**	**5.8%**	Most of the sales growth in the first nine months compared to the corresponding period is the result of an increase in quantities sold, among other things as a result of the timing of the Jewish holidays.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	1,356	1,459	(7.1%)	(0.1%)	The decrease in the Três Corações joint venture's[1] sales in local currency is the result of the product mix as well as price reductions introduced in the period, and was partially offset by growth in quantities sold. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	414	424	(2.4%)	0.2%	Most of the growth in local currency sales is the result of an increase in quantities sold in Russia. The Company's sales in the first nine months 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	207	228	(9.3%)	(3.2%)	Most of the drop in local 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 nine months of 2019 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 14 million) compared to the corresponding period.
Romania	135	163	(17.2%)	(11.1%)	Most of the drop in local 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 nine months were negatively affected by the depreciation of the Romanian Leu against the Shekel (approximately NIS 11 million) compared to the corresponding period last year.
Serbia	98	107	(8.4%)	(3.5%)	Most of the decrease in local currency sales is due to a drop in quantities sold. The Company's sales in the first nine months of 2019 were negatively affected by the depreciation of the Serbian Dinar against the Shekel (approximately NIS 5 million) compared to the corresponding period last year.
Total International Coffee	**2,210**	**2,381**	**(7.2%)**	**(1.2%)**	
Total Coffee	**2,793**	**2,932**	**(4.8%)**	**0.2%**	

* 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 September 30, 2019 and 2018 (in NIS millions)*:

	Third Quarter				
Geographical region	**2019**	**2018**	**% Chg**	**% Chg in local currency****	**Explanation**
Israel Coffee	**196**	**176**	**11.2%**	**11.2%**	Most of the sales growth in the third quarter compared to the corresponding period last year is the result of an increase in quantities sold, among other things due to the timing of the Jewish holidays.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	476	486	(2.3%)	1.5%	The increase in the Três Corações joint venture's[1] sales in local currency is the result of the product mix and an increase in quantities sold. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	162	138	17.2%	16.7%	Most of the growth in local currency sales is the result of an increase in quantities sold. The Company's sales in the third quarter of 2019 were not materially affected by foreign exchange rates compared to the corresponding period last year.
Poland	72	72	0.7%	8.9%	Most of the growth in local currency sales is the result of an increase in quantities sold. The Company's sales in Poland in the third quarter of 2019 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 5 million) compared to the corresponding period.
Romania	47	58	(18.6%)	(10.7%)	Most of the drop in local 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 third quarter were negatively affected by the depreciation of the Romanian Leu against the Shekel (approximately NIS 5 million) compared to the corresponding period last year.
Serbia	33	38	(12.0%)	(5.5%)	Most of the decrease in local currency sales is due to a drop in quantities sold, which was partially offset by an increase in sales prices. The Company's sales in the third quarter of 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	**790**	**792**	**(0.2%)**	**3.8%**	
Total Coffee	**986**	**968**	**1.8%**	**5.1%**	

* 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 nine months of 2019 the Três Corações joint venture's[1] average value market share in roast and ground (R&G) coffee amounted to approximately 28.5%, compared to 27.1% 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 (for information, see section 3 above).

The Três Corações joint venture's[1] local currency sales in the first nine months decreased by 0.1% (an increase of 0.1% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee), despite an increase in volumes sold.

The drop in the Três Corações joint venture's[1] local currency sales in the first nine months, 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, and which was partially offset by growth in quantities sold.

The Três Corações joint venture's[1] local currency sales in the third quarter of the year grew by 1.5% (1.7% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee), despite the decrease in sales prices.

The Três Corações joint venture's[1] Shekel sales in the first nine months and third quarter of 2019 were adversely affected by the appreciation of the Shekel against the Brazilian Real, which amounted to approximately NIS 102 million and NIS 18 million, respectively, compared to the corresponding periods in 2018.

The Três Corações joint venture's[1] gross profit in local currency rose 1.8% in the first nine months and amounted to approximately BRL 446 million (approximately NIS 411 million). In the first nine months Três Corações'[1] gross profit margin rose and amounted to 30.2%.

In the third quarter, the Três Corações joint venture's[1] gross profit in local currency rose 5.8% and amounted to BRL 163 million (approximately NIS 145 million). Três Corações'[1] gross profit margin rose in the quarter and amounted to 30.3%. The increase in the gross profit margin primarily reflects a decrease in the cost of green coffee at a rate that exceeded the decrease in the Três Corações joint venture's[1] shelf prices.

Operating profit (before other income/expenses) in local currency fell 6.5% in the first nine months and amounted to approximately BRL 138 million (NIS 126 million) as a result of increased operating expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

In the third quarter, operating profit (before other income/expenses) in local currency rose 6.9% and amounted to approximately BRL 54 million (NIS 47 million) as a result of the increase in gross profit, and was partially offset by 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'[1] operating profit in the first nine months and third quarter of the year amounted to an operating profit of approximately NIS 0.8 million and NIS 3 million, respectively (approximately BRL 0.9 million and BRL 3.4 million, respectively), compared to a loss of NIS 9.7 million and NIS 2.9 million, respectively (approximately BRL 9.8 million and BRL 3.1 million, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)), mainly as a result of an improvement in the gross profit margin following a continued increase in quantities sold.

In April 2018 the Três Corações joint venture[1] acquired the activity attributed to the retail coffee brands of the coffee company Tapajós Indústria de Café Ltda. The agreement between the companies included 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 the Três Corações joint venture[1] 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 first nine months of 2019, according to StoreNext[1] figures, held an 11.7% share of the total domestic retail food and beverage market in value terms (compared to 11.4% in the corresponding period last year), an increase of 0.3% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew 4.0% in value terms, whereas according to StoreNext, in the first nine months of the year the Israeli food and beverage market grew 2.5% 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 nine months of 2019 Strauss Group's Israel sales totaled approximately NIS 3,610 million versus NIS 3,451 million last year, an increase of 4.6%.

In the third quarter the Group's total sales in Israel amounted to NIS 1,255 million, compared to NIS 1,162 million last year, an increase of 8.0%.

Strauss Israel

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

	First Nine Months			Third Quarter			Explanation
	2019	2018	% Chg	2019	2018	% Chg	
Net sales	2,579	2,481	4.0%	899	837	7.4%	Sales growth in the first nine months and third 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, as well as the timing of the Jewish holidays.
Gross profit	1,024	958	6.9%	358	317	13.1%	The increase in gross profit is attributed to growth in sales volumes and an improvement in the gross profit margin in the first nine months and third quarter as a result of a positive sales mix and efficiency enhancement processes implemented at manufacturing, logistics and distribution sites.
% gross profit	39.7%	38.6%		39.9%	37.9%		
Operating profit	290	268	8.0%	98	90	9.2%	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 processes.
% operating profit	11.2%	10.8%		10.9%	10.7%		

	First Nine Months			Third Quarter		
	2019	2018	% Chg	2019	2018	% Chg
Health & Wellness						
Net sales	1,712	1,643	4.2%	613	575	6.5%
Operating profit	189	172	9.3%	70	62	11.4%
% operating profit	11.0%	10.5%		11.4%	10.9%	
Fun & Indulgence						
Net sales	867	838	3.5%	286	262	9.4%
Operating profit	101	96	5.4%	28	28	3.5%
% operating profit	11.7%	11.5%		9.8%	10.3%	

