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 six months ended June 30, 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 June 30, 2020. For restrictions on dividend distributions in the context of the debentures (Series F), issued in July 2020, see Note 9.2 to the condensed consolidated interim financial statements of the Company as at June 30, 2020.

2. Section 13 in the Description of the Company's Business Report, the International Coffee Segment

Section 13.1, General Information on the International Coffee Segment

On July 31, 2020, the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil ("Mitsui Alimentos") was completed by Café Três Corações S.A., a subsidiary of the Três Corações joint venture owned by the subsidiary Strauss Coffee B.V. (50%) and Sao Miguel FIP (50%) (the "Closing Date" and the "Três Corações Joint Venture", respectively). The acquisition was completed after all suspending conditions under the transaction agreement were satisfied. In consideration for 100% of the shares of Mitsui Alimentos, the Três Corações Joint Venture paid a total amount of approximately BRL 216 million (approximately NIS 142 million) (the "Purchase Price"), following adjustments made to the consideration proximate to the closing. To clarify, the Purchase Price may be subject to further adjustments, *inter alia,* in respect of working capital on the Closing Date. For further information, see the Immediate Reports of February 18, 2020, July 5, 2020 and August 2, 2020 (reference no. 2020-01-014263, 2020-01-063052 and 2020-01-081531, respectively).

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

Section 21.2, Reportable Credit and section 21.3, Restrictions Applying to the Receipt of Credit

On July 7, 2020 the Company issued debentures (Series F), which were listed for trading on the Tel Aviv Stock Exchange. The proceeds of the issue were approximately NIS 700 million (gross). For further information, including with respect to financial covenants undertaken by the Company and an undertaking with respect to a negative pledge, see Note 9.2 to the condensed consolidated interim financial statements of the Company as at June 30, 2020 and the Immediate Reports of July 7, 2020 (reference no. 2020-01-072306 and 2020-01-072366).

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).

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

On July 5, 2020 the Company announced that Midroog Ltd. had assigned an Aa1.il rating with stable outlook to the debentures (Series F) to be issued by the Company up to an amount of NIS 700 million face value. For further information, see the Immediate Report of July 5, 2020 (reference no. 2020-01-063184).

On July 5, 2020 the Company announced that Standard & Poor's Maalot Ltd. had assigned an ilAA+ rating with stable outlook to the debentures (Series F) to be issued by the Company up to an amount of NIS 700 million face value. For further information, see the Immediate Report of July 5, 2020 (reference no. 2020-01-063196).

4. <u>Section 26 in the Description of the Company's Business Report, Legal Proceedings</u>

For updates, see Note 6 to the condensed consolidated interim financial statements of the Company as at June 30, 2020.

Date: August 16, 2020

Names and titles of signatories:

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Chief Executive Officer

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Strauss Group Ltd.

STRAUSS GROUP LTD.

BOARD OF DIRECTORS'
REPORT TO THE
SHAREHOLDERS
AS AT JUNE 30, 2020

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED JUNE 30, 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 second 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 second quarter of 2020 the Group held a 12.2% share of the total domestic food and beverage market (in value terms[1]) compared to 12.0% in 2019, 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 business 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] dips and spreads business in Holland and Germany and the dips and spreads business under the Florentin brand in Holland, Germany and France; and **the operation in the US and Canada**, which includes Sabra's[4] dips and spreads business. 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 impact of coronavirus pandemic (COVID-19)

2.1.1 General

Group Management is vigilantly managing the event and continues to assess and manage 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.

At the date of this report and throughout the quarter in general, the Group's manufacturing facilities have continued to operate normally. The Group is cooperating closely with its suppliers and customers to ensure that the supply chain is able to meet the continuing high demand that was also observed in the second quarter, and is taking steps to increase production capacity and maximize the availability of products and services.

During the quarter the Group continued to take action to preserve financial stability and flexibility and ensure adequate liquidity in all geographies. The Company has also continued to invest in advanced technology and in the establishment of new manufacturing facilities in Israel and other countries, in developing its brands and strengthening its partnerships, while exploring various business opportunities and making advance preparations for the challenges that lie ahead as the year progresses.

2.1.2 Impacts of COVID-19 crisis on the Group's business and business results in the second quarter through to the date of this report

The impacts of the crisis vary substantially between geographies, product categories and sales channels, as well as due to the timing of the outbreak and the extent of its containment in each geography, the restrictions imposed on businesses and the effect of the restrictions on consumer behavior. The second quarter was characterized by continuing efforts to cope with the pandemic in the various geographies where the Group operates. Following are the main occurrences observed in these months:

Consumer behavior – In the second quarter a number of behavioral characteristics that began when the pandemic broke out in the first quarter continued. These include, among others, increased in-home consumption of food and beverages and a drop in away-from-home (AFH) consumption in light of the restrictions on movement imposed on consumers in some countries of operations; continued growth in online shopping; a drop in purchases of impulse products, as known brands grew stronger alongside private labels, etc..

Geographies – In the second quarter, above average sales growth in Israel continued, among other things due to increased in-home food consumption following the lockdowns imposed on consumers and the closure of AFH entertainment and dining venues (it is noted that there was a slowdown in growth in April compared to the demand observed in March in the outbreak and lockdown phase, but in May-June the pace of sales picked up gradually). In the US and Eastern Europe sales have tapered off, whereas in Brazil, China and sales by the water company stability was observed.

