STRAUSS GROUP LTD.

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STRAUSS GROUP LTD.

DESCRIPTION OF THE CORPORATION'S BUSINESS

UPDATE TO THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS"
IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY")
FOR THE YEAR 2019[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 three months ended March 31, 2020 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 2019 Periodic Report (**"Description of the Company's Business Report"** and **"Additional Information Report"**, respectively), and is presented according to the order of the sections in said reports. It is noted that the terms 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 24, 2020 the Board of Directors of the Company approved the distribution of a cash dividend to shareholders of the Company. For information on said dividend distribution, see the Immediate Report of March 25, 2020, as amended on March 25, 2020 and supplemented on April 2, 2020 (reference no. 2020-01-025534, 2020-01-025804 and 2020-01-031033, respectively) and also Note 4.1 to the condensed consolidated interim financial statements of the Company as at March 31, 2020.

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

Section 21.6, Credit rating

On April 2, 2020 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 2, 2020 (reference no. 2020-01-035199).

On May 6, 2020 the Company announced the reaffirmation of Midroog's Aa1.il rating with stable outlook for the Company's Series D and Series E debentures. For further information, see the Immediate Report of May 6, 2020 (reference no. 2020-01-044874).

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 March 31, 2020.

Date: May 24, 2020

Names and titles of signatories:

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Chief Executive Officer

Strauss Group Ltd.

[1] As published on March 25, 2020 and amended on March 25, 2020 (reference no. 2020-01-025537 and 2020-01-025651, respectively).

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
AS AT MARCH 31, 2020

Unofficial Translation from Hebrew

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED MARCH 31, 2020

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 first quarter of 2020 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, 2019, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 25, 2020 (reference no. 2020-01-025537) (the "2019 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 first quarter of 2020 the Group held a 12.2% share of the total domestic food and beverage market (in value terms[1]), unchanged compared to 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 business 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 Update on the coronavirus pandemic (COVID-19)

2.1.1 General

December 2019 saw the start of an unfolding event with global health, social and macroeconomic consequences in the form of the spread of the COVID-19 virus, which was declared a global pandemic, in most countries in the world. Following the outbreak, Israel and many countries applied steps to delay the spread of the virus, including the imposition of restrictions on the movement of people and goods and closure of borders. These steps have broadly impacted global economic activity, with increasing volatility in capital markets, commodity prices and various currencies (for greater detail, see sections 2.2-2.4 below).

General – crisis management

Group Management is vigilantly managing the event and continues to manage and assess the risks on an ongoing basis in all countries of operations, since due to its nature this is an unfolding event that is evolving and changing constantly, sometimes on a daily basis. In the context of managing the COVID-19 crisis, the Group defined key goals: to protect the health and safety of its employees, assure their wellbeing and sense of security and maintain the uninterrupted ability to serve consumers and customers in the geographies where the Group is active, while making optimal preparations for the new reality after the health crisis has been overcome.

In each of the Group companies and at Group HQ crisis management teams have been formed, which are responsible for adapting processes and routines to the changing situation, managing a daily and weekly intra- and extra-organizational communication policy, etc. The crisis management team at Group Headquarters provides regular updates to Group Management and the Board of Directors.

The Group has applied strict safety measures among employees based on the instructions of the authorities at all its sites worldwide, particularly in its plants and supply chain facilities, including social distancing, use of masks and personal protective equipment and checking temperatures at the entrance to its sites, hygiene and cleanliness of the work environment. The Group has also created a digital work environment that allows for work from home wherever possible.

The Group has applied a series of measures in all geographies where it is active. This includes making business preparations for the optimization of the supply chain and the transportation of goods, equipment and raw materials, including locating alternatives for international transportation where necessary, and maximum preservation of continuity on the production floor (focusing on core products), logistics, distribution and sale in order to ensure the continued regular supply of products and services to the retail chains and consumers. As at the date of this report and throughout the quarter, all of the Group's manufacturing and supply chain facilities in all geographies have continued to operate normally. The Group has cooperated, and continues to cooperate, closely with its suppliers and customers to ensure that the supply chain is able to meet the high demand observed in some of its businesses in March and April, including actions intended to increase production capacity and maximize the availability of products and services.

It is noted that as at the date of this report, the number of employees in the Group who were infected with COVID-19 is extremely low, and localized cases of infection were treated according to the instructions of the authorities.

Additionally, to address the exposure and risks, possible operational and financial scenarios were tested, including extreme scenarios, with regard to all businesses and geographies in which the Group is active. The Group also worked on identifying the major changes occurring in the consumer market, sales channels, categories and cost structure, and has begun to make the necessary adjustments to accommodate the new business and operational routine dictated by the pandemic.

In the context of dealing with the crisis, in the first quarter the Group awarded a benefits and incentives package to employees who continued to come to work at the manufacturing sites and distribution points in most countries of operations, and also made a fund available to its suppliers in Israel, granting loans on a scale that is immaterial to the Group.

The Group also took a number of steps to ensure financial stability and flexibility and adequate liquidity in all geographies. The group continues to invest in developing its brands and to reinforce its partnerships, while reviewing various business opportunities and making advance preparations for the challenges that lie ahead.

2.1.2 Impacts of the COVID-19 crisis on the Group's activities and results

The impact of the crisis varies substantively between geographies, product categories and sales channels, and is influenced by the timing of the outbreak of the pandemic and the extent of its containment in each geography, the restrictions imposed on businesses and the effect of the restrictions on consumer behavior. The past few months (March to May in most countries) were characterized by initial preparations made by countries to cope with the pandemic, as well as the imposition of lockdowns of various kinds and for varying periods. Following are the main phenomena observed during these months:

Consumer behavior – In general, the Group encountered a number of behavior characteristics that included, among others, increased in-home consumption of food and beverages and a reduction in away-from-home (AFH) consumption due to the restrictions on movement imposed on consumers in some countries of operations, increased purchases of pantry products prior to curfews, more shopping online, a certain decrease in purchases of impulse products, with known brands growing stronger alongside private labels, etc.

Geographies – In most markets where the Group is active, particularly in Israel and the US, significant growth was observed in March sales, which was the result, among other things, of increased in-home consumption of food products due to the lockdowns imposed on consumers and the shutdown of entertainment and dining venues. In April the trend of increased consumption of food and beverages tapered off somewhat, but remained high compared to consumption in the period preceding the COVID-19 crisis. In Israel, growth in sales by Strauss Water slowed, mainly as a result of a drop in the number of upgrades by the company's customers. In Haier Strauss Water (HSW) in China, the company experienced sales growth with the gradual return to routine in the country in April, as opposed to a drop in sales in the reporting period.

Product categories – During the quarter growth in demand for the Group's products was evident, such as dairy products, salads (dips and spreads), confectionery, salty snacks and coffee products, as consumers prepared for the lockdown in Israel, the US and most Eastern European countries. By contrast, the Company experienced a certain drop in sales of a small number of confectionery and snack products, and of small packs that primarily serve for AFH consumption (mainly in Israel and the US), and a drop in sales and upgrades of water bars in Israel, particularly in March and April. In April, as mentioned, the trend of increased consumption of food and beverages tapered off, but nevertheless remained high compared to consumption prior to the COVID-19 outbreak.

Sales channels – The Group's sales to the retail chains in the quarter grew, in parallel to a drop in sales to the institutional and AFH channel, which includes hotels, offices, cafés (including the Elite Café chain), restaurants and open-air markets, and impulse (on-the-go (OTG)) sales. In 2019, total sales to the institutional and AFH sector accounted for less than 10% of the Group's sales turnover.

In addition to monitoring the Group's major financial metrics (key performance indicators (KPIs)), including sales, gross profit, operating profit, net profit and free cash flow (cash flow from operating activities less investments in fixed and intangible assets), Management measures certain metrics to determine the operational efficiency of its plants (such as overall equipment efficiency (OEE)) as well as metrics related to meeting demand (e.g. ordered/supplied) on an ongoing basis, but in light of the COVID-19 crisis has done so with greater frequency to ensure the Group's ability to meet the high demand for its products following the crisis. As the lockdown eases and restrictions are being lifted in the countries of operations, Management is continuously monitoring the recovery of the various economies that were impacted by the coronavirus pandemic.

Impact of the COVID-19 crisis on the Group's business units in the quarter and through to the date of publication of the report

Strauss Israel – Following the lockdown in Israel, which began at the end of March, demand for dairy products, salads, salty snacks and confectionery rose, while demand for single serve snacks dropped and consumers shifted to making increased purchases in a bigger format. The Group's sales to the retail chains grew, among

other things, in light of a significant increase in online grocery shopping, in parallel to a drop in sales to the institutional and AFH channel (e.g. hotels, offices, cafés and restaurants). As the country returns to routine demand for the Group's products remains high, but has slowed in relation to the demand observed during the outbreak and lockdown phase. Most of the manufacturing sites and the accompanying supply chain and value chain are defined as essential, and consequently operated regularly and continuously during the lockdown, and the Company estimates that they will continue to operate regularly even if an emergency is declared again (it is emphasized that this estimate is forward-looking information, based on the Company's experience during the COVID-19 crisis to date and the legal situation as at the date of this report, and there can be no assurance that these estimates will, in fact, occur, or that they will not occur in a different form, depending on the decisions of the authorities in the countries where the Group operates, the legal position and the scope of restrictions imposed, if imposed, if an emergency is declared again). Supply chain costs and manufacturing costs rose due to the growth in sales, and the Group incurred additional manufacturing costs due to the costs of personal hygiene, the separation of shifts, support of production-line and front-line employees, and contribution to the community.

Strauss Water

In Israel – In March, a drop in sales and upgrades of water purification and carbonation appliances was evident; however, the Group continued to provide full service during the lockdown, and service metrics improved after suitable alternatives were found. The supply chain has functioned regularly. Additionally, the service and sales call center has been working while increasing the space between employees, providing the option of working from home and redirecting calls to digital platforms. At the beginning of the COVID-19 crisis the company incurred non-recurring costs in the supply chain as a result of restrictions on the import of spare parts and appliances and the need to maintain high inventory levels due to the uncertainty in the markets. The company also experienced an increase in IT costs as employees shifted to working from home, and there were additional one-time costs related to hygiene and personal protective equipment.

In China – In the first two months of the quarter the HSW joint venture experienced a substantial drop in sales and a significant shift to online sales, as physical sales in stores were discontinued as a result of the lockdown. In March and with the easing of the lockdown, sales have begun to recover as at the date of this report. To the best of the Company's knowledge, most of the employees of the joint venture, its subcontractors and suppliers have resumed operations.

Strauss Coffee – In most countries of operations the Group's sales increased in March as a result of rising demand for basic coffee brands and the lockdown in most countries. In parallel, a slight increase was observed in sales of coffee beans and capsules for home consumption. In the sales channels, growth was observed in modern trade sales (sales to the large retail chains) and online sales, accompanied by a substantial drop in sales to the institutional and AFH sector as a result of the discontinuation of the activities of hotels, cafés, restaurants, offices and the points of sale of the Elite Café chain in Israel, which accounts for 10% of coffee sales.

In terms of costs, the cost of green coffee rose as a result of the appreciation of the Dollar against the functional currencies and an increase in green coffee prices in Brazil. At the same time, price adjustments are possible over time, which will compensate for the rise in green coffee prices in local currency (it is noted that the Company's forecast is forward-looking information that is based on the Company's experience in the coffee market, and may not be realized as a result of a long-lasting recession).

The coffee company's supply and distribution chain was operational throughout the first quarter and is fully and regularly operational as at the date of this report. It is noted that the Group has prepared to contend with the temporary local shutdown of coffee plants by means of a backup pan for the supply of coffee from the Group's coffee production sites in other countries.

The International Dips & Spreads business – Sabra experienced sales growth in March as a result of the COVID-19 crisis. Most of the increase was observed in sales to the large retail chains and was accompanied by a drop in sales to grocery stores, convenience stores and AFH sales. The supply chain was operational throughout the quarter, and as at the date of this report is operating fully and regularly. Wage costs in Sabra rose as a result of incentives and support provided to production, operations and sales employees, besides the additional costs of personal protective equipment and high supply chain costs due the need to maintain high inventory levels in light of the uncertainty at the start of the crisis.

Obela experienced steady demand for its dip products, and high supply chain costs due to the impacts of the lockdown in Australia.

Following is the distribution of sales according to activity segments (based on the Company's non-GAAP reports) by month (in NIS millions):

	March				First Quarter			
Activity segment	**2020**	**2019**	**% Chg**	**% chg in local currency***	**2020**	**2019**	**% Chg**	**% chg in local currency***
Strauss Israel	379	308	22.8%	22.8%	983	877	12.1%	12.1%
Strauss Coffee	323	335	(3.7%)	8.9%	844	894	(5.6%)	5.0%
International Dips & Spreads	79	61	30.4%	33.4%	197	192	2.8%	7.9%
Strauss Water	43	46	(7.3%)	(7.0%)	144	143	0.4%	0.5%
Total	**824**	**750**	**9.7%**	**16.0%**	**2,168**	**2,106**	**3.0%**	**8.1%**

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

Liquidity, financial position and sources of finance

In light of the instability in the markets, the Group is tightly managing liquidity risk and cash balances. On March 31, 2020 the balance of cash and deposits in the Group's financial statements was approximately NIS 430 million. Additionally, to allow for flexibility and to ensure financial stability, in March and May 2020 the Group contracted in a number of agreements with banks and a financial institution to establish secure credit facilities for its regular activities at a total amount of NIS 600 million, of which NIS 300 million are for a period of one year, NIS 100 million for a period of two years and NIS 200 million for a period of three years. Although at the peak of the outbreak in Israel the government margin on the Group's debentures rose, as at the date of publication of this report the margin has returned to approximately the same level at which it was traded prior to the crisis, and the Group's raising cost has not materially changed (for information on the reaffirmation of the Group's rating, see section 3.1.5 below). Consequently, the Group estimates that the COVID-19 crisis is not expected to materially affect its ability to raise further debt in addition to the abovementioned secure credit facilities, and the Company expects that the crisis will have no impact on its compliance with financial covenants (this assessment is forward-looking information based on the Group's estimates and forecasts and market conditions. There can be no assurance that this assessment will, in fact, occur, or that it will not occur in a materially different form as a result of a change in market conditions).

Credit risk – Following the crisis and its adverse impact on the economy, the credit risk of some of the Group's customers has increased, particularly in the AFH channels, which were harmed by the crisis. The Group manages credit risks tightly and continuously to ensure regular sales and collection processes. Additionally, during the quarter the Group increased the provision for credit risks on the basis of the risk analysis (see also section 3.1.5 below, Liquidity, Sources of Finance and Financial Position).