* 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 36 weeks ended September 30 was 62.2%, compared to 60.1% 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 Nine Months			Third Quarter			Explanation
	2019	2018	% Chg	2019	2018	% Chg	
Sales	1,043	1,030	1.3%	345	351	(1.6%)	Sabra's sales in the first nine months increased by approximately NIS 13 million and decreased by NIS 6 million in the third quarter compared to the corresponding periods. The change is primarily the result of the adjustment of hummus and guacamole prices in North America, which was offset against the sale of the salsa operation in the third quarter of 2018. Organic growth in Sabra's Shekel sales in the first nine months and third quarter amounted to 7.0% and 1.8%, respectively, compared to the corresponding periods last year. Sabra's sales in the nine months were positively influenced by translation differences of NIS 8 million and in the third quarter were negatively affected by translation differences of NIS 12 million, compared to the corresponding periods.
Organic growth excluding foreign currency effects	6.1%	11.1%		5.2%	4.0%		
Operating profit before other expenses	138	97	43.5%	24	28	(13.9%)	The operating profit in the first nine months of 2019 grew by NIS 41 million and in the third quarter fell NIS 4 million, compared to the corresponding periods last year. The growth in operating profit in the first nine months is the result of the continued improvement of processes that were modified following the voluntary recall by the company in November 2016, 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. The drop in operating profit in the third quarter is mainly due to the increase in marketing expenses in the quarter compared to the corresponding period last year.
% operating profit	13.3%	9.4%		7.0%	8.0%		

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.

In November 2019 Sabra distributed a dividend of approximately NIS 35 million (the Group's share) to shareholders.

3.2.3.2 Obela

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

	First Nine Months			Third Quarter		
	2019	**2018**	**% Chg**	**2019**	**2018**	**% Chg**
Sales	122	117	4.8%	40	40	1.0%
Organic growth excluding foreign currency effects	11.4%	21.0%		10.2%	18.0%	
Operating loss	(14)	(14)	(4.3%)	(3)	(4)	25.9%

* 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 by credit card throughout the term of the agreement. The Group has factoring arrangements with third parties for part of these payments and non-recourse factoring arrangements for the sale of water bars.

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Water for the quarter and nine months ended September 30, 2019 and 2018 (in NIS millions)*:

	First Nine Months			Third Quarter			Explanation
	2019	**2018**	**% Chg**	**2019**	**2018**	**% Chg**	
Net sales	467	442	5.8%	165	157	5.4%	Most of the growth in the first nine months and third 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	55	45	23.9%	20	18	11.3%	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 Haier Strauss Water. For further information, see section 3.2.4.1 below. Excluding the profits of Haier Strauss Water, in the first nine months of 2019 the operating profit rose by approximately NIS 4 million, and the operating profit margin rose by 0.5% compared to last year and amounted to 6.9%. Excluding the profits of Haier Strauss Water, in the third quarter the operating profit fell by approximately NIS 1 million, and the operating profit margin fell by 1.2% compared to last year and amounted to 6.6%.
% operating profit	11.9%	10.1%		12.2%	11.5%		

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

3.2.4.1 Results of Haier Strauss Water

Sales by the Haier Strauss Water, which are not included in the Non-GAAP Report, totaled NIS 429 million in the first nine months of 2019 compared to NIS 408 million in the corresponding period last year, an increase of 5.3%. Sales growth in the nine months, excluding foreign currency effects, amounted to 10% compared to the corresponding period last year (unaudited, reflecting 100%).

In the third quarter, sales by the Haier Strauss Water, which are not included in the Non-GAAP Report, totaled NIS 134 million compared to NIS 145 million* in the corresponding period last year, a decrease of 7.4%. Sales growth in the quarter, excluding foreign currency effects, amounted to a drop of 1.5% compared to last year (unaudited, reflecting 100%).

The first nine months were marked by an improved growth trend, despite a drop in the company's growth in the third quarter, which was the result of the macro environment and competition. The improvement in the nine months is due to focus placed on different sales channels and the launch of new products.

The net profit of Haier Strauss Water amounted to approximately NIS 52 million in the first nine months compared to NIS 38 million in the corresponding period last year, an increase of 35.9%. Excluding foreign currency effects, growth was 42.7% (reflecting 100%).

The net profit of Haier Strauss Water amounted to approximately NIS 20 million in the third quarter compared to NIS 15 million* in the corresponding period last year, an increase of 28.9%. Excluding foreign currency effects, growth was 36.7% (reflecting 100%).

In the context of Haier Strauss Water'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 as well as consumption), in the second quarter Haier Strauss Water entered into a distribution agreement for POE products to be manufactured by a company owned by Haier Electronics (which holds 51% of Haier Strauss Water) 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 <u>Effects of first-time adoption of IFRS 16, *Leases*</u>

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

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

	September 30, 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Gross debt – Non-GAAP Reports	2,516	336	2,852
Gross debt – Financial Statements	2,207	290	2,497
Net debt – Non-GAAP Reports	1,939	336	2,275
Net debt – Financial Statements	1,810	290	2,100

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

	First Nine Months 2019			Third 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	476	70	546	167	24	191
Cash flows from operating activities – Financial Statements	369	62	431	97	23	120
Cash flows from investing activities – Financial Statements	(27)	4	(23)	(16)	1	(15)
Cash flows used in financing activities – Financial Statements	(374)	(66)	(440)	(86)	(24)	(110)

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

	First Nine Months 2019			Third Quarter 2019		
	Under the previous policy	**Change**	**Under IFRS 16**	**Under the previous policy**	**Change**	**Under IFRS 16**
Strauss Israel						
Health & Wellness	231	17	248	85	6	91
Fun & Indulgence	128	17	145	37	6	43
Strauss Coffee						
Israel Coffee	139	16	155	46	6	52
International Coffee	252	14	266	98	6	104
International Dips & Spreads	82	-	82	16	-	16
Strauss Water	72	11	83	26	4	30
Other	18	3	21	5	1	6

* Financial data were rounded to NIS millions.

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 Nine Months 2019			Third Quarter 2019		
	Under the previous policy	**Change**	**Under IFRS 16**	**Under the previous policy**	**Change**	**Under IFRS 16**
Strauss Israel						
Health & Wellness	43	16	59	15	6	21
Fun & Indulgence	29	15	44	10	5	15
Strauss Coffee						
Israel Coffee	12	15	27	5	5	10
International Coffee	46	10	56	16	3	19
International Dips & Spreads	20	-	20	6	-	6
Strauss Water	18	10	28	6	4	10
Other	11	3	14	4	1	5

* 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 third quarter of 2019 there is a working capital deficiency of approximately NIS 266 million. There is no such deficiency in the consolidated financial statements of the Company for the third quarter. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 169 million. In light of the working capital deficiency in the solo report, on November 19, 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 September 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 chapter Description of the Company's Business in the 2018 Periodic Report.

5. ASPECTS OF CORPORATE GOVERNANCE

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 August 13, 2019 the General and Special Meeting of Shareholders approved 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 Company's immediate report of August 25, 2019 (reference number 2019-01-073125).