Product categories – In the second quarter, growth in demand for the Group's products was evident, such as dairy products, salads and dips and spreads, chocolate tablets and honey. By contrast, sales of confectionery, single serve snacks and small packs that mainly serve for AFH consumption (particularly in Israel and the US) remained weak.

Sales channels – In the second quarter the Group's sales to the retail chains increased, alongside a drop in sales to the institutional and AFH market, such as hotels, offices, cafés (including the Elite Café chain), restaurants and open-air markets, and impulse (on-the-go (OTG)) sales.

Impact on the Group's business units:

Strauss Israel – Following the lockdown in Israel, which began at the end of March and continued until mid-May 2020, demand for dairy products, salads 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). During and after the second quarter (through to the reporting date), demand for the Group's products remains high, but has slowed in relation to the demand observed during the outbreak and lockdown phase. This year, the Company also increased the grant of discounts and campaigns for retailers, and will maintain this policy depending on the state of the economy and the impacts of the crisis. Most of the manufacturing sites and the accompanying supply chain and value chain are defined as essential, and consequently, operated regularly and continuously throughout 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 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 and manufacturing costs continued to rise compared to costs prior to the crisis due to the continuing growth in sales, as did additional manufacturing costs due to the costs of personal hygiene, separation of shifts, support of production-line and front-line employees, and contribution to the community.

Strauss Water

In Israel – In the second quarter, a gradual return to pre-COVID activity levels was observed. During the quarter IT costs continued to increase 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 second quarter China continued to emerge from the lockdown, and in parallel, sales continued to recover. During the quarter, online sales in China grew.

Strauss Coffee – In the reporting period the impact on the coffee business was mixed, according to the different sales channels. Modern trade sales (sales to the large retail chains) rose moderately in the second quarter after consumers had stocked up on basic coffee brands, coffee beans and capsules for home consumption in preparation for the lockdowns in most countries of operations. Growth was also observed in online sales. In parallel, sales to the traditional trade channel, which includes stores, groceries and open-air markets, were harmed due to restrictions on opening hours and a drop in customer traffic. Sales to the institutional and AFH channel dropped significantly 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 accounted for 10% of coffee sales in 2019).

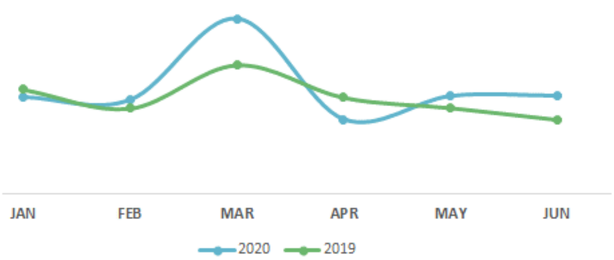
In terms of costs, the cost of green coffee rose as a result of the appreciation of the Dollar against the functional currencies and an increase in green coffee prices in Brazil. At the same time, price adjustments are possible over time, which will compensate for the rise in green coffee prices in local 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 in light of a long-lasting recession. The coffee company's supply and distribution chain was operational throughout the quarter, and at the date of this report is operating fully and regularly. It is noted that the Group has made preparations to contend with the temporary local shutdown of coffee plants through a backup plan for the supply of coffee from the Group's coffee production sites in other countries.

The International Dips & Spreads business – During the quarter the Sabra's sales decreased, mainly as a result of the drop in AFH market sales such as sales to convenience stores, as well following supply chain difficulties resulting from the COVID-19 crisis. In addition, wage costs continued to rise due to incentives and support for production, operations and sales employees, besides additional costs of personal protective equipment and high supply chain costs due to building 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.

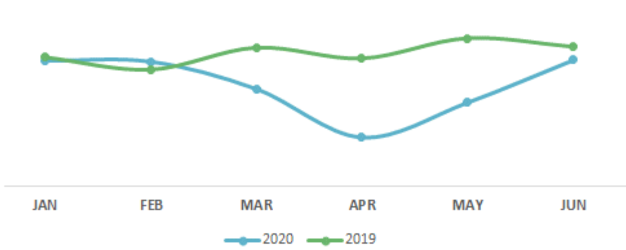
In the second quarter the pace of growth in the Company's sales slowed in relation to sales levels in March in the first quarter, with April being the weakest month in the second quarter. In May and June the growth pace of the Company's sales picked up gradually in all sales channels, particularly AFH and impulse. This trend has continued in July.

Following is the trend of the Group's sales by month, compared to the corresponding periods last year*:

Sales to the retail market



Sales to the AFH market



* Excluding the translation differences effect

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 June 30, 2020 the balance of cash and deposits on the Group's financial statements was approximately NIS 411 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.

On July 7, 2020 the Company issued a new debenture series (Series F). The net proceeds of the issue were approximately NIS 691 million. The issue of the debentures is part of a move by the Company to extend its debt maturity and reduce the burden of repayments on the Company in the next few years, while lowering the Group's financing costs. For further information, see section 3.1.5 in this report below and Note 9.2 to the Condensed Consolidated Interim Financial Statements of the Company as at June 30, 2020 for a review of post-statement of financial position date events.

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.