2.1.3 Future preparations

As demonstrated by the foregoing, as at the date of this report, the COVID-19 outbreak has had no material adverse effect on the Group's business position and the results of its operations, other than the impact of the depreciation of the Brazilian Real and Russian Ruble on reported translation differences, an immaterial effect in respect of the drop in the volume of business of the Haier Strauss Water joint venture in China in the first quarter of 2020 with a recovery in April, and certain amount of harm to the Company's operations in the AFH and institutional market, which was counterbalanced by growth in sales of products for home consumption.

Notwithstanding the foregoing and in light of the great uncertainty with regard to the period in which the event will persist and the implications of the coronavirus pandemic, the Company is unable, at the present time, to assess the extent of the future impact on its business position.

April saw vigorous demand for the Company's products, and the Company's sales in Israel rose by 7% compared to April last year. In May as well, Israel sales have been higher than usual, the business in Russia continues to achieve high growth rates, and the business in China is resuming growth as online sales increase. In the rest of the Group's countries of operations the Company's sales have suffered compared to the corresponding period last year.

As the lockdown in the countries of operations eases, there may be a drop in demand for the Company's products as a result of consumers having stocked up prior to the lockdown. By contrast, there are estimates claiming that for the duration of the crisis and as it evolves, higher sales levels than usual will be maintained as a result of increased in-home consumption and the restrictions imposed on the consumption of food away from home, including restaurants, cafés, hotels (and the tourism industry as a whole) and workplace catering.

Some scenarios, such as those described below, are liable to have a material impact on the Company's business position and the results of its operations:

1. World economic crisis and global recession – Economic slowdown and uncertainty lead to a decrease in private consumption and a preference for cheap products. Generally, an economic slowdown could impair the growth of the Group, which focuses on branded products, impede the realization of its strategy and harm its profitability.

2. Exchange rate volatility – The Group's business in Brazil and in CEE countries is directly affected by the instability of the economic and monetary system in those countries. The COVID-19 pandemic is liable to have a lasting effect, which will be expressed in increased exchange rate volatility, which in turn is liable to continue to lead to increasing raw material prices and create a negative translation differences impact on the Group's results. Erosion of the currencies in emerging markets and the Group's countries of operations in Eastern Europe, as well as Brazil, raises the price of the major raw material, green coffee, and will adversely impact the profitability of the coffee company.

3. Medical, political and economic uncertainty in Brazil – The crisis began to affect Brazil at a later stage than Israel and Europe, and it appears that the impact there is significant. The Brazilian currency continued to erode after the end of the quarter, and its average exchange rate as at the date of this report has dropped by a further 7.6% since the statement of financial position date, erosion which will adversely affect the second quarter results of the company in Brazil in local currency and in translation of the results into the Group's reporting currency. Political and economic instability in Brazil is likely to continue to harm the Group's results (for information on exchange rate volatility, see section 2.4 below).

4. Financial crisis – A financial crisis is liable to severely harm financial institutions, lead to a reduction in available world sources of capital and credit, lead to an increase in finance costs and cause liquidity problems sending national shockwaves.

5. Closure or lockdown of sites for an extended period – A considerable part of the Group's activity is concentrated in a small number of sites around the world, including subcontractor sites. Closure or a complete and/or partial lockdown of these sites is liable to have a material impact on the Group's activity, to the point of shutting down production and logistic processes in extreme cases, leading to a loss of earnings and/or assets.

6. Suspension of significant parts of international trade – Part of the Group's business depends on the supply of raw materials from different countries. Harm to international trade could be damaging to the ability to regularly supply raw materials, equipment, packaging materials and finished goods.

7. Fluctuations in prices and availability of raw materials – Raw materials are a substantial component of the manufacturing inputs of the Group's products. A considerable part of these raw materials are agricultural commodities whose price and availability depend, among other things, on international trade. Price volatility as a result of restricted trade conditions and a world financial and fiscal crisis are liable to erode the Group's profitability.

8. High infection rates in Israel and worldwide could lead to a lockdown or closure of the Group's sites for an extended period and are liable to have a material impact on the Group's activities, to the point of shutting down production and logistic processes in extreme cases, leading to a loss of earnings and/or assets.

9. Customer credit – A deep economic crisis is liable to create collection difficulties and credit risk among customers experiencing financial difficulty.

10. Change in consumer trends following the outbreak – The Group's success depends to a large extent on its ability to anticipate changes in consumption preferences, including changing tastes, consumption habits, forms of consumption and the shopping experience, and to adapt the variety of its products to changing demand. Part of the Company's customers such as the institutional market, hotels, restaurants and cafés may possibly lower their demand for the Group's products. Additionally, the pandemic may have a material impact on consumption habits in the short and long term. There is also a chance that the macroeconomic damage, combined with increased online shopping at the big retailers, will lead to an increase in demand for private labels, which is liable to come at the expense of the Company's brands. Sales of the products of the dips and spreads companies Sabra and Obela, which are sold mainly in North America and Australia, particularly hummus, are liable to be harmed as a result of a drop in consumers' disposable income and their perception as products that are not staple consumer goods.

11. Institutional market, points of sale and impulse sales – In the coffee category, since the crisis broke out, the institutional market has been badly affected. The institutional market includes the Elite Café chain points of sale, hotels and restaurants. Continuation of the crisis and failure to open these points of sale, or the outbreak of a second wave and the imposition of another lockdown, will continue to adversely impact sales in this sector. Additionally, in the Fun & Indulgence segment in Israel and in International Dips & Spreads sales, the negative effect on impulse sales is liable to continue for an extended period.

12. Strauss Water sales – Sales of water bars in Israel were adversely affected in the quarter by a drop in sales and upgrades of appliances, mainly in March. Should another lockdown be imposed following a renewed outbreak, sales of water bars are liable to again be harmed in Israel and the UK.

13. The water company in China, HSW – in the first quarter, following the lockdown in China, HSW's sales were adversely affected and dropped by approximately 26.4%, but the impact on profit was immaterial. The company took advantage of the crisis to improve its online sales operation in China, and these sales counterbalanced the negative effect of the closure of sales centers in China in the first quarter. If there is a second wave in China and another lockdown, the company's future sales will be harmed. It is noted that a drop of approximately 6.8% in China's GDP was registered in the first quarter, which is liable to adversely affect demand for the company's products later in the year.

Should all or part of the above risks be realized, this is liable to materially affect the Company's business position and the results of its operations.

The information contained in this report with respect to the COVID-19 crisis, including the Company's estimates that no material impact on its financial statements is expected, as well as the intention to close the gaps in production, and with respect to the scenarios of future effects, are forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, *inter alia* as a result of possible future developments as described above.

2.2 Prices of raw materials and other production inputs – A substantive part of the raw materials used to manufacture the Group's products are traded on the commodities markets. In the first quarter of 2020 there were changes in the average market prices of part of the Group's raw materials. On the one hand, the average prices of Robusta green coffee, sesame, the price of raw milk (the "target price"), olive oil, polystyrene and plastic bottles (packaging materials) dropped, whereas on the other, the prices of Arabica green coffee and green coffee prices in Brazil rose, as did the prices of cocoa, sugar, tahini and honey. At the beginning of the second quarter of the year the price of raw milk ("target price") was revised upward by approximately 0.1% for the months April-June 2020, and in total remained unchanged since the beginning of 2020 following a drop of around 2.6% in 2019.

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

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

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

[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).

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.

2.3 Energy prices – In the first quarter of 2020 the average prices of Brent oil were approximately 20% lower than the average price in the corresponding period last year. Since the beginning of the year through to proximate to the date of publication of the report, the price of Brent oil decreased by approximately 45%.

2.4 Exchange rate fluctuations – The impact of the revaluation of the Shekel on the basis of average exchange rates against all of the Group's functional currencies (excluding the Hryvnia), particularly the Brazilian Real, led to negative translation differences on the income statement in the first quarter of 2020. In terms of quarterly change (based on closing prices), in the first quarter of 2020 the Shekel appreciated against most currencies, significantly against the Brazilian Real and Russian Ruble, with a negative net effect on the Group's equity in the first quarter of the year. Since the beginning of the year through to the date of approval of the financial statements, the Brazilian Real depreciated against the Shekel by approximately 26%.

In the first quarter most of the average exchange rates of the functional currencies (excluding the Hryvnia, Ruble and Shekel) depreciated against the US Dollar compared to the corresponding period.

The following table presents the average exchange rates **versus the Shekel** in the first quarter of 2020 compared to the corresponding period last year:

Currency		**Average Exchange Rate in the First Quarter**		**%**
		2020	**2019**	**Change**
United States Dollar	USD	3.496	3.645	(4.1%)
Euro	EUR	3.854	4.140	(6.9%)
Ukrainian Hryvnia	UAH	0.140	0.133	4.7%
Russian Ruble	RUB	0.053	0.055	(4.1%)
Serbian Dinar	RSD	0.033	0.035	(6.4%)
Romanian Leu	RON	0.803	0.874	(8.1%)
Polish Zloty	PLN	0.892	0.962	(7.3%)
Brazilian Real	BRL	0.789	0.968	(18.5%)
Chinese Renminbi	CNY	0.501	0.540	(7.3%)
Canadian Dollar	CAD	2.605	2.742	(5.0%)
Australian Dollar	AUD	2.302	2.596	(11.3%)
Mexican Peso	MXN	0.176	0.190	(7.4%)
Pound Sterling	GBP	4.478	4.744	(5.6%)

The following table presents the average exchange rates **versus the Dollar** in the first quarter of 2020 compared to the corresponding period last year:

Currency		**Average Exchange Rate in the First Quarter**		**%**
		2020	**2019**	**Change**
New Israeli Shekel	ILS	0.286	0.274	4.3%
Ukrainian Hryvnia	UAH	0.040	0.037	9.2%
Russian Ruble	RUB	0.015	0.015	0.1%
Serbian Dinar	RSD	0.009	0.010	(2.4%)
Romanian Leu	RON	0.230	0.240	(4.2%)
Polish Zloty	PLN	0.255	0.264	(3.3%)
Brazilian Real	BRL	0.226	0.265	(14.9%)
Chinese Renminbi	CNY	0.143	0.148	(3.3%)
Pound Sterling	GBP	1.281	1.301	(1.5%)

The following table presents the average exchange rates **versus the Shekel** proximate to the date of publication, compared to the second quarter of 2019:

Currency		At date of publication	Average Exchange Rate in the Second Quarter 2019	% Change
United States Dollar	USD	3.529	3.595	(1.8%)
Euro	EUR	3.846	4.040	(4.8%)
Ukrainian Hryvnia	UAH	0.131	0.135	(3.6%)
Russian Ruble	RUB	0.049	0.056	(11.8%)
Serbian Dinar	RSD	0.033	0.034	(4.5%)
Romanian Leu	RON	0.794	0.851	(6.7%)
Polish Zloty	PLN	0.853	0.943	(9.6%)
Brazilian Real	BRL	0.632	0.917	(31.1%)
Chinese Renminbi	CNY	0.494	0.527	(6.2%)
Canadian Dollar	CAD	2.515	2.687	(6.4%)
Australian Dollar	AUD	2.299	2.517	(8.7%)
Mexican Peso	MXN	0.155	0.188	(17.3%)
Pound Sterling	GBP	4.294	4.621	(7.1%)

The following table presents the average exchange rates **versus the Dollar** proximate to the date of publication, compared to the second quarter of 2019:

Currency		At date of publication	Average Exchange Rate in the Second Quarter 2019	% Change
New Israeli Shekel	ILS	0.283	0.278	1.9%
Ukrainian Hryvnia	UAH	0.037	0.038	(1.8%)
Russian Ruble	RUB	0.014	0.015	(10.2%)
Serbian Dinar	RSD	0.009	0.010	(2.7%)
Romanian Leu	RON	0.225	0.237	(4.9%)
Polish Zloty	PLN	0.242	0.262	(7.9%)
Brazilian Real	BRL	0.179	0.255	(29.8%)
Chinese Renminbi	CNY	0.140	0.147	(4.4%)
Pound Sterling	GBP	1.217	1.285	(5.3%)

As at the middle of the second quarter, the trend of erosion of the real versus the shekel has continued and even intensified, and is presently approximately 31.1% compared to the average exchange rate in the second quarter of 2019, which is expected to have a greater impact on the company's second quarter results.

2.5 Regulatory developments in input prices – In January 2020 the Public Health Regulations (Food) (Nutritional Labeling), 2017 took effect. 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 large amounts of sodium ,sugars or saturated fatty acids 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.

In November 2019 the Ministry of Health published recommendations for labeling food products with a green symbol. As part of the labeling initiative, the Ministry recommended that food manufacturers, importers and marketers use a green symbol to indicate foods that are healthy and recommended for consumption, and satisfy the criteria that were defined. In the Company's estimate, as at the date of this report, there is no material impact on the Company's business results following the publication of the final recommendations.

2.6 Sustainability, corporate responsibility, social investment and donations – Strauss, which encountered the COVID-19 crisis together with the rest of the world, defined a dedicated social program with the aim of helping its key stakeholders to cope with the crisis. The program was devised on the basis of mapping urgent social needs, utilizing existing infrastructure and resources, focusing on the organization's core area of activity, as well as a continuous review of requests for support. The steps taken reflect the Company's values and its way.

The Company's people (high priority) – Company Management and the HR Division established processes for decision-making with regard to a compensation policy to support employees who continued to attend their regular work environment despite the complexities involved (front-line people).

Suppliers and small and medium manufacturers in the food industry – In Israel, a fund and website for suppliers, activity by Ta'am Hateva to promote direct procurement from Israeli farmers, purchasing activities focusing on small chocolatiers, and other activities.

Customers – In Israel, Strauss Water applied a policy canceling two months' service fees for small business customers reaching out for support due to difficulty.

Community – In Israel:

Senior citizens – Making food available through collaboration with the Latet food bank, including a financial contribution, products and distribution of holiday packages to community centers (as part of the "Grandpa and Grandma Are the Best" campaign, which called on Internet surfers to send a personal message that was attached to the packages), and other activities.

Medical teams and Magen David Adom volunteers – Distribution of food products and treats directly to the teams throughout Israel by a branded truck.