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	4	4
D.	Market value	223	660

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 of September 30, 2019 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at September 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 September 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

November 19, 2019

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 2019

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at September 30, 2019

Contents

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	September 30 2019*	September 30 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	386	407	426
Securities and deposits	11	32	71
Trade receivables	1,124	1,031	978
Income tax receivables	2	12	6
Other receivables and debt balances	99	98	93
Inventory	562	554	557
Assets held for sale	14	13	19
Total current assets	2,198	2,147	2,150
Investments and non-current assets			
Investment in equity-accounted investees	1,335	1,282	1,315
Other investments and long-term debt balances	93	81	80
Fixed assets	1,720	1,714	1,738
Right-of-use assets	266	-	-
Intangible assets	909	939	938
Investment property	5	11	5
Deferred tax assets	18	20	17
Total investments and non-current assets	4,346	4,047	4,093
Total assets	6,544	6,194	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: November 19, 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)

	September 30 2019*	September 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	402	**326	347
Current maturities of lease liabilities	90	-	-
Trade payables	710	734	730
Income tax payables	118	52	53
Other payables and credit balances	592	**558	522
Provisions	31	34	31
Total current liabilities	2,005	1,732	1,698
Non-current liabilities			
Debentures	743	797	805
Long-term loans and other liabilities	995	**1,235	1,173
Lease liabilities	205	-	-
Long-term payables and credit balances	24	**39	19
Employee benefits, net	53	48	47
Deferred tax liabilities	263	255	255
Total non-current liabilities	2,283	2,374	2,299
Equity and reserves			
Share capital	252	252	252
Share premium	1,051	1,051	1,051
Reserves	(1,878)	(1,726)	(1,674)
Retained earnings	2,692	2,376	2,467
Total equity attributable to the shareholders of the Company	2,117	1,953	2,096
Non-controlling interests	139	135	150
Total equity	2,256	2,088	2,246
Total liabilities and equity	6,544	6,194	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 nine months ended		For the three months ended		For the year ended
	September 30, 2019*	September 30, 2018	September 30, 2019*	September 3,0 2018	December 31, 2018
	Unaudited				Audited
	NIS millions				
Sales	4,272	4,205	1,504	1,411	5,604
Cost of sales	2,515	2,520	892	869	3,353
Gross profit	1,757	1,685	612	542	2,251
Selling and marketing expenses	979	954	343	314	1,293
General and administrative expenses	297	284	99	86	394
	1,276	1,238	442	400	1,687
Share of profit of equity-accounted investees	218	200	65	66	250
Operating profit before other income (expenses)	699	647	235	208	814
Other income	1	5	1	1	7
Other expenses	(4)	(5)	(1)	(3)	(13)
Other expenses, net	(3)	-	-	(2)	(6)
Operating profit	696	647	235	206	808
Financing income	3	16	4	3	28
Financing expenses	(99)	(79)	(35)	(28)	(121)
Financing expenses, net	(96)	(63)	(31)	(25)	(93)
Profit before income tax	600	584	204	181	715
Income tax	(131)	(151)	(44)	(38)	(181)
Income for the period	469	433	160	143	534
Attributable to:					
The shareholders of the Company	428	392	145	129	478
Non-controlling interests	41	41	15	14	56
Income for the period	469	433	160	143	534
Earnings per share					
Basic earnings per share (in NIS)	3.71	3.41	1.25	1.12	4.16
Diluted earnings per share (in NIS)	3.67	3.38	1.24	1.11	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 nine months ended		For the three months ended		For the year ended
	September 30, 2019*	September 30, 2018	September 30, 2019*	September 30, 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Income for the period	469	433	160	143	534
Other comprehensive loss items that will be classified to profit or loss in subsequent periods:					
Foreign currency translation differences	(60)	(16)	(49)	(21)	(25)
Other comprehensive loss from equity-accounted investees	(142)	(89)	(87)	(42)	(28)
Total other comprehensive loss items that will be classified to profit or loss in subsequent periods, net	(202)	(105)	(136)	(63)	(53)
Other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods, net:					
Changes in employee benefits, net	(4)	1	(2)	(1)	1
Total other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods, net	(4)	1	(2)	(1)	1
Comprehensive income for the period	263	329	22	79	482
Attributable to:					
The shareholders of the Company	220	288	6	65	426
Non-controlling interests	43	41	16	14	56
Comprehensive income for the period	263	329	22	79	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 shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Nine-month period ended September 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	-	-	-	-	-	428	428	41	469
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(62)	-	(62)	2	(60)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(142)	-	(142)	-	(142)
Change in employee benefits, net	-	-	-	-	-	(4)	(4)	-	(4)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(204)	(4)	(208)	2	(206)
Total comprehensive income (loss) for the period	-	-	-	-	(204)	424	220	43	263
Share-based payment	-	-	-	-	-	14	14	-	14
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(54)	(54)
Balance as at September 30, 2019	252	1,051	(20)	(392)	(1,466)	2,692	2,117	139	2,256

* 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 (cont'd)

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Nine-month period ended September 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	-	-	-	-	-	392	392	41	433
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(16)	-	(16)	-	(16)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(89)	-	(89)	-	(89)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(105)	1	(104)	-	(104)
Total comprehensive income (loss) for the period	-	-	-	-	(105)	393	288	41	329
Share-based payment	-	-	-	-	-	12	12	-	12
Dividend paid	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(44)	(44)
Balance as at September 30, 2018	252	1,051	(20)	(392)	(1,314)	2,376	1,953	135	2,088

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 shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Three-month period ended September 30, 2019 - unaudited:									
Balance as at July 1, 2019	252	1,051	(20)	(392)	(1,329)	2,544	2,106	143	2,249
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	145	145	15	160
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(50)	-	(50)	1	(49)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(87)	-	(87)	-	(87)
Change in employee benefits, net	-	-	-	-	-	(2)	(2)	-	(2)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(137)	(2)	(139)	1	(138)
Total comprehensive income (loss) for the period	-	-	-	-	(137)	143	6	16	22
Share-based payment	-	-	-	-	-	5	5	-	5
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(20)	(20)
Balance as at September 30, 2019	252	1,051	(20)	(392)	(1,466)	2,692	2,117	139	2,256

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 Changes in Shareholders' Equity (cont'd)

	Attributable to the shareholders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve from transactions with non-controlling interests**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions								
Three-month period ended September 30, 2018 - unaudited:									
Balance as at July 1, 2018	252	1,051	(20)	(392)	(1,251)	2,244	1,884	141	2,025
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	129	129	14	143
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(21)	-	(21)	-	(21)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(42)	-	(42)	-	(42)
Change in employee benefits, net	-	-	-	-	-	(1)	(1)	-	(1)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(63)	(1)	(64)	-	(64)
Total comprehensive income (loss) for the period	-	-	-	-	(63)	128	65	14	79
Share-based payment	-	-	-	-	-	4	4	-	4
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(20)	(20)
Balance as at September 30, 2018	252	1,051	(20)	(392)	(1,314)	2,376	1,953	135	2,088