2.1.3 Future estimates

As demonstrated by the foregoing, 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 continuing impact of the depreciation of the Brazilian Real on reported translation differences. 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 COVID-19 pandemic, the Company is unable, at the present time, to assess the extent of the future impact on its business position. As the countries of operations emerge from the lockdown, a drop in demand for the Company's products is possible as a result of consumers having stocked up prior to the lockdown. By contrast, there are estimates that hold 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, the consumers' wish to avoid exposure to the virus in public places and restrictions imposed on the consumption of food away from home, including restaurants, cafés, hotels (and the tourism industry as a whole) and workplace catering.

For scenarios that are liable to have a material impact on the Company's business position and the results of its operations, see section 2.1.3 in the Board of Directors' Report for the first quarter.

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 half and second 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 (traded on the London Commodity Exchange), sesame, the price of raw milk (the "target price", particularly in the first quarter), olive oil, polystyrene and plastic bottles (packaging materials) dropped, whereas on the other, the prices of Arabica green coffee (traded on the New York Mercantile Exchange) and green coffee prices in Brazil rose, as did the prices of cocoa, sugar, tahini and honey. At the beginning of the third quarter of the year the price of raw milk ("target price") was revised downward by approximately 0.9% for the months July-September 2020 and by a similar rate since the beginning of the year, compared to a total decrease 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 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.

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 half and second quarter of 2020 the average prices of Brent oil were approximately 36% and 26% lower, respectively, than the average prices in the corresponding periods last year. Since the beginning of the year through to proximate to the date of approval of the financial statements, the price of Brent oil decreased by approximately 32%.

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 in the first half), particularly the Brazilian Real, led to negative translation differences on the income statement in the first half and second quarter of 2020. In terms of half-yearly and quarterly change (based on closing prices) the Shekel appreciated against most currencies, significantly against the Brazilian Real, with a negative net effect on the Group's equity in the first half and second quarter of the year, most of the impact being recorded in the first quarter. Since the beginning of the year through to proximate to the date of approval of the financial statements, the Brazilian Real depreciated by approximately 37%.

In the first half and second quarter of 2020 most of the average exchange rates of the functional currencies (excluding the Hryvnia in the first quarter and the Shekel) fell against the US Dollar compared to the corresponding periods last year.

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

Unofficial Translation from Hebrew

The following table presents the average exchange rates **against the Shekel** in the first half and second quarter of 2020 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Half		% Change	Average Exchange Rate in Second Quarter		% Change
		2020	2019		2020	2019	
United States Dollar	USD	3.506	3.620	(3.2%)	3.516	3.595	(2.2%)
Euro	EUR	3.861	4.090	(5.6%)	3.867	4.040	(4.3%)
Ukrainian Hryvnia	UAH	0.135	0.134	0.6%	0.131	0.135	(3.5%)
Russian Ruble	RUB	0.051	0.055	(8.3%)	0.049	0.056	(12.5%)
Serbian Dinar	RSD	0.033	0.035	(5.2%)	0.033	0.034	(4.0%)
Romanian Leu	RON	0.802	0.863	(7.1%)	0.800	0.851	(6.0%)
Polish Zloty	PLN	0.875	0.953	(8.1%)	0.858	0.943	(9.0%)
Brazilian Real	BRL	0.722	0.942	(23.4%)	0.656	0.917	(28.5%)
Chinese Renminbi	CNY	0.498	0.534	(6.6%)	0.496	0.527	(5.9%)
Canadian Dollar	CAD	2.570	2.714	(5.3%)	2.535	2.687	(5.7%)
Australian Dollar	AUD	2.305	2.557	(9.8%)	2.309	2.517	(8.3%)
Mexican Peso	MXN	0.163	0.189	(13.5%)	0.151	0.188	(19.8%)
Pound Sterling	GBP	4.420	4.682	(5.6%)	4.363	4.621	(5.6%)

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

Currency		Average Exchange Rate in First Half		% Change	Average Exchange Rate in Second Quarter		% Change
		2020	2019		2020	2019	
New Israeli Shekel	ILS	0.285	0.276	3.3%	0.284	0.278	2.3%
Ukrainian Hryvnia	UAH	0.039	0.037	3.9%	0.037	0.038	(1.4%)
Russian Ruble	RUB	0.014	0.015	(5.3%)	0.014	0.015	(10.5%)
Serbian Dinar	RSD	0.009	0.010	(2.1%)	0.009	0.010	(1.8%)
Romanian Leu	RON	0.229	0.238	(4.0%)	0.228	0.237	(3.9%)
Polish Zloty	PLN	0.250	0.263	(5.1%)	0.244	0.262	(6.9%)
Brazilian Real	BRL	0.206	0.260	(20.8%)	0.186	0.255	(26.9%)
Chinese Renminbi	CNY	0.142	0.147	(3.6%)	0.141	0.147	(3.8%)
Pound Sterling	GBP	1.261	1.293	(2.5%)	1.241	1.285	(3.5%)

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

Currency		Proximate to date of publication	Average Exchange Rate in Third Quarter 2019	% Change
United States Dollar	USD	3.404	3.525	(3.4%)
Euro	EUR	4.022	3.920	2.6%
Ukrainian Hryvnia	UAH	0.124	0.140	(11.1%)
Russian Ruble	RUB	0.046	0.055	(14.8%)
Serbian Dinar	RSD	0.034	0.033	2.7%
Romanian Leu	RON	0.832	0.829	0.3%
Polish Zloty	PLN	0.914	0.908	0.7%
Brazilian Real	BRL	0.631	0.890	(29.1%)
Chinese Renminbi	CNY	0.490	0.503	(2.5%)
Canadian Dollar	CAD	2.570	2.671	(3.8%)
Australian Dollar	AUD	2.433	2.417	0.7%
Mexican Peso	MXN	0.155	0.181	(14.5%)
Pound Sterling	GBP	4.453	4.347	2.4%