In addition, the Group joined the "Veshamarta" ("Thou Shalt Protect") project run by Sheatufim, Zionism 2000 and the National Enterprise Foundation, for the support and protection of medical teams caring for some 300 institutions and geriatric departments throughout the country.
These undertakings required the enlargement of investment budgets and management of the ventures using a unique method allowing for the provision of an immediate response to the needs of the defined population groups while maintaining an ongoing dialogue.

3. ANALYSIS OF FINANCIAL RESULTS

The Group has a number of jointly controlled companies in which the Company and/or subsidiaries hold 50%: the Três Corações joint venture (in Brazil)[1], Sabra Dipping Company (an investee company active in dips and spreads in North America), Strauss Frito-Lay Ltd. (the salty snack business in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, **"Obela"**). 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 income statement and statements pertaining to financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses which are jointly controlled by the companies in the Group and other partners are presented in a separate row ("Profit of equity-accounted investees", and in other reports in the relevant section) (hereinafter: **"Financial Statements"**).

Notwithstanding the foregoing and in view of the fact that the Group's non-GAAP reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies have remained unchanged, the Group presents the activity segments by presenting the Group's relative share of 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 Company Management 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 quarters ended March 31, 2020 and 2019 (in NIS millions)*:

	First Quarter			Explanation
	2020	**2019**	**% Chg**	
Sales	**2,168**	**2,106**	**3.0%**	The increase in sales mainly originated in the Strauss Israel segment and the International Dips & Spreads segment, mainly as a result of an increase in demand in Israel and the US following the outbreak of COVID-19. The decrease in sales in the Strauss Coffee segment is due to negative translation differences, mainly as a result of the depreciation of the Real against the Shekel and price reductions introduced in certain territories, accompanied by growth in quantities sold in Brazil. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effect	8.1%	(0.1%)		
Cost of sales	1,290	1,261	2.3%	The increase in gross profit is primarily the result of an increase in quantities sold in the Strauss Israel segment. The gross profit margin improved due to a drop in green coffee prices and was offset in part by the adjustment of prices to reflect changes in raw material costs and currencies in some countries, and a change in the sales mix. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**878**	**845**	**3.9%**	
% of sales	40.5%	40.1%		
Selling and marketing expenses	470	449	4.6%	The increase in selling and marketing expenses is due to the timing of Passover and to the International Dips & Spreads segment following Sabra's commercial in the US Super Bowl.
General and administrative expenses	144	133	8.6%	The increase is primarily due to non-recurring expenses.
Total operating expenses	**614**	**582**	**5,5%**	
Company's share of profit of equity-accounted investees	4	6	(38.8%)	The decrease is primarily the result of a drop in the profits of Haier Strauss Water (HSW), mainly due to the outbreak of COVID-19 in China in December 2019. For further information, see section 3.2.4 below.
Operating profit – non-GAAP	**268**	**269**	**(0.5%)**	Most of the change in the operating profit and operating profit margin is due to an increase in selling and marketing expenses and a decrease in the profits of Haier Strauss Water (HSW), and was partially offset by growth in sales volumes and an improvement in the gross profit of Strauss Coffee and Strauss Israel. For further information, see section 3.1.3 below.
% of sales	12.3%	12.8%		
Financing expenses, net	(16)	(30)	(46.4%)	The decrease in financing expenses is mainly the result of income recorded in respect of foreign currency derivatives due to the change in exchange rates in the first quarter (mainly the Dollar and Euro against the Shekel), as opposed to expenses recorded following their depreciation against the Shekel in the corresponding period. The decrease in financing expenses was also the result of a decrease in interest expenses.
Income before taxes – non-GAAP	**252**	**239**	**5.2%**	
Income tax	(66)	(55)	18.9%	The increase in the effective tax rate in the first quarter of 2020 is the result of the profit mix for tax purposes between the companies in the various countries.
Effective tax rate	26.2%	23.2%		
Income for the period – non-GAAP	**186**	**184**	**1.1%**	The change is primarily the result of a decrease in financing expenses, which was offset in part by an increase in tax expenses.
Attributable to the Company's shareholders	**171**	**172**	**(0.3%)**	
% of sales	7.9%	8.1%		
Attributable to non-controlling interests	15	12	19.7%	
EPS (NIS)	1.47	1.49	(0.8%)	

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarters ended March 31, 2020 and 2019 (in NIS millions)*:

	First Quarter		
	2020	**2019**	**% Chg**
Israel			
Net sales	983	877	12.1%
Operating profit	124	112	11.3%
Coffee			
Net sales	844	894	(5.6%)
Operating profit	107	112	(4.0%)
International Dips & Spreads			
Net sales	197	192	2.8%
Operating profit	18	25	(27.6%)
Water			
Net sales	144	143	0.4%
Operating profit	15	16	(9.3%)
Other			
Net sales	-	-	N/A
Operating profit	4	4	(22.5%)
Total			
Net sales	**2,168**	**2,106**	**3.0%**
Operating profit	**268**	**269**	**(0.5%)**

Following are the condensed financial accounting (GAAP) income statements for the quarters ended March 31, 2020 and 2019 (in NIS millions)*:

	First Quarter		
	2020	**2019**	**% Chg**
Sales	1,545	1,430	8.0%
Cost of sales excluding impact of commodity hedges	896	830	7.9%
Adjustments for commodity hedges**	14	13	
Cost of sales	910	843	7.9%
Gross profit	**635**	**587**	**8.2%**
% of sales	41.1%	41.1%	
Selling and marketing expenses	336	314	7.2%
General and administrative expenses	108	99	9.9%
Total expenses	**444**	**413**	
Share of profit of equity-accounted investees	48	68	(28.9%)
Operating profit before other expenses	**239**	**242**	**(1.6%)**
% of sales	15.4%	17.0%	
Other expenses, net	(1)	(1)	
Operating profit after other expenses	**238**	**241**	**(1.3%)**
Financing expenses, net	(10)	(27)	(61.1%)
Income before tax	**228**	**214**	**6.0%**
Income tax	(57)	(46)	23.3%
Effective tax rate	25.1%	21.6%	
Income for the period	**171**	**168**	1.3%
Attributable to: The Company's shareholders	**156**	**156**	**(0.4%)**
Non-controlling interests	15	12	23.5%

* 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 economically 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 March 31, 2020 and December 31, 2019 (in NIS millions)*:

	March 31, 2020	December 31, 2019	% Chg	Explanation
Total current assets	2,299	2,203	4.3%	The change is primarily the result of an increase in trade receivable balances due to sales growth versus the offset of cash balances and deposits.
Of which: Cash and cash equivalents balance	430	525	(18.2%)	For information on the change in the cash and cash equivalents item, see section 3.1.5 below. In accordance with Company policy, cash is mainly held in liquid deposits.
Total non-current assets	4,249	4,387	(3.1%)	The change is primarily due to a decrease in investments in associates in respect of translation differences, of which approximately NIS 143 million are due to the depreciation of the Brazilian Real against the Shekel, which were partially offset by the profits of the companies.
Total current liabilities	2,258	1,960	15.2%	The change is primarily due a dividend declared and not yet paid to shareholders as well as an increase in trade payable balances following the growth in sales.
Total non-current liabilities	2,067	2,200	(6.1%)	The change is primarily the result of a decrease in long-term loans and credit, as well as lease liabilities.
Total equity attributable to the Company's shareholders	2,063	2,277	(9.9%)	The change is primarily the result of a dividend declared and not yet paid in the period and negative translation differences, mainly due to the depreciation of the Brazilian Real against the Shekel on the basis of exchange rates at the end of the period, and was partially offset by an increase in profits attributable to the Company's shareholders.
Total equity attributable to non-controlling interests	170	153	11.0%	The change is primarily the result of an increase in the profit of investees.

Following is the outstanding debt balance as at March 31, 2020 and December 31, 2019 (in NIS millions)*:

	March 31, 2020	December 31, 2019	Change	Explanation
Gross debt – Non-GAAP Reports	2,742	2,852	(110)	The change is primarily due to a decrease in loans and credit and lease liabilities, which was partially offset by a decrease in cash balances and deposits.
Gross debt – Financial Statements	2,267	2,419	(152)	
Net debt – Non-GAAP Reports	2,017	2,023	(6)	
Net debt – Financial Statements	1,837	1,894	(57)	

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

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

Adjustments to the Management (Non-GAAP) Reports – change from the equity method in the Financial Statements to the proportionate consolidation method before other adjustments to the 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 internal Management (Non-GAAP) Reports):

	First Quarter 2020			First Quarter 2019		
	Financial State-ments	Change	Propor-tionate consoli-dation method	Financial State-ments	Change	Propor-tionate consoli-dation method
Sales	1,545	623	2,168	1,430	676	2,106
Cost of sales excluding impact of commodity hedges	896	394	1,290	830	431	1,261
Adjustments for commodity hedges	14	-	14	13	-	13
Cost of sales	910	394	1,304	843	431	1,274
Gross profit	**635**	**229**	**864**	**587**	**245**	**832**
% of sales	41.1%		39.9%	41.1%		39.5%
Selling and marketing expenses	336	134	470	314	135	449
General and administrative expenses	108	40	148	99	38	137
Company's share of profit of equity-accounted investees	48	(44)	4	68	(62)	6
Operating profit before other expenses	**239**	**11**	**250**	**2**	**10**	**252**
% of sales	15.4%		11.5%	17.0%		12.0%
Other income (expenses), net	(1)	-	(1)	(1)	-	(1)
Operating profit after other expenses	**238**	**11**	**249**	**241**	**10**	**251**
Financing expenses, net	(10)	(6)	(16)	(27)	(3)	(30)
Income before tax	**228**	**5**	**233**	**214**	**7**	**221**
Income tax	(57)	(5)	(62)	(46)	(7)	(53)
Effective tax rate	25.1%		27.0%	21.6%		24.1%
Income for the period	**171**	**-**	**171**	**168**	**-**	**168**
Attributable to: **The Company's shareholders**	**156**	**-**	**156**	**156**	**-**	**156**
Non-controlling interests	15	-	15	12	-	12

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

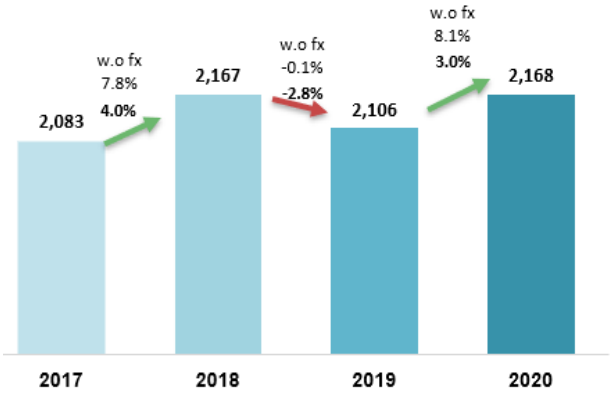
	First Quarter		
	2020	2019	% Chg
Operating profit (according to the proportionate consolidation method) after other expenses	**249**	**251**	**(0.9%)**
Share-based payment	4	4	
Adjustments for commodity hedges	14	13	
Other expenses, net	1	1	
Operating profit – non-GAAP	**268**	**269**	**(0.5%)**
Financing expenses, net	(16)	(30)	
Income tax	(62)	(53)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(4)	(2)	
Income for the period – non-GAAP	**186**	**184**	**1.1%**
Attributable to: **The Company's shareholders**	**171**	**172**	**(0.3%)**
Non-controlling interests	15	12	19.7%

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

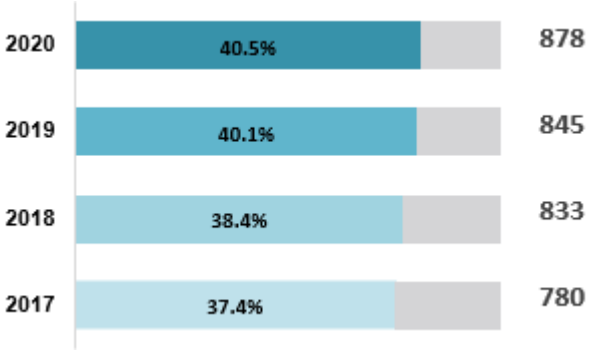
Unofficial Translation from Hebrew

<u>Key financial data for the quarters ended March 31 – non-GAAP (NIS millions)</u>*:

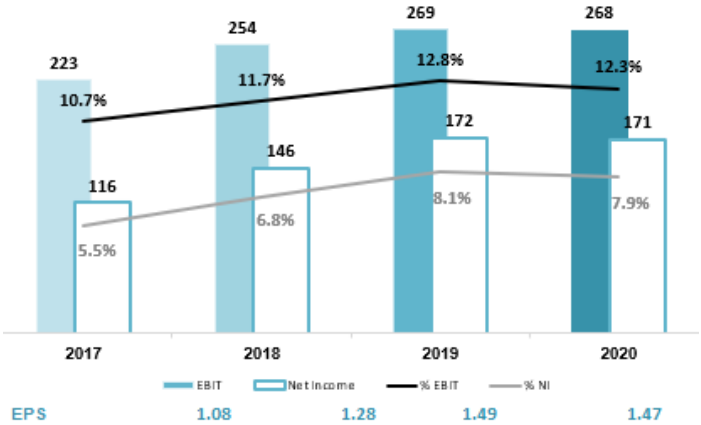
Net sales



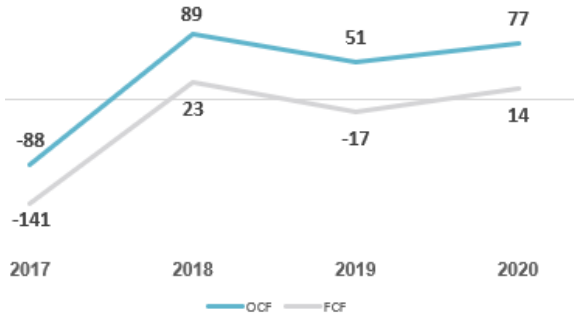
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow