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 shareholders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve from transactions with non-controlling interests**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions								
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 period									
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 of tax	-	-	-	-	(53)	1	(52)	-	(52)
Total comprehensive income (loss) for the period	-	-	-	-	(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 nine months ended		For the three months ended		For the year ended
	September 30, 2019*	September 30, 2018	September 30, 2019*	September 30, 2018	December 31, 2018
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Profit for the period	469	433	160	143	534
Adjustments:					
Depreciation	170	107	59	36	145
Amortization of intangible assets	23	26	8	8	36
Reversal of impairment loss of fixed assets, intangible assets and investment property, net	-	(1)	-	-	(1)
Other expenses (income), net	1	(2)	-	-	-
Expenses in respect of share-based payment	14	12	5	4	17
Financing expenses, net	96	63	31	25	93
Income tax expenses	131	151	44	38	181
Share of profit of equity-accounted investees	(218)	(200)	(65)	(66)	(250)
Change in inventory	(22)	(23)	31	10	(25)
Change in trade and other receivables	(165)	(85)	(138)	(15)	(26)
Change in long-term trade receivables	(11)	(1)	(4)	1	1
Change in trade and other payables	35	**58	42	**29	(7)
Change in employee benefits	3	4	1	2	7
Interest paid	(64)	(91)	(23)	(39)	(124)
Interest received	3	4	-	3	6
Income tax received (paid), net	(34)	(59)	(31)	9	(85)
Net cash flows from operating activities	431	**396	120	**188	502
Cash flows from investing activities					
Sale of marketable securities and deposits, net	61	150	-	-	110
Proceeds from sale of fixed assets, intangible assets and investment property	7	17	1	3	19
Investment in fixed assets and investment property	(111)	(114)	(33)	(40)	(169)
Investment in intangible assets	(34)	(30)	(11)	(9)	(46)
Acquisition of operations, net cash acquired	-	(1)	-	-	(1)
Repayment of loans granted	12	13	5	6	17
Loans granted	(14)	(14)	(5)	(2)	(16)
Income from sublease	4	-	1	-	-
Dividends from investee companies	59	37	28	2	118
Investment in investee companies	(7)	(7)	(1)	-	(15)
Net cash flows from (used in) investing activities	(23)	51	(15)	(40)	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.

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

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2019*	September 30, 2018	September 30, 2019*	September 30, 2018	December 31, 2018
	Unaudited				Audited
	NIS millions				
Cash flows from financing activities					
Acquisition of non-controlling interests in subsidiaries	-	(36)	-	(5)	(36)
Short-term bank credit, net	(8)	(14)	(8)	(23)	(14)
Proceeds from issue of debentures, net of issuance costs	-	-	-	-	200
Receipt of long-term loans	50	-	-	-	-
Repayment of long-term loans and debentures	(188)	(232)	(68)	(15)	(280)
Early redemption of debentures	-	-	-	-	(203)
Change in liabilities in respect of credit card factoring	26	**49	10	**20	53
Redemption of share options	-	(7)	-	-	(7)
Repayment of lease liabilities	(66)	-	(24)	-	-
Dividends paid	(200)	(160)	-	-	(160)
Dividend to non-controlling interests in subsidiaries	(54)	(34)	(20)	(20)	(44)
Net cash flows from (used in) financing activities	(440)	**(434)	(110)	**(43)	(491)
Increase (decrease) in cash and cash equivalents	(32)	13	(5)	105	28
Cash and cash equivalents as at beginning of period	426	390	394	303	390
Effect of exchange rate fluctuations on cash balances	(8)	4	(3)	(1)	8
Cash and cash equivalents as at end of period	386	407	386	407	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 September 30, 2019 and for the nine- 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 November 19, 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 nine- and three-month periods ended September 30, 2019, the Group recognized additional depreciation expenses of approximately NIS 60 million and NIS 21 million, respectively, and additional financing expenses of NIS 6 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 and accounted for them in accordance with the guidance in the standard.

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 September 30, 2018 (unaudited)		
	NIS millions		
	As formerly reported	Effect of the correction	As reported in these financial statements
Payables and credit balances	(642)	84	(558)
Long-term payables and credit balances	(113)	74	(39)
Short-term credit and current maturities of long-term loans and other liabilities	(242)	(84)	(326)
Long-term loans and other liabilities	(1,161)	(74)	(1,235)

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 nine-month period ended September 30, 2018 (unaudited)		
	NIS millions		
	As formerly reported	Effect of the correction	As reported in these financial statements
Operating activities	445	(49)	396
Financing activities	(483)	49	(434)

	For the three-month period ended September 30, 2018 (unaudited)		
	NIS millions		
	As formerly reported	Effect of the correction	As reported in these financial statements
Operating activities	208	(20)	188
Financing activities	(63)	20	(43)

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.

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.

Note 3 - Operating Segments

Segment information and reconciliation to the consolidated financial statements:

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	1,712	1,643	613	575	2,177
Fun & Indulgence	867	838	286	262	1,099
Total Israel	2,579	2,481	899	837	3,276
Israel Coffee	583	551	196	176	737
International Coffee	2,210	2,381	790	792	3,214
Total Coffee	2,793	2,932	986	968	3,951
International Dips and Spreads	583	573	193	196	759
Water	467	442	165	157	591
Other	-	-	-	-	-
Sales to other segments:					
Health & Wellness	5	5	2	2	7
Fun & Indulgence	9	8	3	3	10
Total Israel	14	13	5	5	17
Israel Coffee	2	1	1	-	2
International Coffee	2	2	1	1	2
Total Coffee	4	3	2	1	4
Total segment revenues	6,440	6,444	2,250	2,164	8,598
Elimination of inter-segment sales	(18)	(16)	(7)	(6)	(21)
Total segment revenues excluding inter-segment sales	6,422	6,428	2,243	2,158	8,577
Adjustment to the equity method	(2,150)	(2,223)	(739)	(747)	(2,973)
Total consolidated revenues	4,272	4,205	1,504	1,411	5,604

Note 3 - Operating Segments (cont'd)

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018	December 31 2018
	Unaudited				Audited
	NIS millions				
Profit (loss)					
Health & Wellness	189	172	70	62	229
Fun & Indulgence	101	96	28	28	114
Total Israel	290	268	98	90	343
Israel Coffee	128	90	42	31	119
International Coffee	210	247	85	80	299
Total Coffee	338	337	127	111	418
International Dips and Spreads	62	41	10	12	49
Water	55	45	20	18	65
Other	7	5	1	4	(10)
Total segment profit	752	696	256	235	865
Unallocated income (expenses):					
Adjustments for commodity hedges (1)	(3)	(1)	(3)	(14)	10
Other income (expenses), net	(2)	4	-	1	(2)
Share-based payment	(14)	(12)	(5)	(4)	(17)
Total segment operating profit	733	687	248	218	856
Adjustment to the equity method	(37)	(40)	(13)	(12)	(48)
Total operating profit in the consolidated financial statements	696	647	235	206	808
Financing expenses, net	(96)	(63)	(31)	(25)	(93)
Profit before income tax	600	584	204	181	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 1,310,239 options warrants granted to employees were exercised for 543,309 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.

6.4 On September 8, 2019 a monetary claim was filed with the Central District Court, together with a motion for class certification, against the subsidiary Strauss Water Ltd., pertaining to the alleged collection of warranty fees during the warranty period, in which warranty services are meant to be provided free of charge. The claim amount is NIS 85 million plus linkage differentials and interest. Based on the advice of legal counsel, Company Management estimates at the present stage that the claim and motion for its class certification are not expected to be accepted.