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

Currency		Proximate to date of publication	Average Exchange Rate in Third Quarter 2019	% Change
New Israeli Shekel	ILS	0.294	0.284	3.6%
Ukrainian Hryvnia	UAH	0.036	0.040	(7.9%)
Russian Ruble	RUB	0.014	0.015	(11.8%)
Serbian Dinar	RSD	0.010	0.009	6.4%
Romanian Leu	RON	0.244	0.235	3.9%
Polish Zloty	PLN	0.269	0.258	4.3%
Brazilian Real	BRL	0.185	0.252	(26.5%)
Chinese Renminbi	CNY	0.144	0.143	0.9%
Pound Sterling	GBP	1.308	1.233	6.1%

At the middle of the third quarter, the trend of erosion of the Real against the Shekel has continued, and is presently approximately 29.1% compared to the average exchange rate in the third quarter of 2019, which is expected to have a greater impact on the Company's third 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 – On encountering the global COVID-19 crisis, the Group defined a dedicated social program focused on its operations in Israel 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 Group's people (high priority) – The Group invested millions of shekels in protective measures and a compensation mechanism designed to support employees who continue to attend their regular work environment despite the complexities involved (first-line people).

Suppliers and small and medium manufacturers in the food industry – In Israel, a loan fund, accelerated payments and an information 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 food bank organizations (such as Latet and Leket Israel), including a financial contribution, products and employee volunteering. In addition, development of projects for the benefit of specific population groups in collaboration with leading nonprofits, such as the distribution of holiday packs together with the Israel Association of 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), sending food parcels for Ramadan, activity with the Co-Impact organization, which furthers employment in Arab society, and others. The Group was also part of a project in which 10,000 food parcels were distributed to senior citizens in need, led by the Food Industries Association in the Manufacturers

Association of Israel, together with over 40 food companies that donated their products and jointly supported the effort, with employees volunteering to pack and distribute the parcels.

Medical teams and Magen David Adom teams and volunteers – Distribution of food products directly to the teams throughout Israel by a truck, which in the course of several weeks reached all hospitals in Israel, all drive-thru testing sites operated by Magen David Adom and numerous nursing homes with donations of a broad variety of the Company's products. The Group also 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.

In selected sites around the world:

Sabra distributed tens of thousands of products (hummus and guacamole) to different hospitals in the New York area, made over 2,000 donations of food through local food nonprofits in New York State, and also donated products to students suffering from food and nutrition insecurity in New York.

The coffee company in Brazil made financial donations to a number of social organizations and medical institutions for the purchase of ventilators, protective means and food parcels. In Romania, the company distributed coffee products to medical teams and policemen. In Poland, the coffee company donated coffee to hospitals in the Poznan area, and the coffee company in Serbia is working on the furtherance of projects supporting senior citizens, in the framework of which it donated tens of thousands of containers of coffee for inclusion in food parcels.

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 of 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"** and/or the **"GAAP Reports"**).

Notwithstanding the foregoing and in view of the method of presentation of the subsidiaries and jointly owned companies in the Group's non-GAAP reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies, the Group presents the activity segments by presenting the Group's relative 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 GAAP Reports and the various adjustments made by Company Management in making the transition from the Company's GAAP Reports to its Non-GAAP Reports.

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the half-year ended June 30, 2020 and 2019 (in NIS millions)*:

	First Half			Explanation
	2020	**2019**	**% Chg**	
Sales	**4,106**	**4,179**	**(1.7%)**	The decrease in sales mainly originated in the Strauss Coffee and International Dips & Spreads segments as a result of negative translation differences, mainly following the depreciation of the Brazilian Real and the US Dollar. By contrast, sales by Strauss Israel grew across all segments following high growth in in-home consumption and increased demand following the COVID-19 outbreak. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effects	4.9%	0.8%		
Cost of sales	2,485	2,512	(1.1%)	The decrease in gross profit mainly originated in the Strauss Coffee segment as a result of negative translation differences, mainly following the depreciation of the Brazilian Real, and the closure of Elite Café points of sale, as well as the International Dips & Spreads segment following the drop in sales and a change in the sales mix. By contrast, growth in the gross profit of the Strauss Israel segment was recorded, primarily as a result of an increase in quantities sold. The gross profit margin dropped mainly as a result of an increase in green coffee prices in Brazil in the Strauss Coffee segment, and an increase in labor and manufacturing costs following the COVID-19 outbreak. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**1,621**	**1,667**	**(2.7%)**	
% of sales	39.5%	39.9%		
Selling and marketing expenses	881	921	(4.3%)	The percentage of selling and marketing expenses of total sales remained essentially unchanged. The decrease in selling and marketing expenses mainly originated in the Strauss Coffee segment due to the drop in the business of Elite Café, and translation differences following the depreciation of the Brazilian Real.
General and administrative expenses	269	265	1.7%	The increase is primarily due to welfare, hygiene and safety expenses, and an increase in product donations following the COVID-19 outbreak.
Total operating expenses	**1,150**	**1,186**	**(3.0%)**	
Company's share of profit of equity-accounted investees	20	15	35.8%	Most of the increase is due to an increase in the profits of Haier Strauss Water following recognition of a regional development grant of approximately NIS 11 million (the Company's share) received by the company, which was partially offset by losses of equity-accounted investees in Strauss's incubator, compared to gains from a decrease in the holding percentage included in the corresponding period last year.
Operating profit – non-GAAP	**491**	**496**	**(1.0%)**	The decrease in operating profit mainly originated in the Strauss Coffee segment as a result of negative translation differences, mainly following the depreciation of the Brazilian Real, and the closure of Elite Café points of sale, as well as the International Dips & Spreads segment following a change in the sales mix. By contrast, growth in the operating profit of the Strauss Israel segment was recorded, primarily as a result of an increase in quantities sold. The operating profit margin rose due to the growth in HSW's profits, which was partially offset by the drop in the gross profit margin as well as additional costs following the COVID-19 outbreak. For further information, see section 3.1.3 below.
% of sales	12.0%	11.9%		
Financing expenses, net	(63)	(71)	(10.5%)	The decrease in financing expenses is due to financing income in respect of CPI linkage differentials and foreign currency derivatives as opposed to expenses in the corresponding period, as well as a decrease in interest expenses, which was partially offset by a revision of cash flows of loans following forecasts for prepayment. For further information, see Note 9.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020.
Income before taxes – non-GAAP	**428**	**425**	**0.6%**	
Income tax	(87)	(105)	(16.5%)	The decrease in the effective tax rate in the first half of 2020 is mainly due to the revision of the deferred tax reserve in respect of the profits of certain foreign companies, which have not yet been distributed.
Effective tax rate	20.6%	24.8%		
Income for the period – non-GAAP	**341**	**320**	**6.2%**	The change is primarily the result of a decrease in financing expenses and taxes, which was offset in part by a decrease in operating profit.
Attributable to the Company's shareholders	**306**	**293**	**4.0%**	
% of sales	7.4%	7.0%		
Attributable to non-controlling interests	35	27	30.1%	
EPS (NIS)	2.64	2.54	3.6%	

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarter ended June 30, 2020 and 2019 (in NIS millions)*:

	Second Quarter			Explanation
	2020	**2019**	**% Chg**	
Sales	**1,938**	**2,073**	**(6.5%)**	The decrease in sales mainly originated in the Strauss Coffee segment as a result of negative translation differences, mainly following the depreciation of the Brazilian Real, and the closure of Elite Café points of sale in the Israel Coffee segment, and in the International Dips & Spreads segment following a drop in sales to the AFH market in the US due to the COVID-19 outbreak. By contrast, sales growth was recorded in the Health & Wellness segment alongside a drop in sales by the Fun & Indulgence segment, on the one hand due to high growth of the food market and increased demand following the COVID-19 outbreak, and on the other, to the drop in AFH consumption. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effects	1.5%	1.7%		
Cost of sales	1,195	1,251	(4.5%)	The decrease in gross profit is mainly the result of the drop in sales as mentioned and the International Coffee segment due to negative translation differences, mainly following the depreciation of the Brazilian Real. By contrast, growth in the gross profit was recorded, mainly due to an increase in quantities sold in the Strauss Israel segment. The gross profit margin dropped mainly as a result of an increase in green coffee prices in the Strauss Coffee segment, and the International Dips & Spreads segment due to a change in the sales mix. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**743**	**822**	**(9.6%)**	
% of sales	38.4%	39.6%		
Selling and marketing expenses	411	472	(12.7%)	The decrease in selling and marketing expenses is due to high expenses in the first quarter as a result of the timing of Passover and advertising by Sabra in the US Super Bowl. This is in addition to the drop in the business of the Elite Café chain in the Israel Coffee segment and translation differences, mainly following the depreciation of the Brazilian Real.
General and administrative expenses	125	132	(5.3%)	The decrease is primarily due to savings in consulting costs following the COVID-19 outbreak and translation differences, mainly as a result of the depreciation of the Brazilian Real.
Total operating expenses	**536**	**604**	**(11.1%)**	
Company's share of profit of equity-accounted investees	16	9	85.6%	Most of the increase is due to an increase in the profits of Haier Strauss Water following recognition of a regional development grant of approximately NIS 11 million (the Company's share), which was partially offset by losses of equity-accounted investees in Strauss's incubator, compared to gains from a decrease in the holding percentage of incubator companies, which was included in the corresponding period last year.
Operating profit – non-GAAP	**223**	**227**	**(1.6%)**	The decrease in operating profit mainly originated in the International Coffee segment as a result of negative translation differences, mainly following the depreciation of the Brazilian Real, and the closure of Elite Café points of sale, as well as the International Dips & Spreads segment following a change in the sales mix. By contrast, growth in the operating profit of the Strauss Israel segment was recorded, primarily as a result of an increase in quantities sold. The operating profit margin rose due to the growth in HSW's profits, which was partially offset by the drop in the gross profit margin. For further information, see section 3.1.3 below.
% of sales	11.5%	11.0%		
Financing expenses, net	(47)	(41)	15.3%	The increase in financing expenses in the second quarter of 2020 is the result of the revision of cash flows of loans at an amount of approximately NIS 13 million following forecasts for prepayment, which was partially offset by financing income in respect of CPI linkage differentials, as opposed to an expense in the corresponding period last year, as well as a decrease in interest expenses. For further information, see Note 4.6 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020.
Income before taxes – non-GAAP	**176**	**186**	**(5.4%)**	
Income tax	(21)	(50)	(56.0%)	The decrease in the effective tax rate in the second quarter of 2020 is mainly due to the revision of the deferred tax reserve in respect of the profits of certain foreign companies, which have not yet been distributed, and the profit mix for tax purposes in the different countries.
Effective tax rate	12.5%	26.8%		
Income for the period – non-GAAP	**155**	**136**	**13.1%**	The change is primarily the result of a decrease in tax expenses, which was offset in part by a decrease in operating profit and an increase in financing expenses.
Attributable to the Company's shareholders	**135**	**121**	**10.1%**	
% of sales	6.9%	5.9%		
Attributable to non-controlling interests	20	15	39.2%	
EPS (NIS)	1.16	1.06	9.8%	