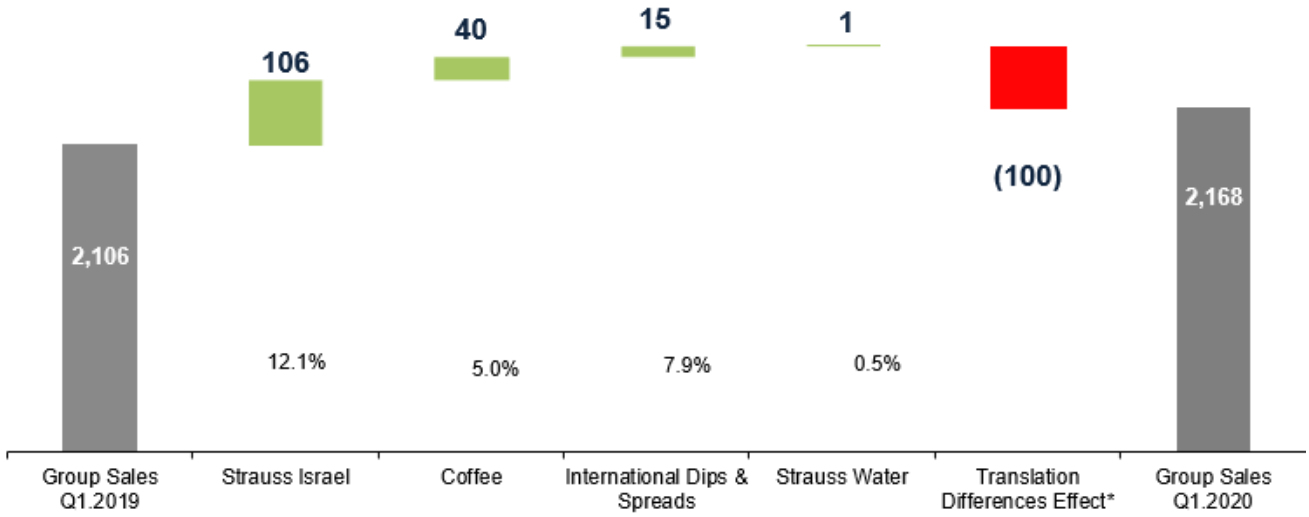


* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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



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

The Group's sales in the first quarter of 2020 were impacted by negative translation differences amounting to approximately NIS 100 million, of which NIS 77 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:

- 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 Quarter			
	2020	**2019**	**% Chg**	**% chg less translation differences effect**
Gross profit	878	845	3.9%	7.9%
Gross profit margin	40.5%	40.1%		

The Group's non-GAAP gross profit in the first quarter of 2020 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 31 million. Most of the translation differences were the result of the depreciation of the Brazilian Real against the Shekel compared to the corresponding period last year (approximately NIS 22 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the first quarter of the year rose by approximately NIS 33 million compared to the corresponding period last year:

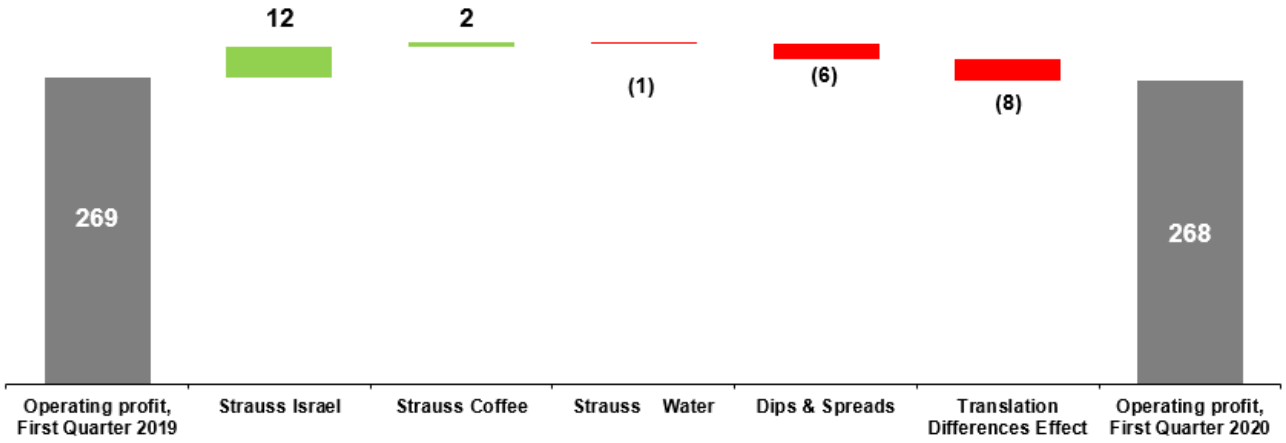
- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments dropped by approximately NIS 1 million in the quarter, compared to the corresponding period last year. The decrease in gross profit is mainly the result of negative translation differences following the depreciation of the Dollar against the Shekel, despite growth in local currency as a result of sales growth.
- 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 Quarter			
	2020	**2019**	**% Chg**	**% chg less translation differences effect**
Operating profit (EBIT)	268	269	(0.5%)	2.9%
Operating profit margin	12.3%	12.8%		

The Group's non-GAAP operating profit (EBIT) in the first quarter of 2020 decreased by approximately NIS 1 million and was adversely affected by negative translation differences into Shekels, which amounted to approximately NIS 8 million (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 period last year, according to the Company's major activity segments:



The change in the Group's operating profit in the first quarter of the year was the result of the following:

- In the first quarter, the operating profit of the Other Operations segment remained unchanged compared to the corresponding period last year.
- 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 quarter of 2020 the GAAP comprehensive loss amounted to approximately NIS 31 million, compared to comprehensive income of NIS 106 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 203 million, compared to foreign currency translation losses of NIS 61 million in the corresponding period last year.

Foreign currency translation losses in the first quarter are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 143 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of 2019.

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

	First Quarter			Explanation
	2020	2019	Change	
Cash flows from operating activities	121	90	31	Most of the increase is the result of the change in working capital compared to the corresponding period last year, mainly due to a change in payable balances and long-term debit balances, which were partially offset by a change in receivable balances.
Cash flows from (used in) investing activities	(98)	24	(122)	Most of the decrease is due to the grant of a long-term loan in the first quarter of 2020 (for further information on the loan, see section 3.2.4.1 below) and the encashment of deposits in the corresponding period last year.
Cash flows used in financing activities	(114)	(127)	13	The change is primarily due to the higher repayment of long-term loans in the corresponding period last year compared to the current period.

Following is information on average credit volumes:

	First Quarter			Explanation
	2020	2019	Change	
Average long-term credit volume according to the Non-GAAP Report	2,538	2,696	(158)	Most of the change is the result of a decrease in loans and credit and lease liabilities.
Average short-term credit volume according to the Non-GAAP Report	219	124	95	
Average long-term credit volume according to the Financial Statements	2,319	2,464	(145)	
Average short-term credit volume according to the Financial Statements	4	19	(15)	

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

	First Quarter	
	2020	**2019**
Change in net working capital, Financial Statements	(79)	(111)
Change in net working capital, Non-GAAP Report	(192)	(235)

Additional information

	March 31, 2020	**December 31, 2019**
Liquidity ratio	1.02	1.12
Liabilities in respect of long-term loans and credit (including current maturities)	2,261	2,411
Short-term credit (excluding current maturities)	6	8
Supplier credit	804	732
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	31.4%	34.6%
Net financial debt-to-EBITDA ratio	1.6	1.7
Equity attributable to the shareholders of the Company	2,053	2,277

As at March 31, 2020, the Company is in compliance with the required covenants.

In March 2020 the Company entered into a number of agreements with banking institutions to establish secure credit facilities for its regular activities at a total amount of NIS 500 million, of which NIS 300 million are for a period of one year and NIS 200 million for a period of three years.

In May 2020 the Company entered into an agreement with a financial institution to establish a secure credit facility for its regular activities and in order to maintain flexibility and financial stability, at an amount of NIS 100 million for a period of two years.

On March 24, 2020 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 180 million (approximately NIS 1.55 dividend per share), which was paid on April 14, 2020.

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

In April 2020 the Company announced Standard & Poor's Maalot's reaffirmation of an ilAA+ rating with stable outlook.

In May 2020 the Company announced Midroog's reaffirmation of an Aa1.il rating with stable outlook.

Following is additional financial information based on the Group's Non-GAAP Reports. The Company reserves the right not to include this information in the future.

	First Quarter		Year Ended December 31
	2020	**2019**	**2019**
Cash flow from operating activities (according to the Non-GAAP Report)	77	51	930
Acquisition of fixed assets and investment in intangibles, net (according to the Non-GAAP Report)	63	68	332
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,017	2,344	2,023
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	86	80	337
Strauss Israel:			
Health & Wellness	22	18	82
Fun & Indulgence	15	14	58
Strauss Coffee:			
Israel Coffee	9	9	36
International Coffee	20	18	75
International Dips & Spreads	7	7	26
Strauss Water	9	9	38
Other	4	5	22

The Group's EBITDA (non-GAAP) totaled approximately NIS 354 million in the first quarter of 2020 compared to NIS 349 million in the corresponding period in 2019, an increase of 1.5%.

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 quarters ended March 31, 2020 and 2019 (in NIS millions)*:

	First Quarter			Explanation
	2020	2019	% Chg	
Israel Coffee				
Net sales	235	222	6.1%	Sales growth in the first quarter of 2020 compared to the corresponding period is primarily due to an increase in quantities sold, among other things as a result of increased demand following the COVID-19 outbreak and the timing of the holidays, and was offset in part by the closure of Elite Café points of sale.
Operating profit	61	58	5.4%	The increase in operating profit in the first quarter of 2020 compared to the corresponding period last year is primarily the result of sales growth as mentioned, which was partially offset by an increase in operating expenses
% operating profit	25.8%	26.0%		
International Coffee				
Net sales	609	672	(9.4%)	Coffee sales in the first quarter of 2020 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 first quarter this year mainly reflects growth in quantities sold in most geographies. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	46	54	(14.1%)	The change in the operating profit of the International Coffee segment in the first quarter this year reflects: • A decrease in the operating profit of the Três Corações joint venture in Brazil[1] in the current quarter, mainly as a result of a drop in sales prices as well as an increase in operating expenses, which was offset in part by an improvement in the marketing and distribution activity for capsules and coffee machines under the Três brand. • The operating profit and profit margin in Russia grew in the first quarter of 2020 compared to the corresponding period as a result of growth in quantities sold. • A decrease in operating profit in most CEE countries in the first quarter as a result of a drop in sales prices due to challenging competitive conditions. Operating profit in the first quarter of 2020 was negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% operating profit	7.7%	8.1%		
Total Strauss Coffee				
Net sales	**844**	**894**	**(5.6%)**	In the first quarter of 2020 Strauss Coffee's sales dropped by approximately NIS 50 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 90 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 77 million.
Organic growth excluding foreign currency effect	**5.0%**	**(3.7%)**		
Gross profit	**321**	**333**	**(3.4%)**	Growth in the gross profit margin in the first quarter of 2020 is the result of growth in sales volumes and a positive sales mix. Gross profit in the first quarter this year was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**38.1%**	**37.2%**		
Operating profit	**107**	**112**	**(4.0%)**	The increase in the operating profit margin is mainly the result of the improvement in the gross profit margin as mentioned, and was partially offset by an increase in operating expenses.
% operating profit	**12.7%**	**12.5%**		

* 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).

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 quarters ended March 31, 2020 and 2019 (in NIS millions)*:

Geographical region	First Quarter				Explanation
	2020	2019	% Chg	% Chg in local currency**	
Israel Coffee	**235**	**222**	**6.1%**	**6.1%**	Sales growth in the first quarter of 2020 compared to the corresponding period is primarily due to an increase in quantities sold, among other things as a result of increased demand following the COVID-19 outbreak and the timing of the holidays, and was offset in part by the closure of Elite Café points of sale.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	343	410	(16.4%)	3.0%	Growth in the Três Corações joint venture's[1] local currency sales is due to the product mix and to volume growth in sales. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	138	119	15.4%	18.1%	Most of the growth in local currency sales is the result of an increase in quantities sold in Russia, due, among other things, to increased demand following the COVID-19 outbreak. The Company's sales in the first quarter of 2020 were adversely affected by a total amount of NIS 3 million compared to the corresponding period last year following the appreciation of the Shekel against the Russian Ruble, and on the other hand, its depreciation against the Ukrainian Hryvnia.
Poland	68	71	(4.2%)	3.4%	Most of the growth in local currency sales is the result of an increase in quantities sold in the period compared to the corresponding period last year. The Company's sales in the first quarter of 2020 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 5 million) compared to the corresponding period last year.
Romania	37	43	(12.1%)	(4.6%)	Most of the drop in local currency sales is the result of the growing competition, which led to a drop in sales prices. The Company's sales in the first quarter of 2020 were negatively affected by the depreciation of the Romanian Leu against the Shekel (approximately NIS 3 million) compared to the corresponding period last year.
Serbia	23	29	(21.9%)	(16.8%)	Most of the drop in local currency sales is the result of a decrease in quantities sold. The Company's sales in the first quarter of 2020 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	**609**	**672**	**(9.4%)**	**4.6%**	
Total Coffee	**844**	**894**	**(5.6%)**	**5.0%**	

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

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

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

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

3.2.1.1.1 Results of Três Corações (3C)[1]

In the first quarter of 2020 the Três Corações joint venture's average value market share in roast and ground (R&G) coffee was approximately 28.2%, compared to 28.1% in the corresponding period last year (value market share reflecting 100% of the Três Corações joint venture's sales according to A.C. Nielsen figures). In the Financial Statements, the Group's share of the joint venture is accounted for in the equity method.

In the first quarter of 2020 the Três Corações joint venture's[1] local currency revenues grew by approximately 3.0% (3.3% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee) as a result of growth in quantities sold. The increase in the Três Corações joint venture's local currency sales reflects growth in sales volumes of most of the products sold by the company.

The Três Corações joint venture's Shekel sales in the first quarter were negatively affected by the appreciation of the Shekel against the Brazilian Real, which amounted to approximately NIS 77 million, compared to the corresponding period last year.

The Três Corações joint venture's gross profit in local currency rose 4.5% in the first quarter and amounted to approximately BRL 127 million (approximately NIS 100 million). In the quarter, Três Corações' gross profit margin rose 0.4% and amounted to 29.1%. The improvement in the gross profit margin primarily reflects growth in sales volumes and a positive sales mix, and was partially offset by a decrease in Três Corações sales prices.

Operating profit (before other income/expenses) in Brazilian Reals fell in the first quarter of 2020 by approximately 22.3% and amounted to BRL 25 million (NIS 19 million) as a result of an increase in operating expenses, primarily due to wage increases and costs involved in the COVID-19 crisis (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

In February 2020 the Três Corações joint venture in Brazil established a joint venture with Positive Brands, that manufactures and sells mainly dairy substitute products (plant-based, mainly cashews), with an investment of approximately BRL 39 million (for 50% participation in the JV).