The Company did not recognize a provision for pending claims as at September 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.		
	September 30		December 31	September 30		December 31
	2019	2018	2018	2019	2018	2018
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Current assets	367	336	289	1,083	1,120	1,115
Of which:						
Cash and cash equivalents	116	124	68	167	52	214
Non-current assets	527	556	580	867	678	764
Total assets	894	892	869	1,950	1,798	1,879
Current liabilities	151	157	180	857	736	755
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	35	36	37	415	261	266
Non-current liabilities	75	118	108	123	151	169
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	64	109	97	93	123	140
Total liabilities	226	275	288	980	887	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 nine months ended September 30		For the three months ended September 30		For the year ended December 31	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2019	2018	2019	2018	2018	2019	2018	2019	2018	2018
	Unaudited				Audited	Unaudited				Audited
	NIS millions									
Income	1,043	1,030	345	351	1,352	2,719	2,920	954	973	3,937
Profit for the period	97	72	16	24	85	208	237	79	78	294
Other comprehensive income (loss)	(45)	24	(16)	(4)	43	(138)	(139)	(96)	(47)	(77)
Total comprehensive income (loss)	52	96	-	20	128	70	98	(17)	31	217
Of which:										
Depreciation and amortization	33	35	11	13	46	50	29	17	10	41
Interest income	-	-	-	-	-	7	11	2	4	14
Interest expenses	4	4	1	1	6	21	17	8	6	22
Income tax expenses	*(38)	*(28)	*(7)	*(10)	*(33)	(30)	(44)	(10)	(9)	(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 nine-month period ended on:			
September 30, 2019	0.92	0.84	(13.0)
September 30, 2018	0.99	0.91	(13.3)
For the three-month period ended on:			
September 30, 2019	0.89	0.84	(10.0)
September 30, 2018	0.92	0.91	(4.5)
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:

	September 30, 2019		September 30, 2018		December 31, 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	Unaudited				**Audited**	
	NIS millions					
Series D Debentures	210	223	426	460	224	239
Series E Debentures	603	660	402	413	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.

	September 30, 2019		September 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	5	3	3	9	7	11
Trade payables- derivatives	(17)	(7)	(24)	(1)	(22)	-
	(12)	(4)	10	8	(15)	11

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

For details regarding the method of determining 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 November 2019 a dividend of approximately NIS 35 million (the Group's share) was received from Sabra Dipping Company, LLC (a joint venture).

STRAUSS GROUP LTD.

SEPARATE FINANCIAL

INFORMATION AS AT

SEPTEMBER 30, 2019

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Separate Interim Financial Information as at September 30, 2019

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Strauss Group Ltd.

Condensed Interim Information on Financial Position

	September 30 2019*	September 30 2018	December 31 2018
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	203	170	222
Securities and deposits	-	-	70
Trade receivables	206	197	183
Other receivables and debit balances	40	38	33
Investee receivables	122	**358	**202
Inventory	120	115	123
Assets held for sale	7	13	13
Total current assets	698	**891	**846
Investments and non-current assets			
Investments in investees	2,077	1,772	1,931
Other investments and long-term debt balances	636	**676	**663
Right-of-use assets	138	-	-
Fixed assets	928	928	934
Investment property	3	3	3
Intangible assets	45	46	46
Total investments and non-current assets	3,827	**3,425	**3,577
Total assets	4,525	4,316	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: November 19, 2019

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

Strauss Group Ltd.

Condensed Interim Information on Financial Position (cont'd)

	September 30 2019*	September 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	198	171	198
Current maturities of lease liabilities	35	-	-
Trade payables	192	190	195
Income tax	39	10	17
Other payables and credit balances	241	221	202
Investee payables	197	168	159
Provisions	-	1	2
Total current liabilities	964	789	788
Non-current liabilities			
Debentures	743	797	805
Long-term loans and other long-term liabilities	418	619	584
Lease liabilities	109	-	-
Long-term payables and credit balances	18	21	14
Employee benefits, net	29	21	24
Deferred tax liabilities	127	116	112
Total non-current liabilities	1,444	1,574	1,539
Total equity attributable to the shareholders of the Company	2,117	1,953	2,096
Total liabilities and equity	4,525	4,316	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.

Straus Group Ltd.

Condensed Interim Information on Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2019*	September 30 2018	September 30 2019*	September 30 2018	December 31 2018
	(Unaudited)				(Audited)
	NIS Millions				
Sales	785	785	256	248	1,032
Cost of sales	499	491	165	161	644
Gross profit	286	294	91	87	388
Selling and marketing expenses	175	182	59	60	247
General and administrative expenses	61	52	19	12	82
	236	234	78	72	329
Operating profit before other income (expenses)	50	60	13	15	59
Other income	1	4	1	-	4
Other expenses	(3)	(2)	(2)	-	(4)
Other income (expenses), net	(2)	2	(1)	-	-
Operating profit	48	62	12	15	59
Financing income	16	38	5	8	61
Financing expenses	(73)	(59)	(22)	(20)	(97)
Financing expenses, net	(57)	(21)	(17)	(12)	(36)
Profit (loss) before taxes	(9)	41	(5)	3	23
Income tax	(27)	(31)	(14)	(6)	(28)
Profit (loss) after income tax	(36)	10	(19)	(3)	(5)
Income from investees	464	382	164	132	483
Income for the period attributable to the shareholders of the Company	428	392	145	129	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 nine months ended		For the three months ended		For the year ended
	September 30 2019*	September 30 2018	September 30 2019*	September 30 2018	December 31 2018
	(Unaudited)				(Audited)
	NIS Millions				
Income for the period attributable to the shareholders of the Company	428	392	145	129	478
Other comprehensive loss items that will be classified to profit or loss in subsequent periods:					
Other comprehensive loss from investees	(204)	(105)	(137)	(63)	(53)
Total other comprehensive loss items that will be classified to profit or loss in subsequent periods, net of tax	(204)	(105)	(137)	(63)	(53)
Other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods:					
Changes in employee benefits, net	(4)	1	(2)	(1)	1
Total other comprehensive income (loss) items that will not be classified to profit or loss in subsequent periods, net	(4)	1	(2)	(1)	1
Comprehensive income for the period attributable to the shareholders of the Company	220	288	6	65	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 nine months ended		For the three months ended		For the year ended
	September 30 2019*	September 30 2018	September 30 2019*	September 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	428	392	145	129	478
Adjustments:					
Depreciation	66	39	23	13	52
Amortization of intangible assets	10	13	4	4	18
Other income, net	-	(3)	-	-	(3)
Expenses in respect of share-based payment	10	9	4	3	12
Income from investees	(464)	(382)	(164)	(132)	(483)
Financing expenses, net	57	21	17	12	36
Income tax expense	27	31	14	6	28
Change in inventory	2	21	(7)	9	12
Change in trade and other receivables	(29)	**(23)	(17)	**(19)	**(13)
Change in investee receivables	20	**(24)	(25)	**(45)	**(21)
Change in trade and other payables	21	12	34	31	(2)
Change in investee payables	38	49	(62)	9	40
Change in employee benefits	2	1	-	-	4
Interest paid	(40)	(64)	(14)	(32)	(97)
Interest received	2	6	-	3	13
Income tax received (paid), net	19	16	(3)	22	15
Net cash flows from (used in) operating activities	169	114	(51)	13	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	14	-	1	14
Acquisition of fixed assets	(41)	(40)	(13)	(15)	(55)
Investment in intangible assets	(8)	(8)	(3)	(3)	(13)
Repayment of long-term loans granted	6	7	3	4	11
Loans granted	(9)	(10)	(3)	(2)	(11)
Dividends from investees	107	117	80	80	117
Cash received in respect of investing activities with investees	90	122	-	112	307
Cash paid in respect of investing activities with investees	(5)	(6)	(1)	-	(16)
Net cash flows from investing activities	215	346	63	177	434
Cash flows from financing activities					
Repayment of debentures and long-term loans	(178)	(219)	(62)	(7)	(227)
Early redemption of debentures	-	-	-	-	(203)
Short-term bank credit, net	-	-	-	(29)	-
Dividends paid	(200)	(160)	-	-	(160)
Proceeds from issue of debentures, net of issuance costs	-	-	-	-	200
Repayment of principal of lease liabilities	(25)	-	(8)	-	-
Net cash flows used in financing activities	(403)	(379)	(70)	(36)	(390)
Net increase (decrease) in cash and cash equivalents	(19)	81	(58)	154	133
Cash and cash equivalents as at beginning of period	222	89	261	16	89
Cash and cash equivalents as at end of period	203	170	203	170	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 September 30, 2019 (hereinafter: the "Condensed Consolidated Interim Financial Statements").