* 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 half-year and quarter ended June 30, 2020 and 2019 (in NIS millions)*:

	First Half			Second Quarter		
	2020	**2019**	**% Change**	**2020**	**2019**	**% Change**
Israel						
Net sales	1,834	1,680	9.1%	851	803	5.9%
Operating profit	222	192	15.7%	98	80	21.7%
Coffee						
Net sales	1,594	1,807	(11.8%)	750	913	(17.9%)
Operating profit	180	211	(14.6%)	73	99	(26.6%)
International Dips & Spreads						
Net sales	375	390	(3.8%)	178	198	(10.3%)
Operating profit	37	52	(29.1%)	19	27	(30.4%)
Water						
Net sales	303	302	0.5%	159	159	0.7%
Operating profit	45	35	28.6%	30	19	61.3%
Other						
Net sales	-	-	N/A	-	-	N/A
Operating profit	7	6	12.2%	3	2	87.1%
Total						
Net sales	**4,106**	**4,179**	**(1.7%)**	**1,938**	**2,073**	**(6.5%)**
Operating profit	**491**	**496**	**(1.0%)**	**223**	**227**	**(1.6%)**

Following are the condensed financial accounting (GAAP) income statements for the half-year and quarter ended June 30, 2020 and 2019 (in NIS millions)*:

	First Half			Second Quarter		
	2020	**2019**	**% Change**	**2020**	**2019**	**% Change**
Sales	2,878	2,768	4.0%	1,333	1,338	(0.4%)
Cost of sales excluding impact of commodity hedges	1,691	1,623	4.2%	795	793	0.3%
Adjustments for commodity hedges**	18	-		4	(13)	
Cost of sales	1,709	1,623	5.3%	799	780	2.4%
Gross profit	**1,169**	**1,145**	**2.1%**	**534**	**558**	**(4.3%)**
% of sales	40.6%	41.4%		40.0%	41.7%	
Selling and marketing expenses	636	636	(0.0%)	300	322	(7.0%)
General and administrative expenses	204	198	2.9%	96	99	(4.1%)
Total expenses	**840**	**834**		**396**	**421**	
Share of profit of equity-accounted investees	118	153	(22.9%)	70	85	(18.2%)
Operating profit before other expenses	**447**	**464**	**(3.6%)**	**208**	**222**	**(5.7%)**
% of sales	15.5%	16.7%		15.6%	16.5%	
Other income (expenses), net	-	(3)		1	(2)	
Operating profit after other expenses	**447**	**461**	**(3.2%)**	**209**	**220**	**(5.2%)**
Financing expenses, net	(57)	(65)	(11.4%)	(47)	(38)	23.4%
Income before tax	**390**	**396**	**(1.8%)**	**162**	**182**	**(11.1%)**
Income tax	(73)	(87)	(16.3%)	(16)	(41)	(61.2%)
Effective tax rate	18.8%	22.0%		9.8%	22.5%	
Income for the period	**317**	**309**	2.3%	**146**	**141**	3.4%
Attributable to: The Company's shareholders	**282**	**283**	**(0.6%)**	**126**	**127**	**(0.7%)**
Non-controlling interests	35	26	32.6%	20	14	40.5%

* 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 June 30, 2020 and December 31, 2019 (in NIS millions)*:

	June 30, 2020	December 31, 2019	% Chg	Explanation
Total current assets	2,103	2,203	(4.6%)	The change is primarily the result of a decrease in trade receivable balances and in cash balances and deposits, as opposed to an increase in inventory balances.
Of which: Cash and cash equivalents balance	411	525	(21.8%)	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	4,274	4,387	(2.6%)	The change is primarily due to a decrease in right-of-use assets, mainly as a result of shortening the lease term of one of the Company's logistics centers, and in an investment in associates due to negative translation differences, of which approximately NIS 189 million are the result of the depreciation of the Brazilian Real against the Shekel, which were partially offset by the profits of the companies.
Total current liabilities	2,091	1,960	6.7%	The change is primarily due to loans and short-term credit following the enlargement of short-term credit facilities granted by banks.
Total non-current liabilities	2,000	2,200	(9.1%)	The change is primarily the result of a decrease in debentures and long-term loans and credit, as well as lease liabilities.
Total equity attributable to the Company's shareholders	2,145	2,277	(5.8%)	The change is primarily the result of a dividend 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, which were partially offset by an increase in profits attributable to the Company's shareholders.
Total equity attributable to non-controlling interests	141	153	(7.9%)	The change is primarily the result of a dividend paid in the period, which was partially offset by an increase in the profit of investees.