On February 17, 2020 Café Três Corações S.A., a subsidiary of Três Corações Alimentos S.A., a joint venture in Brazil that is 50% held by the subsidiary Strauss Coffee B.V., entered into an agreement with unrelated third parties for the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil. The transaction consideration is approximately BRL 210 million (approximately NIS 133 million (the Group's share: approximately NIS 66 million)), contingent on adjustments. The agreement is subject to the satisfaction of conditions precedent, including approval of transaction by the antitrust commissioner in Brazil.

3.2.2 The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first quarter of 2020, according to StoreNext[1] figures, held a 12.2% share of the total domestic retail food and beverage market in value terms, unchanged compared to 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 12.1% in value terms, whereas according to StoreNext, in the first quarter of 2020 the Israeli food and beverage market rose 14.3% in value.

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

In the first quarter of 2020 Strauss Group's Israel sales totaled approximately NIS 1,355 million compared to NIS 1,235 million last year, an increase of 9.7%.

On May 5, 2020 the distribution agreement signed between Strauss Health and Alpro entered into effect. The agreement grants Strauss Health exclusive distribution rights for Alpro products, replacing the present distributor, S. Schestowitz Ltd. Distribution to the retail market will begin in July 2020, and to the AFH market, in January 2021.

Strauss Israel

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments for the quarters ended March 31, 2020 and 2019 (in NIS millions)*:

	First Quarter			Explanation
	2020	2019	% Chg	
Net sales	**983**	**877**	**12.1%**	The increase in sales in the first quarter of 2020 compared to the corresponding period last year mainly reflects volume growth in all units, which was the result of high growth in the food market and increased demand following the COVID-19 outbreak. Growth was primarily in the yogurt, dairy dessert, milk beverage, and confectionery and bakery categories.
Gross profit	**396**	**350**	**13.1%**	The increase in gross profit is attributed to growth in sales volumes, a positive sales mix and a drop in the prices of key raw materials.
% gross profit	**40.2%**	**39.9%**		
Operating profit	**124**	**112**	**11.3%**	The growth in operating profit mainly reflects growth in sales volumes, which was partially offset by an increase in selling and marketing expenses. The decrease in the operating profit margin is the result of an increase in the provision for doubtful debts following the COVID-19 outbreak.
% operating profit	**12.6%**	**12.7%**		

	First Quarter		
	2020	2019	% Chg
Health & Wellness			
Net sales	617	538	14,5%
Operating profit	66	55	19.9%
% operating profit	10.7%	10.3%	
Fun & Indulgence			
Net sales	366	339	8.3%
Operating profit	58	57	2.8%
% operating profit	15.8%	16.6%	

* 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 market in the 13 weeks ended March 31, 2020 was 63.1% (Number 1 in the market), compared to 61.3% in the corresponding period last year.

3.2.3.1 Sabra

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

	First Quarter			Explanation
	2020	2019	% Chg	
Sales	355	341	4.4%	In the first quarter of 2020 Sabra's sales grew by approximately NIS 14 million compared to the corresponding period last year. The increase mainly reflects growth in sales volumes as a result, among other things, of the COVID-19 outbreak. Sabra's sales were negatively affected by translation differences of approximately NIS 14 million in the first quarter (of which NIS 7 million are the Company's share).
Organic growth excluding foreign currency effect	8.8%	6.5%		
Operating profit before other expenses	39	54	(28.0%)	In the first quarter of 2020 the operating profit dropped by approximately NIS 15 compared to the corresponding period last year (of which NIS 7 million are the Company's share). The drop in operating profit is primarily the result of high marketing and advertising expenses, mainly due to advertising in the American Super Bowl, compared to low marketing expenses in the corresponding period last year. The company's operating profit in the first quarter of the year was negatively affected by the depreciation of the Dollar against the Shekel (approximately NIS 3 million) compared to the corresponding period last year.
% operating profit	11.0%	16.0%		

3.2.3.2 Obela

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

Obela's sales in the first quarter of 2020 amounted to NIS 40 million, compared to NIS 45 million in the corresponding period last year (a decrease of 9.7%). Sales growth in the quarter excluding foreign currency effects amounted to an increase of 0.9% compared to the corresponding period.

	First Quarter		
	2020	2019	% Chg
Sales	40	45	(9.7%)
Organic growth excluding foreign currency effect	0.9%	15.8%	
Operating loss	(3)	(5)	35.3%

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

3.2.4 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 established by Strauss Water and Haier Group of China and is active in the purification and filtration 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 transaction at any time (subject to the terms and conditions of the service agreement). Payment for the transaction is made on a monthly basis 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 quarters ended March 31, 2020 and 2019 (in NIS millions)*:

	First Quarter			Explanation
	2020	2019	% Chg	
Net sales	144	143	0.4%	Sales growth in the first quarter of 2020 compared to the corresponding period last year is the result of growth in the customer base, which was offset in part by a drop in sales of new appliances to upgrading customers, particularly in March, as a result of the COVID-19 outbreak.
Operating profit	15	16	(9.3%)	The drop in operating profit mainly reflects a drop in sales of upgraded water bars as well as additional costs due to the COVID-19 outbreak, which were recorded in the first quarter of 2020. Excluding the profits of Haier Strauss Water, in the first quarter of the year the operating profit dropped by approximately NIS 1 million compared to the corresponding period last year, and the operating profit margin fell by 1.0% and amounted to 5.5%.
% operating profit	10.3%	11.4%		

* 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 (HSW)

Sales by Haier Strauss Water in China, which are not included in the Non-GAAP Report, totaled NIS 106 million in the first quarter of 2020 compared to NIS 155 million in the corresponding period last year, a decrease of 31.2%. The drop in sales in the quarter, excluding the foreign currency effect, was 26.4% compared to the corresponding period (unaudited, reflecting 100%), and was primarily the result of the COVID-19 outbreak in China in December 2019.

Haier Strauss Water's net profit in the first quarter of 2020 was approximately NIS 14 million compared to NIS 16 million in the corresponding period last year, a decrease of 13.8%. The decrease in net profit in the quarter, excluding the foreign currency effect, was 7.6% compared to the corresponding period(unaudited, reflecting 100%).

In March 2020 the board of directors of the HSW joint venture approved an investment of 375 million yuan (approximately NIS 190 million) for the construction of a plant for the production and assembly of HSW's products sold in China. The plant is planned to cover an area of approximately 24 acres, and preparation of the land for construction began at the end of March 2020 and is expected to be continue until the beginning of next year. HSW estimates that the plant will improve its competitive position, since in-house manufacturing capabilities will grant the company greater flexibility in the development and production of innovative and unique products, shorter time-to-market and the launch of high-quality products. These capabilities are significant in leveraging competitive capabilities in a growing and developing market. It is noted that most of the significant players in the market have in-house manufacturing capabilities. To support the realization of HSW's strategy and its regular business, the subsidiary Strauss Water granted HSW a shareholder loan of approximately NIS 49 million, according to its holding percentage in the joint venture. For further information, see Note 4.4 in the Condensed Consolidated Interim Financial Statements as at March 31, 2020.

The information contained in this section, the date of construction of the plant, including estimates that its construction will enable HSW to improve its competitive position, is forward-looking information as this term is defined in the Securities Law, which is based on information in the Company's possession on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, *inter alia* as a result of market conditions and the impact of the spread of COVID-19. See also section 2, "Changes in the Economic Environment".

3.2.5 Other Operations

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

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

In the Company's separate financial information ("solo report") for the first quarter of 2020 there is a working capital deficiency of approximately NIS 418 million. There is no such deficiency in the consolidated financial statements of the Company for the first quarter of 2020. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 48 million. In light of the working capital deficiency in the solo report, on May 24, 2020 the Board of Directors of the Company examined the Company's liquidity as described below, and determined that said working capital deficiency is not indicative of a liquidity issue in the Company. This decision is based on a review, *inter alia*, of the Company's financial results as reported in the Financial Statements of the Company as at March 31, 2020, 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 enumerated in section 29 in the Description of the Company's Business Report as at December 31, 2019.

5. ASPECTS OF CORPORATE GOVERNANCE

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

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

Following are financial data on the debenture series as at March 31, 2020:

		Series D Debentures	**Series E Debentures**
A.	Nominal/par value	172	603
B.	Carrying value of debentures	175	599
C.	Carrying value of interest payable	-	4
D.	Market value	185	640

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 as at March 31, 2020 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at March 31, 2020.

10. POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

For a review of events occurring after the statement of financial position date, see Note 9 to the Condensed Consolidated Interim Financial Statements as at March 31, 2020.

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

May 24, 2020

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS
AS AT MARCH 31, 2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at March 31, 2020 (unaudited)

Contents

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	430	409	525
Securities and deposits	-	1	-
Trade receivables	1,156	1,094	999
Income tax receivables	2	3	2
Other receivables and debit balances	139	103	119
Inventory	557	588	543
Assets held for sale	15	19	15
Total current assets	2,299	2,217	2,203
Investments and non-current assets			
Investment in equity-accounted investees	1,266	1,330	1,332
Other investments and long-term debit balances	131	88	92
Fixed assets	1,737	1,729	1,746
Right-of-use assets	199	271	265
Intangible assets	893	931	931
Investment property	4	5	4
Deferred tax assets	19	19	17
Total investments and non-current assets	4,249	4,373	4,387
Total assets	6,548	6,590	6,590

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: May 24, 2020

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 Financial Position (cont'd)

	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Current liabilities			
Current maturities of debentures	67	32	62
Short-term credit and current maturities of long-term loans and other long-term liabilities	394	305	398
Current maturities of lease liabilities	86	84	93
Trade payables	804	730	732
Income tax payables	98	68	96
Other payables and credit balances	602	572	552
Dividend declared and not yet paid	180	200	-
Provisions	27	28	27
Total current liabilities	2,258	2,019	1,960
Non-current liabilities			
Debentures	707	774	743
Long-term loans and other long-term liabilities	869	1,110	923
Lease liabilities	144	219	200
Long-term payables and credit balances	15	17	15
Employee benefits, net	44	49	48
Deferred tax liabilities	288	259	271
Total non-current liabilities	2,067	2,428	2,200
Equity and reserves			
Share capital	253	252	253
Share premium	1,051	1,051	1,051
Reserves	(2,043)	(1,735)	(1,838)
Retained earnings	2,792	2,413	2,811
Total equity attributable to the shareholders of the Company	2,053	1,981	2,277
Non-controlling interests	170	162	153
Total equity	2,223	2,143	2,430
Total liabilities and equity	6,548	6,590	6,590

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 three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Sales	1,545	1,430	5,695
Cost of sales	910	843	3,347
Gross profit	635	587	2,348
Selling and marketing expenses	336	314	1,320
General and administrative expenses	108	99	416
	444	413	1,736
Share of profit of equity-accounted investees	48	68	270
Operating profit before other income (expenses)	239	242	882
Other income	-	-	3
Other expenses	(1)	(1)	(7)
Other expenses, net	(1)	(1)	(4)
Operating profit	238	241	878
Financing income	12	4	5
Financing expenses	(22)	(31)	(121)
Financing expenses, net	(10)	(27)	(116)
Income before income tax	228	214	762
Income tax	(57)	(46)	(168)
Income for the period	171	168	594
Attributable to:			
The Company's shareholders	156	156	537
Non-controlling interests	15	12	57
Income for the period	171	168	594
Earnings per share			
Basic earnings per share (in NIS)	1.34	1.36	4.65
Diluted earnings per share (in NIS)	1.33	1.34	4.60

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 Comprehensive Income

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Income for the period	171	168	594
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:			
Foreign currency translation differences	(74)	(17)	(38)
Other comprehensive loss from equity-accounted investees	(129)	(44)	(126)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net	(203)	(61)	(164)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net:			
Changes in employee benefits, net	1	(1)	-
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	1	(1)	-
Comprehensive income (loss) for the period	(31)	106	430
Attributable to:			
The Company's shareholders	(47)	94	373
Non-controlling interests	16	12	57
Comprehensive income (loss) for the period	(31)	106	430

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

	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 March 31, 2020 – unaudited:									
Balance as at January 1, 2020	253	1,051	(20)	(392)	(1,426)	2,811	2,277	153	2,430
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	156	156	15	171
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(75)	-	(75)	1	(74)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(129)	-	(129)	-	(129)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(204)	1	(203)	1	(202)
Total comprehensive income (loss) for the period	-	-	-	-	(204)	157	(47)	16	(31)
Share-based payment	-	-	-	-	-	4	4	-	4
Improved interest to subsidiary	-	-	-	(1)	-	-	(1)	1	-
Dividend to owners	-	-	-	-	-	(180)	(180)	-	(180)
Balance as at March 31, 2020	253	1,051	(20)	(393)	(1,630)	2,792	2,053	170	2,223

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 Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Three-month period ended March 31, 2019 – unaudited:									
Balance as at January 1, 2019 – audited:	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246
Effect 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									
Income for the period	-	-	-	-	-	156	156	12	168
Components of other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(17)	-	(17)	-	(17)
Other comprehensive loss from equity-accounted investees					(44)	-	(44)	-	(44)
Changes in employee benefits, net	-	-	-	-	-	(1)	(1)	-	(1)
Total other comprehensive loss for the period, net of tax	-	-	-	-	(61)	(1)	(62)	-	(62)
Total comprehensive income (loss) for the period	-	-	-	-	(61)	155	94	12	106
Share-based payment	-	-	-	-	-	4	4	-	4
Dividend to owners	-	-	-	-	-	(200)	(200)	-	(200)
Balance as at March 31, 2019	252	1,051	(20)	(392)	(1,323)	2,413	1,981	162	2,143

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

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

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2019 – audited:	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246
Effect 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 year									
Income for the year	-	-	-	-	-	537	537	57	594
Components of other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(38)	-	(38)	-	(38)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(126)	-	(126)	-	(126)
Total other comprehensive loss for the year, net of tax	-	-	-	-	(164)	-	(164)	-	(164)
Total comprehensive income (loss) for the year	-	-	-	-	(164)	537	373	57	430
Exercise of employee options	1	-	-	-	-	-	1	-	1
Share-based payment	-	-	-	-	-	20	20	-	20
Dividend to owners	-	-	-	-	-	(200)	(200)	-	(200)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(54)	(54)
Balance as at December 31, 2019	253	1,051	(20)	(392)	(1,426)	2,811	2,277	153	2,430

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 Cash Flows

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Cash flows from operating activities			
Income for the period	171	168	594
Adjustments:			
Depreciation	61	55	233
Amortization of intangible assets	8	7	32
Reversal of impairment loss of fixed assets, intangible assets and investment property, net	-	-	(2)
Other expenses, net	-	-	3
Expenses in respect of share-based payment	4	4	20
Financing expenses, net	10	27	116
Income tax expenses	57	46	168
Share of profit of equity-accounted investees	(48)	(68)	(270)
Change in inventory	(27)	(37)	-
Change in trade and other receivables	(181)	(119)	(65)
Change in long-term trade receivables	4	(1)	(12)
Change in trade and other payables	127	45	17
Change in employee benefits	(2)	1	3
Interest paid	(25)	(24)	(85)
Interest received	1	3	4
Income tax paid, net	(39)	(17)	(84)
Net cash provided by operating activities	121	90	672
Cash flows from investing activities			
Sale of marketable securities and deposits, net	-	70	71
Proceeds from sale of fixed assets, intangible assets and investment property	2	1	10
Investment in fixed assets	(39)	(34)	(181)
Investment in intangible assets	(9)	(12)	(49)
Repayment of loans granted	4	4	17
Loans granted (1)	(46)	(5)	(19)
Income from sublease	2	1	7
Dividends from investee companies	-	-	133
Investment in investee companies	(12)	(1)	(13)
Net cash provided by (used in) investing activities	(98)	24	(24)

(1) For further information, see Note 4.4.