Except as stated at Note 1 to the Condensed Consolidated Interim Financial Statements as at September 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 nine- and three-month periods ended September 30, 2019, the Company recognized additional depreciation expenses of approximately NIS 26 million and NIS 9 million, respectively, and additional financing expenses of NIS 3 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

7.1 In November 2019, the subsidiary Strauss Coffee declared a dividend distribution to shareholders at an amount of approximately NIS 100 million.

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

STRAUSS GROUP LTD.

ISOX DECLARATION

<u>Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure Pursuant to Regulation 38c(a)</u>

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.

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

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 third 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.

November 19, 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 third 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.

November 19, 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 nine month periods ended 30 September 2019 and 2018 and independent auditors' report on review of 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 September 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 September 2019;
- the condensed consolidated statement of income and other comprehensive income for the three and nine month periods ended 30 September 2019;
- the condensed consolidated statement of changes in equity for the three and nine month periods ended 30 September 2019;
- the condensed consolidated statement of cash flows for the three and nine month periods ended 30 September 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 September 2019 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, 01 November 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 September 2019 and 31 December 2018

(In thousand of Brazilian Reais)

Assets	**30 September 2019**	**31 December 2018**
Current		
Cash and cash equivalents	199,067	221,467
Deposits	4,389	3,678
Trade receivables	573,978	397,223
Inventories	454,537	450,147
Recoverable taxes	32,354	52,356
Income tax receivable	3,159	5,162
Other current assets	21,925	23,919
	1,289,409	1,153,952
Non-current		
Judicial deposits	10,052	8,068
Loans to related parties	15,360	22,203
Recoverable taxes	88,838	33,429
Other non-current assets	4,720	5,257
Deferred tax assets	11,316	7,126
Investments	9,562	6,815
Fixed assets	520,957	407,985
Intangible assets	304,398	300,592
Right-of-use assets	66,112	-
	1,031,315	791,475
Total assets	2,320,724	1,945,427

Liabilities and equity	**30 September 2019**	**31 December 2018**
Current		
Short term loans	478,073	275,446
Trade payables	285,671	278,367
Short term lease liabilities	16,206	-
Income tax payables	11,497	1,180
Employees and other payroll related liabilities	71,754	55,767
Proposed dividends	-	59,782
Interest on equity payable	102,916	54,668
Payable taxes	24,456	22,318
Other current liabilities	29,948	34,410
	1,020,521	781,938
Non-current		
Long term loans	50,131	144,711
Long term lease liabilities	60,692	-
Other non-current liabilities	3,781	4,366
Deferred tax liabilities	15,883	9,130
Provision for legal proceedings	16,026	16,317
	146,513	174,524
Equity		
Share capital	275,531	274,546
Translation reserve	(103,942)	(101,867)
Retained earnings	981,573	816,286
Equity attributable to owners of the Company	1,153,162	988,965
Non-controlling interests	528	-
Total Equity	1,153,690	988,965
Total liabilities and equity	2,320,724	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

Nine and three months period ended 30 September 2019 and 2018

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2019	**2018**	**2019**	**2018**
Revenue	2,952,243	2,949,387	1,073,036	1,054,610
Cost of sales	(2,059,874)	(2,072,907)	(747,520)	(747,032)
Gross profit	892,369	876,480	325,516	307,578
Selling and marketing expenses	(519,146)	(492,619)	(185,247)	(177,203)
General and administrative expenses	(100,948)	(91,501)	(34,739)	(31,535)
Equity method	2,837	1,781	1,637	1,429
Other income (expenses), net	1,187	368	(130)	151
Operating profit	276,299	294,509	107,037	100,420
Financial income	8,069	10,923	2,997	3,821
Financial expenses	(25,755)	(21,628)	(10,939)	(9,654)
Profit before income tax	258,613	283,804	99,095	94,587
Income tax expenses	(32,575)	(43,937)	(10,989)	(10,147)
Profit for the period	226,038	239,867	88,106	84,440
Profit attributable to:				
Owners of the Company	226,274	239,867	88,342	84,440
Non-controlling interests	(236)	-	(236)	-
Total profit for the period	226,038	239,867	88,106	84,440

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

Nine and three months period ended 30 September 2019 and 2018

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2019	**2018**	**2019**	**2018**
Profit for the period	226,038	239,867	88,106	84,440
Other comprehensive income (loss) items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences	(2,075)	(10,486)	7,376	(6,896)
Comprehensive income for the period	223,963	229,381	95,482	77,544
Comprehensive income attributable to:				
Owners of the Company	224,199	229,381	95,718	77,544
Non-controlling interests	(236)	-	(236)	-
Total comprehensive income for the period	223,963	229,381	95,482	77,544

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

Three months period ended 30 September 2019 and 2018

(In thousand of Brazilian Reais)

		Retained earnings							
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Accumulated profit**	**Total**	**Non-controlling interests**	**Total Equity**
Balance as of 30 June, 2018	273,442	54,688	274,430	435,185	(95,507)	-	942,238	-	942,238
Profit for the period	-	-	-	-	-	84,440	84,440	-	84,440
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(6,896)	-	(6,896)	-	(6,896)
Total other comprehensive gain:	-	-	-	-	(6,896)	84,440	77,544	-	77,544
Internal equity changes									
Capitalization of tax incentives	1,104	-	(1,104)	-	-	-	-	-	-
Profit destination									
Legal reserve	-	221	-	-	-	(221)	-	-	-
State VAT and Federal tax incentives	-	-	21,429	-	-	(21,429)	-	-	-
Interest on equity credited	-	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Reserve for profit to be distributed	-	-	-	47,790	-	(47,790)	-	-	-
	1,104	221	20,325	47,790	-	(84,440)	(15,000)	-	(15,000)
Balance as of 30 September, 2018	274,546	54,909	294,755	482,975	(102,403)	-	1,004,782	-	1,004,782
Balance as of 30 June, 2019	275,531	55,106	343,341	513,884	(111,318)	-	1,076,544	-	1,076,544
Profit for the period	-	-	-	-	-	88,342	88,342	(236)	88,106
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	7,376	-	7,376	-	7,376
Total other comprehensive gain:	-	-	-	-	7,376	88,342	95,718	(236)	95,482
Internal equity changes									
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	3	3
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	761	761
Profit destination									
State VAT and Federal tax incentives	-	-	20,156	-	-	(20,156)	-	-	-
Interest on equity credited	-	-	-	-	-	(19,100)	(19,100)	-	(19,100)
Reserve for profit to be distributed	-	-	-	49,086	-	(49,086)	-	-	-
	-	-	20,156	49,086	-	(88,342)	(19,100)	764	(18,336)
Balance as of 30 September, 2019	275,531	55,106	363,497	562,970	(103,942)	-	1,153,162	528	1,153,690