Following is the outstanding debt balance as at June 30, 2020 and December 31, 2019 (in NIS millions)*:

	June 30, 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	2,311	2,419	(108)	
Net debt – Non-GAAP Reports	2,053	2,023	30	
Net debt – Financial Statements	1,900	1,894	6	

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

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

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

	First Half 2020			First Half 2019			Second Quarter 2020			Second Quarter 2019		
	Financial State-ments	Change	Propor-tionate consoli-dation method	Financial State-ments	Change	Propor-tionate consoli-dation method	Financial State-ments	Change	Propor-tionate consoli-dation method	Financial State-ments	Change	Propor-tionate consoli-dation method
Sales	2,878	1,228	4,106	2,768	1,411	4,179	1,333	605	1,938	1,338	735	2,073
Cost of sales excluding impact of commodity hedges	1,691	794	2,485	1,623	889	2,512	795	400	1,195	793	458	1,251
Adjustments for commodity hedges	18	-	18	-	-	-	4	-	4	(13)	-	(13)
Cost of sales	1,709	794	2,503	1,623	889	2,512	799	400	1,199	780	458	1,238
Gross profit	**1,169**	**434**	**1,603**	**1,145**	**522**	**1,667**	**534**	**205**	**739**	**558**	**277**	**835**
% of sales	40.6%		39.0%	41.4%		39.9%	40.0%		38.2%	41.7%		40.2%
Selling and marketing expenses	636	245	881	636	285	921	300	111	411	322	150	472
General and administrative expenses	204	74	278	198	76	274	96	34	130	99	38	137
Company's share of profit of equity-accounted investees	118	(98)	20	153	(138)	15	70	(54)	16	85	(76)	9
Operating profit before other expenses	**447**	**17**	**464**	**464**	**23**	**487**	**208**	**6**	**214**	**222**	**13**	**235**
% of sales	15.5%		11.3%	16.7%		11.7%	15.6%		11.1%	16.5%		11.3%
Other income (expenses), net	-	(1)	(1)	(3)	1	(2)	1	(1)	-	(2)	1	(1)
Operating profit after other expenses	**447**	**16**	**463**	**461**	**24**	**485**	**209**	**5**	**214**	**220**	**14**	**234**
Financing expenses, net	(57)	(6)	(63)	(65)	(6)	(71)	(47)	-	(47)	(38)	(3)	(41)
Income before tax	**390**	**10**	**400**	**396**	**18**	**414**	**162**	**5**	**167**	**182**	**11**	**193**
Income tax	(73)	(10)	(83)	(87)	(18)	(105)	(16)	(5)	(21)	(41)	(11)	(52)
Effective tax rate	18.8%		21.1%	22.0%		25.3%	9.8%		12.8%	22.5%		26.8%
Income for the period	317	-	317	309	-	309	146	-	146	141	-	141
Attributable to: The Company's shareholders	**282**	**-**	**282**	**283**	**-**	**283**	**126**	**-**	**126**	**127**	**-**	**127**
Non-controlling interests	35	-	35	26	-	26	20	-	20	14	-	14

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

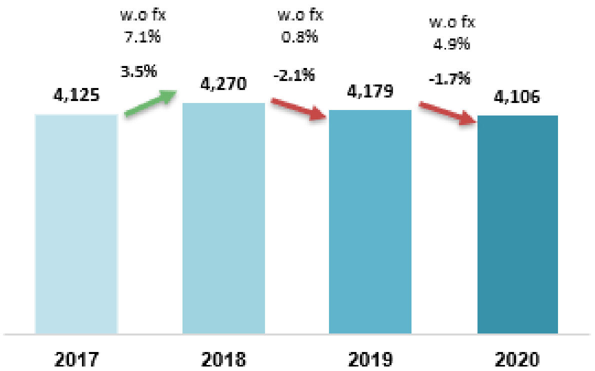
Additional adjustments to the Management (Non-GAAP) Reports (share-based payment, valuation of hedging transactions, other expenses and taxes referring to those adjustments)*:

	First Half			Second Quarter		
	2020	**2019**	**% Chg**	**2020**	**2019**	**% Chg**
Operating profit (according to the proportionate consolidation method) after other expenses	**463**	**485**	**(4.4%)**	**214**	**234**	**(8.2%)**
Share-based payment	9	9		5	5	
Adjustments for commodity hedges	18	-		4	(13)	
Other expenses, net	1	2		-	1	
Operating profit – non-GAAP	**491**	**496**	**(1.0%)**	**223**	**227**	**(1.6%)**
Financing expenses, net	(63)	(71)		(47)	(41)	
Income tax	(83)	(105)		(21)	(52)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(4)	-		-	2	
Income for the period – non-GAAP	**341**	**320**	**6.2%**	**155**	**136**	**13.1%**
Attributable to: The Company's shareholders	**306**	**293**	**4.0%**	**135**	**121**	**10.1%**
Non-controlling interests	**35**	**27**	**30.1%**	**20**	**15**	**39.2%**