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 Cash Flows (cont'd)

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Cash flows from financing activities			
Short-term bank credit, net	(1)	(2)	(18)
Receipt of long-term loans	-	-	50
Repayment of long-term loans and debentures	(88)	(116)	(261)
Change in liabilities in respect of credit card factoring	1	12	31
Exercise of share options	-	-	1
Payment of lease liabilities	(26)	(21)	(91)
Dividends paid	-	-	(200)
Dividend to non-controlling interests in a subsidiary	-	-	(54)
Net cash used in financing activities	(114)	(127)	(542)
Increase (decrease) in cash and cash equivalents	(91)	(13)	106
Cash and cash equivalents as at beginning of period	525	426	426
Effect of exchange rate fluctuations on cash balances	(4)	(4)	(7)
Cash and cash equivalents as at end of period	430	409	525

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 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 of the Company as at March 31, 2020 and for the three-month period then ended (hereinafter: the "Interim Statements") comprise those of 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, 2019 and for the year then ended together with their accompanying notes (hereinafter: the "Annual Financial Statements"). The Group's accounting policy in these Interim Statements was 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 for publication by the Board of Directors of the Group on May 24, 2020.

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 of Fun & Indulgence products as Passover approaches.

In the Israel Coffee segment there is no distinct 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.

Note 2 – Seasonality (cont'd)

In Health and Wellness products there is no distinct 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.

For further information, see Note 4.3 with regard to the impact of the COVID-19 pandemic on the Group's activity.

Note 3 - Operating Segments

Segment information and reconciliation to the consolidated financial statements:

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Income			
Sales to external customers:			
Health & Wellness	617	538	2,277
Fun & Indulgence	366	339	1,134
Total Israel	983	877	3,411
Israel Coffee	235	222	754
International Coffee	609	672	2,972
Total Coffee	844	894	3,726
International Dips and Spreads	197	192	771
Water	144	143	628
Other	-	-	-
Sales to other segments:			
Health & Wellness	2	2	11
Fun & Indulgence	3	3	7
Total Israel	5	5	18
Israel Coffee	1	1	2
International Coffee	1	1	2
Total Coffee	2	2	4
Total segment income	2,175	2,113	8,558
Elimination of intersegment sales	(7)	(7)	(22)
Total segment income excluding intersegment sales	2,168	2,106	8,536
Adjustment to the equity method	(623)	(676)	(2,841)
Total consolidated income	1,545	1,430	5,695

Note 3 - Operating Segments (cont'd)

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Profit (loss)			
Health & Wellness	66	55	251
Fun & Indulgence	58	57	119
Total Israel	124	112	370
Israel Coffee	61	58	143
International Coffee	46	54	281
Total Coffee	107	112	424
International Dips and Spreads	18	25	71
Water	15	16	75
Other	4	4	(7)
Total segment profit	268	269	933
Unallocated income (expenses):			
Adjustments for commodity hedges (1)	(14)	(13)	15
Other expenses, net	(1)	(1)	(2)
Share-based payment	(4)	(4)	(20)
Total segment operating profit	249	251	926
Adjustment to the equity method	(11)	(10)	(48)
Total operating profit in the consolidated financial statements	238	241	878
Financing expenses, net	(10)	(27)	(116)
Income before income tax	228	214	762

(1) 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.

Note 4 - Material Events in the Reporting Period

4.1 On March 24, 2020 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 180 million (approximately NIS 1.55 per share). The dividend was paid on April 14, 2020.

4.2 On February 17, 2020 Café Três Corações S.A., a subsidiary of Três Corações Alimentos S.A., a joint venture in Brazil that is 50% held by the subsidiary Strauss Coffee B.V., entered into an agreement with unrelated third parties for the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil in consideration for approximately BRL 210 million (approximately NIS 133 million; the Group's share: approximately NIS 66 million), contingent on adjustments proximate to the closing of the transaction. The agreement is subject to the satisfaction of suspending conditions, including approval of the transaction by the antitrust commissioner in Brazil, which have not yet been completed on the date of approval of the financial statements. The acquisition does not have a material effect on the Group's financial statements.

4.3 December 2019 saw the start of an unfolding event with global health, social and macroeconomic consequences in the form of the spread of the COVID-19 virus, which was declared a global pandemic, in most countries in the world. Following the outbreak, Israel and many countries applied significant steps to cope with and delay the spread of the virus. These steps have had extensive implications on economic activity, with increasing volatility in capital markets, commodity prices and various currencies. Since mid-March 2020 actions have been taken to eradicate the pandemic, which include, among others, restrictions on the movement of citizens and gatherings, closure of international borders and a reduction in the number of employees permitted to come to the workplace. As a result of these actions, on the one hand in-home consumption of food products has increased, while on the other, there has been a drop in demand for food products sold for away-from-home (AFH) consumption.

Company Management is vigilantly managing the event and continues to manage and assess the risks on an ongoing basis in all countries of operations, since due to its nature this is an unfolding event that is evolving and changing constantly, sometimes on a daily basis. In the context of managing the COVID-19 crisis, the Company defined key goals: to protect the health and safety of its employees, assure their wellbeing and sense of security and maintain the uninterrupted ability to serve consumers in Israel and other geographies where the Company is active. The Company has applied strict safety measures among employees based on the instructions of the authorities at all its sites, particularly in its manufacturing plants and supply chain facilities, including social distancing, use of masks and personal protective equipment and checking temperatures at the entrance to its sites. The Company has also created a digital work environment that allows for work from home wherever possible. As at the date of this report, all of the Group's production and distribution facilities have continued to operate normally.

The Company has examined the implications of the COVID-19 epidemic on its financial statements and on the assumptions and estimates used in preparing the financial statements, as follows:

- The Company examined whether there has been a negative effect on its results, which may be indicative of signs of impairment of cash-generating units;
- The Company reviewed and revised the estimated credit risks of its customers and increased the provision for expected credit losses where the credit risk has increased, by an immaterial amount;

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

- The Company contracted with financial institutions to raise and secure sources of finance. See section 4.5 below.

Following qualitative and quantitative tests in all business units, the Company estimates that as at the date of this report, the COVID-19 outbreak does not have a material impact on the financial statements of the Group.

4.4 In March 2020, the board of directors of the Haier Strauss Water (hereinafter: "HSW") joint venture approved an investment of 375 million yuan (approximately NIS 190 million) for the construction of a plant for the production and assembly of HSW's products sold in China. To support the realization of HSW's strategy and its regular operations, the subsidiary Strauss Water granted HSW a shareholder loan of approximately NIS 49 million according to its stake in the partnership. The difference between the fair value of the loan on the date it was granted and the amount granted, approximately NIS 10 million, was classified to the "investment in investees" item.

4.5 In March 2020 the Company contracted in a number of agreements with banking institutions to establish secure credit facilities for its regular activities and to maintain flexibility and financial stability in view of the situation described in section 4.3 above, at a total amount of NIS 500 million, of which NIS 300 million are for a period of one year and NIS 200 million for a period of three years. For information on entry into an agreement for an additional credit facility, see Note 9 with regard to post-statement of financial position date events.

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 24, 2020	1,133,325 to 15 managers	14.1	95.96	102.66	3.95-4.95	17.77-18.87	0.17-0.29

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 2022 and 2023 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.

Note 6 - Contingent Liabilities

6.1 For information on claims and contingent liabilities against the Company and its investees pending as at December 31, 2019, see Note 24.1.1 to the Annual Financial Statements. There were no material changes pertaining to these claims in the reporting period.

6.2 In May 2018 a monetary claim was filed with the court in New York pertaining to a settlement agreement between the parties with respect to a debt owed by the claimant. The claim amount is approximately $10 million. On September 12, 2018 the court dismissed the claim and subsequently, on October 24, 2018 the claimant filed an appeal. On February 27, 2020 the appeal was dismissed. The claimant has filed a motion for rehearing. Based on the opinion of legal counsel, at the present time Company Management estimates that the claimant's motion for rehearing is not expected to be accepted.

The Company did not recognize a provision for claims pending as at March 31, 2020, 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 the 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.		
	March 31		December 31	March 31		December 31
	2020	2019	2019	2020	2019	2019
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Current assets	359	301	318	1,182	1,008	1,289
Of which:						
Cash and cash equivalents	89	58	77	441	82	462
Non-current assets	545	553	533	783	842	896
Total assets	904	854	851	1,965	1,850	2,185
Current liabilities	128	147	172	893	679	1,065
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	8	45	35	487	242	584
Non-current liabilities	107	93	66	274	228	115
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	99	85	55	259	202	99
Total liabilities	235	240	238	1,167	907	1,180

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	For the three months ended March 31		For the year ended December 31	For the three months ended March 31		For the year ended December 31
	2020	2019	2019	2020	2019	2019
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Income	335	341	1,369	688	821	3,598
Profit for the period	27	38	111	29	52	269
Other comprehensive income (loss)	20	(18)	(49)	(223)	(41)	(113)
Total comprehensive income (loss)	47	20	62	(194)	11	156
Of which:						
Depreciation and amortization	11	11	44	16	18	68
Interest income	-	-	1	4	2	11
Interest expenses	1	1	5	(7)	6	27
Income tax expense	(11)*	(15)*	(43)*	(2)	(6)	(45)

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

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., an equity-accounted investee (50% owned by the Group) in Brazil. The investee's presentation currency is the Brazilian real.

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

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 rate for the period**	**% change based on closing rate**
For the three-month period ended on:			
March 31, 2020	0.79	0.68	(20.3)
March 31, 2019	0.97	0.93	(3.7)
For the year ended December 31, 2019	0.91	0.86	(11.1)

Since the beginning of the year through to the date of approval of the financial statements, the Brazilian real has depreciated against the shekel by approximately 26%.

Note 8 - Financial Instruments

8.1 Fair value of financial instruments measured at fair value for disclosure purposes only

The carrying amount of cash and cash equivalents, short and long-term investments, trade receivables, other receivables and debit balances, trade payables, 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 value of the Company's debentures, based on the prices of the Tel Aviv Stock Exchange:

	March 31, 2020		March 31, 2019		December 31, 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	Unaudited				Audited	
	NIS millions					
Series D Debentures	175	185	207	224	208	223
Series E Debentures	603	640	603	632	599	651

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 an 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.

Note 8 - Financial Instruments (cont'd)

8.2 Fair value hierarchy of financial instruments measured at fair value (cont'd)

	March 31, 2020		March 31, 2019		December 31, 2019	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	Unaudited				Audited	
	NIS millions					
Financial assets (liabilities)						
Trade receivables- derivatives	15	13	4	6	19	3
Trade payables- derivatives	(23)	(3)	(26)	(2)	(11)	(3)
	(8)	10	(22)	4	8	-

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

In May 2020 the Company entered into an agreement with a financial institution to establish a secure credit facility for its regular activities and in order to maintain flexibility and financial stability, in view of the situation described in Note 4.3, at an amount of NIS 100 million for a period of two years.

STRAUSS GROUP LTD.

SEPARATE FINANCIAL

INFORMATION AS AT MARCH 31, 2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

Separate Interim Financial Information as at March 31, 2020

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Strauss Group Ltd.

Condensed Interim Information on Financial Position

	March 31 2020	March 31 2019	December 31 2019
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	153	266	235
Trade receivables	263	246	188
Other receivables and debit balances	45	33	33
Investee receivables	169	*143	131
Inventory	124	103	136
Assets held for sale	9	13	9
Total current assets	763	*804	732
Investments and non-current assets			
Investments in investees	2,054	2,001	2,134
Other investments and long-term debt balances	627	*652	601
Right-of-use assets	90	140	141
Fixed assets	937	927	936
Investment property	3	3	3
Intangible assets	45	46	46
Total investments and non-current assets	3,756	*3,769	3,861
Total assets	4,519	4,573	4,593

* 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: May 24, 2020

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

Strauss Group Ltd.