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

Nine months period ended 30 September 2019 and 2018

(In thousand of Brazilian Reais)

		Retained earnings							
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments	Accumulated profit	Total	Non-controlling interests	Total Equity
Balance as of 31 December, 2017	273,442	54,688	248,180	334,399	(91,917)	-	818,792	-	818,792
Effect of new standards									
Adjustment from adoption of IFRS 9 (net of tax)	-	-	-	488	-	-	488	-	488
Adjustment from adoption of IFRS 15 (net of tax)	-	-	-	121	-	-	121	-	121
Total effect of new standards as of 1 January, 2018	-	-	-	609	-	-	609	-	609
Profit for the period	-	-	-	-	-	239,867	239,867	-	239,867
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(10,486)	-	(10,486)	-	(10,486)
Total other comprehensive gain:	-	-	-	609	(10,486)	239,867	229,990	-	229,990
Internal equity changes									
Capitalization of tax incentives	1,104	-	(1,104)	-	-	-	-	-	-
Profit destination									
State VAT and Federal tax incentives	-	-	47,679	-	-	(47,679)	-	-	-
Legal reserve	-	221	-	-	-	(221)	-	-	-
Interest on equity credited	-	-	-	-	-	(44,000)	(44,000)	-	(44,000)
Reserve for profit to be distributed	-	-	-	147,967	-	(147,967)	-	-	-
	1,104	221	46,575	147,967	-	(239,867)	(44,000)	-	(44,000)
Balance as of 30 September, 2018	274,546	54,909	294,755	482,975	(102,403)	-	1,004,782	-	1,004,782
Balance as of 31 December, 2018	274,546	54,909	313,513	447,864	(101,867)	-	988,965	-	988,965
Effect of new standards									
Adjustment from adoption of IFRS 16 (net of tax)	-	-	-	(7,842)	-	-	(7,842)	-	(7,842)
Total effect of new standards as of 1 January, 2019	-	-	-	(7,842)	-	-	(7,842)	-	(7,842)
Profit for the period	-	-	-	-	-	226,274	226,274	(236)	226,038
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(2,075)	-	(2,075)	-	(2,075)
Total other comprehensive gain:	-	-	-	-	(2,075)	226,274	224,199	(236)	223,963
Internal equity changes									
Capitalization of tax incentives	985	-	(985)	-	-	-	-	-	-
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	3	3
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	761	761
Profit destination									
State VAT and Federal tax incentives	-	-	50,969	-	-	(50,969)	-	-	-
Legal reserve	-	197	-	-	-	(197)	-	-	-
Interest on equity credited	-	-	-	-	-	(52,160)	(52,160)	-	(52,160)
Reserve for profit to be distributed	-	-	-	122,948	-	(122,948)	-	-	-
	985	197	49,984	122,948	-	(226,274)	(52,160)	764	(51,396)
Balance as of 30 September, 2019	275,531	55,106	363,497	562,970	(103,942)	-	1,153,162	528	1,153,690

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

Nine and three months period ended 30 September 2019 and 2018

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
Profit for the period	226,038	239,867	88,106	84,440
Adjustments for:				
Depreciation and amortization	54,659	29,275	19,737	10,845
Gains in tax lawsuits	(58,611)	(5,535)	(20,274)	-
Termination of lease contracts	(241)	-	(241)	-
Provision for legal proceedings	(291)	(940)	(796)	(144)
Other income, net	(1,187)	(368)	130	(151)
Equity method	(2,837)	(1,781)	(1,637)	(1,429)
Finance expenses, net	17,686	10,705	7,942	5,833
Income tax expenses	32,575	43,937	10,989	10,147
Change in:				
Trade receivables	(173,423)	(79,514)	(5,339)	5,506
Inventories	(31,011)	(175,484)	(38,009)	(98,332)
Recoverable and payable taxes, net	9,989	(28,232)	420	(18,290)
Judicial deposits	(1,984)	333	(788)	(60)
Trade payables	7,268	34,364	8,660	(2,973)
Employees and other payroll related liabilities	15,976	14,159	8,531	3,441
Other current and non-current assets and liabilities	(739)	270	5,999	2,125
Change provided by operating activities	93,867	81,056	83,430	958
Interest paid	(18,387)	(16,764)	(5,405)	3,462
Interest received	8,392	10,923	2,622	3,821
Income tax paid	(260)	(28,917)	(26)	(22,079)
Net cash flows provided (used) by operating activities	83,612	46,298	80,621	(13,838)
Cash flows from investing activities				
Change in deposits	(570)	(823)	(1,295)	2,101
Payment for acquisition of operations	(5,236)	(16,325)	-	-
Proceeds from sales of fixed assets	5,407	2,797	2,348	1,232
Acquisition of fixed assets	(112,520)	(94,563)	(26,889)	(36,177)
Investments in intangible assets	(6,502)	(7,608)	(3,517)	(3,286)
Long term loans to related parties	6,237	731	(88)	-
Net cash flows used in investing activities	(113,184)	(115,791)	(29,441)	(36,130)
Cash flows from financing activities				
Proceeds from loans	399,559	382,460	102,127	92,863
Repayment of loans	(319,958)	(368,739)	(47,911)	(185,578)
Payment of lease liabilities	(12,647)	-	(4,202)	-
Dividend paid	(59,782)	-	(59,782)	-
Net cash flows provided (used) by financing activities	7,172	13,721	(9,768)	(92,715)
Net increase (decrease) in cash and cash equivalents	(22,400)	(55,772)	41,412	(142,683)
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents as of beginning of period	221,467	113,110	157,655	200,021
Cash and cash equivalents as of end of period	199,067	57,338	199,067	57,338
	(22,400)	(55,772)	41,412	(142,683)

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.