Condensed Interim Information on Financial Position (cont'd)

	March 31 2020	March 31 2019	December 31 2019
	Unaudited	Unaudited	Audited
		NIS Millions	
Current liabilities			
Current maturities of debentures	67	32	62
Short-term credit and current maturities of long-term loans and other long-term liabilities	190	152	197
Current maturities of lease liabilities	36	33	36
Trade payables	244	204	205
Income tax	25	24	36
Other payables and credit balances	269	230	237
Investee payables	170	154	143
Dividend declared and not yet paid	180	200	-
Total current liabilities	1,181	1,029	916
Non-current liabilities			
Debentures	707	774	743
Long-term loans and other long-term liabilities	332	522	383
Lease liabilities	65	113	110
Long-term payables and credit balances	13	12	11
Employee benefits, net	25	25	26
Deferred tax liabilities	143	117	127
Total non-current liabilities	1,285	1,563	1,400
Total equity attributable to the shareholders of the Company	2,053	1,981	2,277
Total liabilities and equity	4,519	4,573	4,593

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Interim Information on Income

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS Millions		
Sales	321	305	1,022
Cost of sales	199	188	653
Gross profit	122	117	369
Selling and marketing expenses	60	57	231
General and administrative expenses	25	21	90
	85	78	321
Operating profit before other income (expenses)	37	39	48
Other income	-	-	3
Other expenses	-	-	(3)
Other income, net	-	-	-
Operating profit	37	39	48
Financing income	14	8	21
Financing expenses	(14)	(26)	(87)
Financing expenses, net	-	(18)	(66)
Income (loss) before taxes	37	21	(18)
Income tax	(20)	(9)	(34)
Net income (loss) after taxes	17	12	(52)
Income from investees	139	144	589
Income for the period attributable to the shareholders of the Company	156	156	537

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS Millions		
Income for the period attributable to the shareholders of the Company	156	156	537
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:			
Other comprehensive loss from investees	(204)	(61)	(164)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net of tax	(204)	(61)	(164)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods:			
Changes in employee benefits, net	1	(1)	-
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net of tax	1	(1)	-
Comprehensive income (loss) for the period attributable to the shareholders of the Company	(47)	94	373

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Interim Information on Cash Flows

	For the three months ended		For the year ended
	March 31 2020	March 31 2019	December 31 2019
	Unaudited		Audited
	NIS Millions		
Cash flows from operating activities			
Income for the period attributable to the shareholders of the company	156	156	537
Adjustments:			
Depreciation	24	21	90
Amortization of intangible assets	3	3	13
Other income, net	-	-	(1)
Expenses in respect of share-based payment	2	3	13
Income from investees	(139)	(144)	(589)
Financing expenses, net	-	18	66
Income tax	20	9	34
Change in inventory	12	19	(13)
Change in trade and other receivables	(81)	*(62)	(8)
Change in investee receivables	(14)	*(5)	23
Change in trade and other payables	68	35	56
Change in investee payables	27	(5)	(17)
Change in employee benefits	-	-	4
Interest paid	(17)	(15)	(56)
Interest received	-	2	3
Income tax received (paid), net	(13)	7	2
Net cash provided by operating activities	48	42	157
Cash flows from investing activities			
Sale of marketable securities and deposits, net	-	70	70
Proceeds from sale of fixed and other assets	2	-	5
Investment in fixed assets	(11)	(15)	(63)
Investment in intangible assets	(2)	(2)	(11)
Repayment of long-term loans	2	1	10
Loans granted	(6)	(3)	(14)
Dividends from investees	-	-	221
Cash received in respect of investing activities with investees	21	75	121
Cash paid in respect of investing activities with investees	(37)	-	(36)
Net cash provided by (used in) investing activities	(31)	126	303
Cash flows from financing activities			
Repayment of debentures and long-term loans	(88)	(116)	(213)
Dividends paid	-	-	(200)
Repayment of principal of lease liabilities	(11)	(8)	(34)
Net cash used in financing activities	(99)	(124)	(447)
Net increase (decrease) in cash and cash equivalents	(82)	44	13
Cash and cash equivalents as at beginning of period	235	222	222
Cash and cash equivalents as at end of period	153	266	235

* 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) business in Israel and the Group's confectionery business 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, 2019, and in conjunction with the Condensed Consolidated Interim Financial Statements as at March 31, 2020 (hereinafter: the "Condensed Consolidated Interim Financial Statements").

The accounting policy in this Separate Interim Financial Information was applied consistently with the accounting policy and rules described in the Separate Financial Information as at December 31, 2019.

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, 2019.

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

Note 2 - Seasonality

Confectionery sales in Israel are characterized by seasonality and are generally higher in the first quarter of the year. Seasonality is mainly affected by the winter months, when greater consumption of chocolate products is typical. There is no clear trend of seasonality in the salads category in Israel.

For further information on the effects of the coronavirus pandemic on the Group's activity, see Note 4.3 to the Condensed Consolidated Interim Financial Statements.

Note 3 - Material Events during the Reported Period

3.1 On March 4, 2020 the Company granted the subsidiary Strauss Water a loan of NIS 35 million. The loan bears annual interest according to the Income Tax Regulations for the purposes of section 3(J) of the Ordinance (the interest rate for the 2020 tax year is 2.62%). The principal of the loan will be repaid in 6 equal quarterly installments commencing on June 30, 2020.

3.2 On March 31, 2020 the subsidiary Strauss Coffee declared a dividend distribution at the amount of NIS 21 million, which was paid to the Company on April 2, 2020.

3.3 In the reporting period, the subsidiary Strauss Salads Trade Ltd. repaid a capital note at an amount of NIS 21 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 – Post-Statement of Financial Position Date Events

For further information on events occurring after the statement of financial position date, see Note 9 to the Condensed Consolidated Interim Financial Statements.

STRAUSS GROUP LTD.

ISOX DECLARATION

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

Management, under the supervision of the Board of Directors of Strauss Group Ltd. (the "Corporation"), is responsible for determining and maintaining proper internal control over financial reporting and disclosure within the Corporation.

For this purpose, the members of Management are:

1. Giora Bardea, Chief Executive Officer;
2. Ariel Chetrit, Chief Financial Officer;
3. Shahar Florence, EVP Growth and Innovation;
4. Mike Avner, EVP, CLO, Company Secretary;
5. Hila Mukevisius, SVP HR;

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

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

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

In the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure, which was attached to the Periodic Report for the period ended December 31, 2019 (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, 2019 is effective.

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

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

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

Managers' Statement

Statement of the Chief Executive Officer

I, Giora Bardea, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the first quarter of 2020 (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, 2019) and the date of the Reports, which could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

May 24, 2020

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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 first quarter of 2020 (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, 2019) and the date of the Reports that refers to the Interim Financial Statements and to any other financial information included in the Interim Report, which I estimate could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

May 24, 2020

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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 month period ended 31 March 2020 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 31 March 2020 condensed consolidated interim financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise:

- the condensed consolidated statement of financial position as at 31 March 2020;
- the condensed consolidated statement of income and other comprehensive income for the three month period ended 31 March 2020;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2020;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2020 and
- notes to the condensed consolidated interim financial statements.

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

Scope of Review
We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Statement Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does

not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2020 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, May 18, 2020

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

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

Três Corações Alimentos S.A.

Condensed Consolidated Interim Statements of Financial Position as of 31 March 2020 and 31 December 2019

(In thousand of Brazilian Reais)

Assets	31 March 2020	31 December 2019
Current		
Cash and cash equivalents	644,373	538,045
Deposits	7,579	3,935
Trade receivables	523,287	449,177
Inventories	480,625	418,437
Recoverable taxes	50,929	73,506
Income tax receivable	3,228	3,197
Other current assets	16,969	14,899
	1,726,990	**1,501,196**
Non-current		
Judicial deposits	8,605	9,837
Loans to related parties	12,063	11,942
Recoverable taxes	85,301	70,203
Other non-current assets	16,551	15,580
Deferred tax assets	33,466	4,490
Investments	52,140	11,907
Fixed assets	559,969	539,342
Intangible assets	301,512	303,283
Right-of-use assets	74,690	76,137
	1,144,297	**1,042,721**
Total assets	**2,871,287**	**2,543,917**

Liabilities and equity	31 March 2020	31 December 2019
Current		
Short term loans	693,538	660,798
Trade payables	337,429	319,383
Short term lease liabilities	18,860	18,932
Income tax payables	8,079	26,404
Employees and other payroll related liabilities	63,747	53,970
Proposed dividends	44,400	44,400
Interest on equity payable	78,810	63,918
Payable taxes	27,104	23,300
Other current liabilities	32,919	28,933
	1,304,886	**1,240,038**
Non-current		
Long term loans	310,789	47,306
Long term lease liabilities	67,115	68,154
Other non-current liabilities	3,821	3,803
Provision for legal proceedings	18,273	15,047
	399,998	**134,310**
Equity		
Share capital	275,531	275,531
Translation reserve	(125,766)	(101,323)
Retained earnings	1,015,070	993,646
Equity attributable to owners of the Company	1,164,835	1,167,854
Non-controlling interests	1,568	1,715
Total Equity	**1,166,403**	**1,169,569**
Total liabilities and equity	**2,871,287**	**2,543,917**

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

	Three months period ended 31 March	
	2020	**2019**
Revenue	877,545	849,825
Cost of sales	(622,559)	(605,923)
Gross profit	**254,986**	**243,902**
Selling and marketing expenses	(161,488)	(151,048)
General and administrative expenses	(45,482)	(29,941)
Equity method	1,040	229
Other income (expenses), net	(690)	1,071
Operating profit	**48,366**	**64,213**
Financial income	5,291	2,200
Financial expenses	(13,941)	(6,087)
Profit before income tax	**39,716**	**60,326**
Income tax expenses	(3,072)	(6,323)
Profit for the period	**36,644**	**54,003**
Profit attributable to:		
Owners of the Company	37,524	54,003
Non-controlling interests	(880)	-
Total profit for the period	**36,644**	**54,003**

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

	Three months period ended 31 March	
	2020	**2019**
Profit for the period	36,644	54,003
Other comprehensive income (loss) items that will or may be reclassified subsequently to profit or loss		
Foreign currency translation differences	(24,443)	(5,562)
Comprehensive income for the period	**12,201**	**48,441**

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

		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, 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	-	-	-	-	-	54,003	54,003	-	54,003
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(5,562)	-	(5,562)	-	(5,562)
Total other comprehensive gain (loss):	-	-	-	-	(5,562)	54,003	48,441	-	48,441
Internal equity changes									
State VAT and Federal tax incentives	-	-	14,826	-	-	(14,826)	-	-	-
									-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(15,560)	(15,560)	-	(15,560)
Reserve for profit to be distributed	-	-	-	23,617	-	(23,617)	-	-	-
	-	-	14,826	23,617	-	(54,003)	(15,560)	-	(15,560)
Balance as of 31 March, 2019	**274,546**	**54,909**	**328,339**	**463,639**	**(107,429)**	**-**	**1,014,004**	**-**	**1,014,004**
Balance as of 31 December, 2019	**275,531**	**55,106**	**385,086**	**553,454**	**(101,323)**	**-**	**1,167,854**	**1,715**	**1,169,569**
Profit for the period	-	-	-	-	-	37,524	37,524	(880)	36,644
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(24,443)	-	(24,443)	-	(24,443)
Total other comprehensive gain (loss):	-	-	-	-	(24,443)	37,524	13,081	(880)	12,201
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	733	733
State VAT and Federal tax incentives	-	-	11,599	-	-	(11,599)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(16,100)	(16,100)	-	(16,100)
Reserve for profit to be distributed	-	-	-	9,825	-	(9,825)	-	-	-
	-	-	11,599	9,825	-	(37,524)	(16,100)	733	(15,367)
Balance as of 31 March, 2020	**275,531**	**55,106**	**396,685**	**563,279**	**(125,766)**	**-**	**1,164,835**	**1,568**	**1,166,403**

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

Três Corações Alimentos S.A.

Condensed Consolidated Interim Statements of Cash Flow
Three months period ended 31 March 2020 and 2019
(In thousand of Brazilian Reais)

	Three months period ended 31 March	
	2020	**2019**
Cash flows from operating activities		
Profit for the period	36,644	54,003
Adjustments for:		
Depreciation and amortization	20,692	17,024
Gains in tax lawsuits	(20,491)	(9,448)
Termination of lease contracts	(13)	-
Provision for legal proceedings	3,226	(713)
Other income, net	690	(1,071)
Equity method	(1,040)	(229)
Finance expenses, net	8,650	3,887
Income tax expenses	3,072	6,323
Change in:		
Trade receivables	(63,468)	(95,169)
Inventories	(50,776)	4,974
Recoverable and payable taxes, net	3,397	16,850
Judicial deposits	1,232	(601)
Trade payables	18,046	(50,313)
Employees and other payroll related liabilities	9,777	(3,798)
Other current and non-current assets and liabilities	(6,287)	(3,981)
Change used in operating activities	**(36,649)**	**(62,262)**
Interest paid	(7,341)	(3,368)
Interest received	5,141	1,823
Income tax paid	(20)	(214)
Net cash flows used in operating activities	**(38,869)**	**(64,021)**
Cash flows from investing activities		
Change in deposits	(2,452)	1,202
Payment for acquisition of operations	(31,400)	(4,885)
Proceeds from sales of fixed assets	283	1,370
Acquisition of fixed assets	(29,726)	(25,657)
Investments in intangible assets	(812)	(1,505)
Net cash flows used in investing activities	**(64,107)**	**(29,475)**
Cash flows from financing activities		
Proceeds from loans	294,918	28,338
Repayment of loans	(81,424)	(63,219)
Payment of lease liabilities	(4,190)	(4,385)
Net cash flows provided (used) by financing activities	**209,304**	**(39,266)**
Net increase (decrease) in cash and cash equivalents	**106,328**	**(132,762)**
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents as of beginning of the period	538,045	221,467
Cash and cash equivalents as of end of the period	644,373	88,705
	106,328	**(132,762)**

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

1 General information

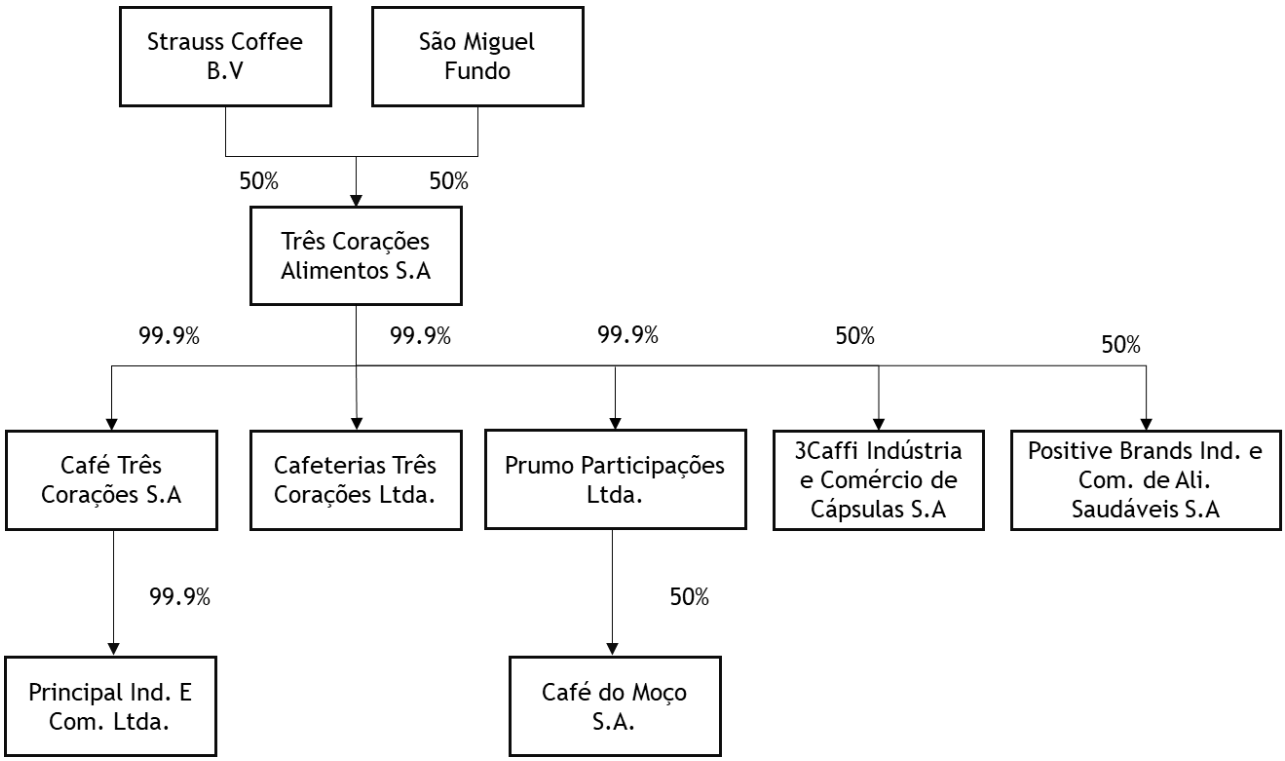
Três Corações Alimentos S.A. (the "Company") together with its controlled entities (the "Group") are an industrial and commercial group of companies, which operate in Brazil, in producing and selling branded coffee products, multi-beverage single portion capsules and machines, powdered juices, chocolate drinks and corn meal products. The Group is also active in green coffee exports, lending Away-From-Home machines, operation of cafeterias, roasting and selling specialty coffees in e-commerce and to third party businesses and investing in other companies. Recently the Group also started to operate in the industrialization and sales of plant-based beverages, especially nuts milk and isotonic ones, cashew butter and cashew snacks (see Note 3.1).

The Company is located at Rua Santa Clara, 100, Parque Santa Clara, Eusébio, Ceará, Brazil. The Company controls the entities of Cafeterias Três Corações Ltda., Prumo Participações Ltda., which in turn controls the entity of Café do Moço S.A. and also controls Café Três Corações S.A., which controls the entity of Principal Comércio e Indústria de Café Ltda. The Company also participates in joint-venture agreements, sharing the control with third parties of the companies 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi") and more recently (see Note 3.1) of Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A. ("Positive Brands"), with 50% of shares in each company.

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, Claralate, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, Cirol, Cirol Real, Realmil, Toko, Astoria, Manaus, Tapajós, Betânia, Tribo do Café, Bar Barista, Café do Moço. Brands marketed under the Positive Brands joint venture are A Tal da Castanha and Jungle. 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 Curitiba. Positive Brands' physical structure is located in the state of Espírito Santo.

As of 31 March 2020, the Group has the following structure:



Impacts of the new coronavirus disease (COVID-19)

On March 11, 2020, the World Health Organization (WHO) declared the outbreak of the new coronavirus disease (COVID-19) as a pandemic. The virus has taken its toll on not just human life, but businesses and financial markets too, the extent of which is currently undetermined.

The Group is closely monitoring the potential impact of COVID-19 on the employees, communities, clients and suppliers, as well as on 2020's results and financial statements in order to respond in a timely manner and mitigate possible effects.

The Group created a Corporate Crisis Management Commission, which is in charge of Group's internal actions to raise awareness of the risks and disseminate the measures that must be taken to minimize contamination by the virus. Among others, the participation of employees in public gatherings, as well as non-essential business travel, have been suspended up until the virus is contained.

Since the food segment is defined as an essential activity, the Group continues to operate regularly, with production, logistics and supply chain. Back office activities are working remotely.

Management believes that the Group is exposed to operational and market risks related to the pandemic, mainly:

(i) Impacts on its supply chain, especially of imported goods: the Group has been closely monitoring the delivery process of goods by suppliers and has increased its inventory coverage for more days than usual;

(ii) Potential credit losses from customers: Especially in the Away From Home (AFH) and Electro segments, which represent only 3.4% of total trade receivables as at 31 March 2020. The Group assesses the payment capacity of customers and has established policies for extending the maturity of accounts receivable where possible and necessary. In the period, there has been so far no significant increase in defaults in trade receivables from customers or in the risk of expected credit losses.

(iii) Exchange rate variations on exposed assets and liabilities: The Group uses derivative financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates and does not have significant balances not covered by these financial instruments as at 31 March 2020.

The group has reviewed its exposure to other business risks but has not identified any additional risks that could impact significantly the financial performance or position of the Group as at 31 March 2020.

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 consolidated financial statements of the Company as of 31 December 2019 and for the year then ended, together with its accompanying notes (hereinafter - the "Annual Financial Statements").

These condensed consolidated interim financial statements were authorized for issue by the Company's Management on May 18, 2020.

2.2 Significant accounting policies

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

3 Material events during the reported period

3.1 Positive Brands joint venture

As of February 4, 2020, the Company entered into a new joint arrangement with third parties to share the control of Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A. ("Positive Brands"), a non-listed company based in Fortaleza-CE, with unit in Espírito Santo, that operates in industrialization and sales of plant-based beverages, especially nuts milk and isotonic ones, cashew butter and cashew snacks. According to the agreement, the Company has 50% of voting rights. The purchase consideration was R$ 39,193, of which the amount of R$ 31,400 has already been paid on the date of signing the agreement.

Positive Brands is structured as a separate vehicle and the Group has a residual interest in the net assets of Positive Brands. Accordingly, the Group has classified its interest in Positive Brands as a joint venture.

In accordance with the agreement under which Positive Brands joint venture is established, the remaining consideration of R$ 7,500, will be settled through additional contributions in proportion to Company's interests in accordance with the cash requirements of the business plan execution, approved by the parties. Payment of contributions must be made by January 1, 2022, with interest based upon 102% of the Brazilian Interbank CDI rate.

The Positive Brands joint venture will enable the Group to access new markets, with inclusion of new products in its portfolio. The acquisition is also expected to provide Positive Brands with an increase of its market share through access to the Company's logistics and sales structure.

Details of the net identifiable assets acquired and goodwill are:

Purchase consideration	
Cash paid	31,400
Consideration to be paid	7,500
Contingent consideration	293
Total purchase consideration	39,193
Proportional interest in the net assets acquired – 50%	(1,675)
Goodwill (provisional amount)	**37,518**

The contingent consideration corresponds to the estimated amount calculated over 100% of the working capital to be confirmed in the balance sheet of Positive Brands on January 31, 2020 that exceeds R$ 3,000. The amount of the contingent consideration will be paid within two days of the date on which the parties agree on the amount of the working capital, which is still being validated by the previous owners and the Company. The above presented amount takes into consideration a provisional balance sheet but no relevant adjustments are expected.

The goodwill is attributable to Positive Brands strong position and profitability in trading in plant-based food market.

The provisionally determined assets and liabilities of Positive Brands are as follows:

Identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	100
Trade receivables	1,560
Inventories	2,448
Recoverable taxes	174
Other current assets	63
Trade payables	(715)
Payable taxes	(1)
Employees and other payroll related liabilities	(79)
Other current liabilities	(201)
Net identifiable assets – 100%	**3,349**

The Company had not yet completed the accounting for the acquisition of Positive Brands joint venture. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally, as the independent valuations have not yet been finalized.

According to the joint venture agreement, the Company has a call option and the sellers have a put option to acquire or to sell the remaining 50% of the seller's shares in Positive Brands, if and when determined uncertain future events may occur. Due to the aforementioned uncertainties, the Company has not recognized any amounts due at this time.

3.2 Agreement for the acquisition of Mitsui Alimentos

As of February 17, 2020, the subsidiary Café Três Corações S.A. entered into an agreement for the acquisition of 100% of the quotas of the company Mitsui Alimentos Ltda. ("Mitsui"), such that after the closing of the transaction, Café Três Corações will hold the entire issued and paid-up capital stock of Mitsui.

Mitsui is active mainly in the roasted and ground coffee segment, where the Group currently detains the largest market share in Brazil (information not reviewed by independent auditors). Mitsui's products are marketed under the brands of Café Brasileiro, Café .br Gold, Café 3 Fazendas, Café Premiado, Café Bandeira, coffee capsules.br and .br Gold and Coolate. The roasted and ground coffee products are manufactured at two sites owned by Mitsui in the city of Cuiabá, State of Mato Grosso and in the city of Araçariguama, State of São Paulo. Mitsui has its headquarters located in the city of Santos, State of São Paulo, at Rua XV de Novembro, 62, and operates in the acquisition, roasting, grinding, packaging and sales of coffee, as well as industrialization and the sale of food products in general.

The acquisition of Mitsui's business is intended to strengthen the Group' positioning in selected geographical regions and is aligned with the Group' strategy of solidifying its position as the leader in the Brazilian coffee market.

The Group plans to continue to operate Mitsui in the same manner as it has operated to date, with the aim of maximum realization of potential synergies between the companies.

In consideration for 100% of the quotas of Mitsui, the Group is to pay the seller the sum of approximately R$ 210,000, subject to post-closing adjustments.

Closing the transaction is conditional upon approval by the Brazilian antitrust commission (CADE). If the approval is not obtained and the parties have not extended the period, the transaction will be cancelled.

3.3 Exclusion of State VAT (ICMS) from the Federal VAT (PIS and COFINS) calculation base

On February 28th, 2020, the Federal Regional Court of the 1st Region judged definitively and favorably the proceeding nº 0018162-15.1999.4.01.0000 of Café Três Corações S.A., in which the Company had requested exclusion of State VAT (ICMS) from the Federal VAT (PIS only) calculation base for the years from 1987 to 2018. Regarding COFINS amounts, the Company is appealing in court and no amount has been recorded since the court decision is not yet final.

Even though the full amount comprises the periods from 1987 to 2018, Management was able to calculate up until now only the amounts for the periods from 2006 to 2018. In calculating tax credits, the Group adopted the method established in the court decision, which considers the State VAT amounts mentioned in the sales invoices, following also the practice adopted by other companies in Brazil. As of 31 March 2020, the Group has recognized the amount of R$ 9,497 of recoverable taxes.

The Company is considering the possibility of hiring an independent third party to perform the calculations for the remaining periods, however, the progress of this work was interrupted mainly due to the COVID-19 pandemic, since the documentation needs to be verified in the physical files at the Company's headquarters.

The Group also recognized in the first quarter of 2020 the additional amount of R$ 10,994 relating to the same subject, however, for PIS and COFINS tax credits, after reviewing its expectation of using the future economic benefits of the final court decision favorable to the Company and its subsidiary Principal Comércio e Indústria de Café Ltda.

The amounts were recognized based upon the expected future economic benefits utilization, through tax compensation. The Group recognized in the statement of income the gain arising from lawsuits (principal, interest, etc.) in revenue deductions (see Note 8).

Although the Company's claim has now been fully confirmed by the court, the utilization of the benefit via tax compensation is still subject to administrative proceedings by the Brazilian Federal Revenues, which may be sometimes lengthy.

4 Net debt

	31 March 2020	31 December 2019
Short term loans	693,538	660,798
Long term loans	310,789	47,306
Cash and cash equivalents	(644,373)	(538,045)
Net debt	**359,954**	**170,059**

The increase in net debt is mainly due to new loan agreements for working capital with Rabobank in the total amount of R$ 250,000, with debt cost of 110.5% of the Brazilian Interbank Deposit CDI rate and maturity of 3-years.

Part of the short term debt is represented by loans for acquisition of inventories (ACC) that are related to the increase in the green coffee export business that occurred at the end of 2019. These loans will be settled in 2020 with the execution of future green coffee sales agreements. Short-term loans also include working capital loans that will mature in the second quarter of 2020.

There are no debt covenants on the Group’s loans and borrowings contracts with the banks.

5 Contingent liabilities

The material events related to contingent liabilities during the reported period are presented below. There are no other material events, except for the usual interest accrued on the provisioned contingent liabilities balances.

5.1 Notices of infraction - Federal VAT (PIS and COFINS)

On March 2nd, 2020, the companies Três Corações Alimentos S.A. and Café Três Corações S.A. received tax assessment notices Proc nº. 11065.721120_2020-68 and Proc nº. 11065.721121_2020-11, respectively, issued by the Brazilian Federal Revenues in the total amount of R$ 97,178.

The infraction notices refer to non-collection of Federal VAT (PIS and COFINS), referring to the periods from December 2015 to December 2018.

The federal tax authorities claim that the companies did not calculate PIS and COFINS over the sales of powdered cappuccino and coffee with milk. They do not agree with the Group's understanding that the products are coffee based and therefore taxed at rate zero.

In addition, the authorities also contest what they believe were undue tax credits over intercompany transfers of finished goods.

The Group's tax and legal advisors responsible for monitoring the processes classify the chances of success as possible, with a greater chance of obtaining a favorable decision than an unfavorable one. Therefore, the Management understands there is no need to provision any liability in the condensed consolidated financial statements as of March 31, 2020.

6 Financial instruments

6.1 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term financial investments, trade receivables, other receivables and debit balances, credits 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:

	31 March 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Short term loans	693,538	634,493	660,798	642,865
Long term loans	310,789	263,166	47,306	50,730

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

6.2 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 when 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 is not based on observable market data (that is, unobservable inputs). As of 31 March 2020 and 31 December 2019, the Group had no financial instruments classified at Level 3.

7 Revenue

7.1 Disaggregated revenue information

	Products	Services	31 March 2020
Geographical markets			
Domestic	835,472	46	835,518
Foreign	42,027	-	42,027
	877,499	**46**	**877,545**

	Products	Services	31 March 2019
Geographical markets			
Domestic	807,672	48	807,720
Foreign	42,105	-	42,105
	849,777	**48**	**849,825**

7.2 Revenue reconciliation

	31 March 2020	31 March 2019
Gross revenue:		
Products – domestic	1,065,838	1,023,677
Products – foreign	42,027	42,105
Services	51	54
Other	33	56
Revenue deductions:		
Taxes on sales (a)	(88,949)	(94,478)
State VAT incentives	22,370	19,966
Discounts	(130,172)	(105,101)
Other deductions	(33,653)	(36,454)
Revenue	**877,545**	**849,825**

(a) As described in Note 3.3, the Group recognized the gain from the lawsuits related to the exclusion of State VAT (ICMS) from the Federal VAT (PIS and COFINS) calculation base. For the three months period ended 31 March 2020 the amount recognized was R$ 20,491 (R$ 0 for the three month period ended 31March 2019).

* * *

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Chief Executive Officer

Danisio Costa Lima Barbosa
Chief Financial Officer

Adenise Evangelista de Melo
Accountant