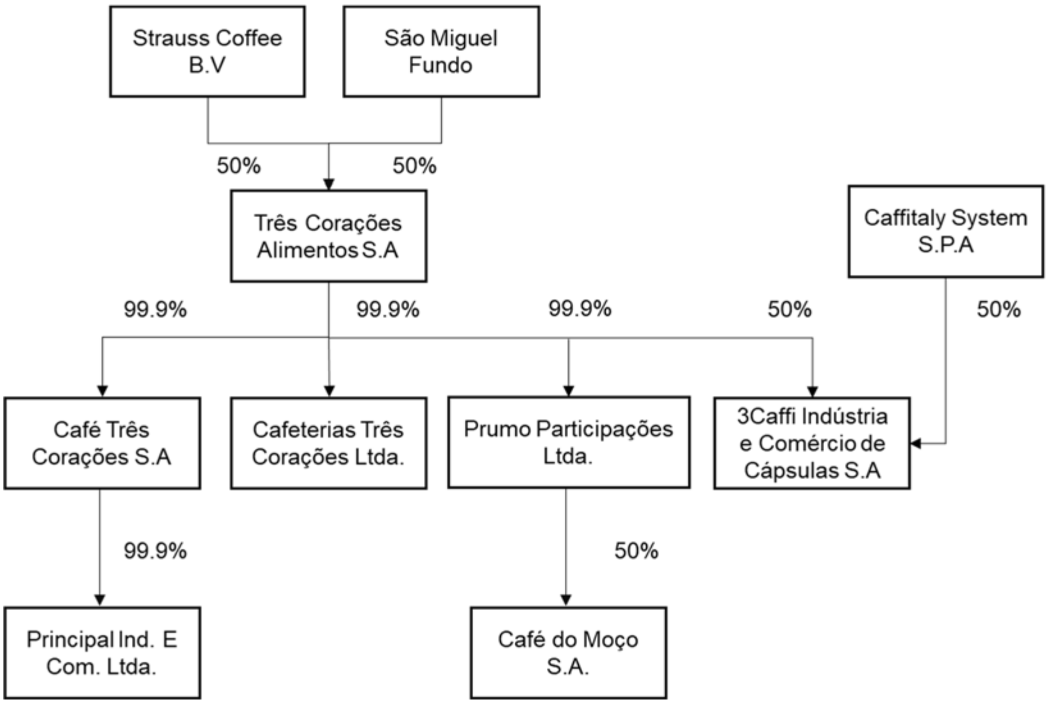
The Company controls the entities Cafeterias Três Corações Ltda., Prumo Participações Ltda., which controls the entity Café do Moço S.A. (see Note 3.2) and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". The Company 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 do Café 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., which is active in roasting and selling specialty coffees in e-commerce and to third party businesses.

As of 30 September 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 November 01, 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 required.

The same 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 effects 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 as 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 assets	77,257
Deferred tax assets	1,160
Total Assets	**78,417**
Liabilities and equity	
Current liabilities:	
Lease liabilities	18,324
Non-current liabilities:	
Lease liabilities	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 nominal rate applied was 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 affects significantly the amount of recognized lease liabilities and right-of-use assets.

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$ 66,112 of right-of-use assets and R$ 76,898 of lease liabilities as at 30 September 2019.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets	**Lease liabilities**
As at 01 January 2019	**77,257**	**87,852**
Additions	8,449	8,449
Terminations	(6,514)	(6,757)
Depreciation expense	(13,080)	-
Interest expense	-	4,483
Payments (principal and interest)	-	(17,129)
As at 30 September 2019	**66,112**	**76,898**

The accounting treatment of measurement of the amounts related to IFRS 16, net of Federal VAT, is under discussion by the Brazilian authorities. The conclusion of discussions and final definitions are expected by the end of 2019.

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 nine month periods ended 30 September 2019 was R$ 2,056 (R$ 522 for three months ended 30 September 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$ 1,188. 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 has 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 proceeding 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.

On August 13, 2019, the proceeding nº. 0005585-90.2007.4.02.5110 was also judged definitively by the Federal Regional Court of the Second Region, regarding the subsidiary Principal Comércio e Indústria de Café Ltda. The proceeding comprises the period from 2002 to 2019.

After receiving the final decisions, 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 now expected to be concluded by December 2019. In the period ended September 30, 2019, the Group has recognized the amount of R$ 72,117 (R$ 13,506 as of 31 December 2018) of recoverable taxes in non-current assets.

Although the claim for Três Corações Alimentos S.A. and Principal Comércio e Indústria de Café Ltda. has been fully confirmed by the courts, the utilization of the benefit via tax compensation is still subject to lengthy administrative proceedings by the Brazilian Federal Revenues. The Três Corações Alimentos S.A.'s compensation procedures was initiated in September 2019. The initial expectation is that the utilization via tax compensation occurs within a period not longer than five years.

The Group also has an additional claim related to Café Três Corações S.A., which has not yet been judged definitively.

3.4 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.

3.5 Corporate restructuring – Incorporation of 3CNorte

The Extraordinary General Meeting ("AGE") held on September 30, 2019 has approved incorporation of the subsidiary 3Corações Norte Comércio de Produtos Alimentícios Ltda. ("3CNorte") by the Company. The 3CNorte incorporation has no impact on condensed consolidated interim financial statements, since it occurred between Group companies.

The 3CNorte incorporation had the objective of simplifying the Group current organization structure, as well as gaining synergy and decreasing operating costs by sharing structures, especially of the administrative back office.

4 Net debt

	30 September 2019	31 December 2018
Short term loans	478,073	275,446
Long term loans	50,131	144,711
Cash and cash equivalents	(199,067)	(221,467)
Net debt	329,137	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 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 nine month periods ended 30 September 2019:

- Cash flows provided by operating activities, in the amount of R$ 82,944;
- Cash flows used in investing activities, in the amount of R$ (112,516);
- Cash flows provided by financing activities, in the amount of R$ 7,172.

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 December 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.

On July 15, 2019 the Group also obtained another favorable outcome in the CARF, concerning the same subject, for the period from April 2014 to December 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 September 2019 is R$ 66,926 (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. 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 September 2019		**31 December 2018**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Short term loans	478,073	433,462	275,446	262,072
Long term loans	50,131	43,884	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 September 2019 and 31 December 2018, the Group had no financial instruments classified at Level 3.

8 Revenue

8.1 Disaggregated revenue information

	Products	Service	Nine month period ended September 30 2019
		R$	
Geographical markets			
Domestic	2,797,053	129	2,797,182
Foreign	155,061	-	155,061
	2,952,114	129	2,952,243

	Products	Service	Nine month period ended September 30 2018
		R$	
Geographical markets			
Domestic	2,763,034	333	2,763,367
Foreign	186,020	-	186,020
	2,949,054	333	2,949,387

	Products	Service	Three month period ended September 30 2019
		R$	
Geographical markets			
Domestic	1,017,452	42	1,017,494
Foreign	55,542	-	55,542
	1,072,994	42	1,073,036

	Products	Service	Three month period ended September 30 2018
		R$	
Geographical markets			
Domestic	971,191	223	971,414
Foreign	83,196	-	83,196
	1,054,387	223	1,054,610

8.2 Revenue reconciliation

	R$			
	Nine month period ended September 30		Three month period ended September 30	
	2019	2018	2019	2018
Gross revenue:				
Products – domestic	3,515,841	3,416,643	1,287,724	1,214,990
Products – foreign	155,061	186,020	55,542	83,197
Services	142	189	39	67
Other	106	370	-	261
Taxes on sales	(286,905)	(339,154)	(106,736)	(122,112)
State VAT incentives	70,898	65,951	27,048	20,989
Discounts	(378,441)	(278,260)	(147,954)	(105,522)
Other deductions	(124,459)	(102,372)	(42,627)	(37,260)
	2,952,243	2,949,387	1,073,036	1,054,610

*　　*　　*

Pedro Alcântara Rêgo de Lima
Chief Executive Officer

Danisio Costa Lima Barbosa
Chief Financial Officer

Adenise Evangelista de Melo
Accountant