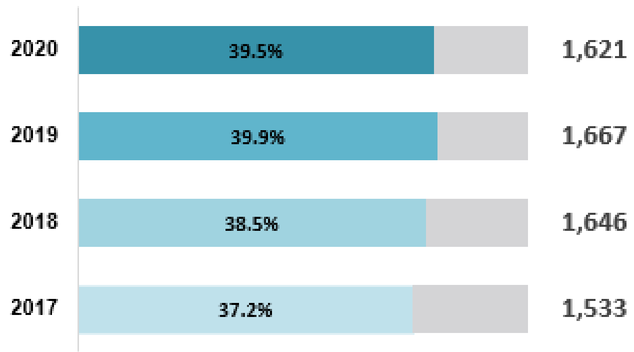
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

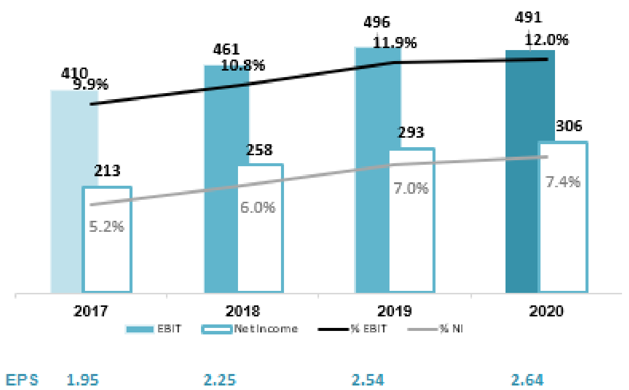
Net sales



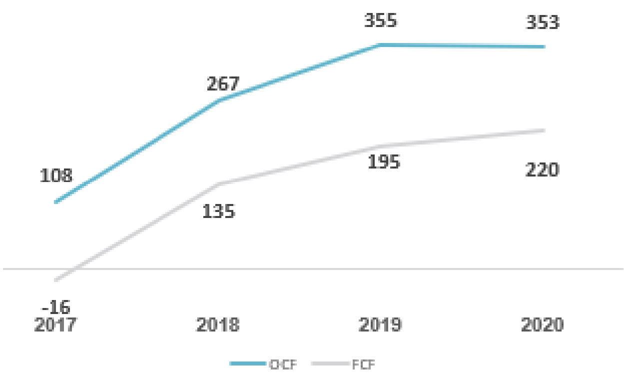
Gross profit and gross profit margin



Operating profit and operating profit margin



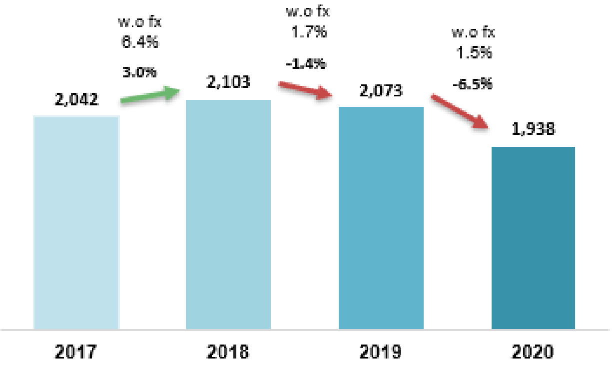
Cash flows from operating activities and free cash flow



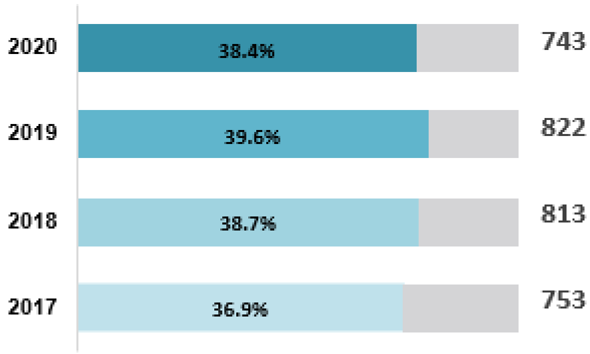
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

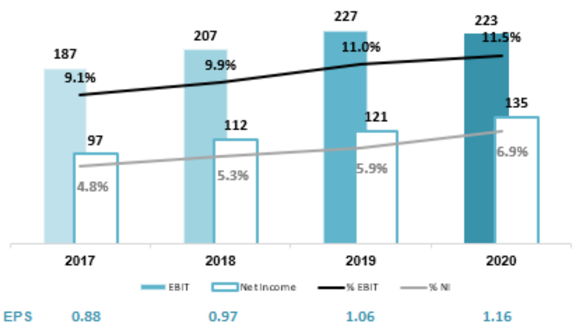
Net sales



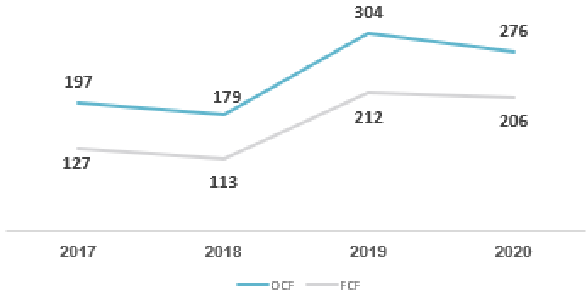
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow

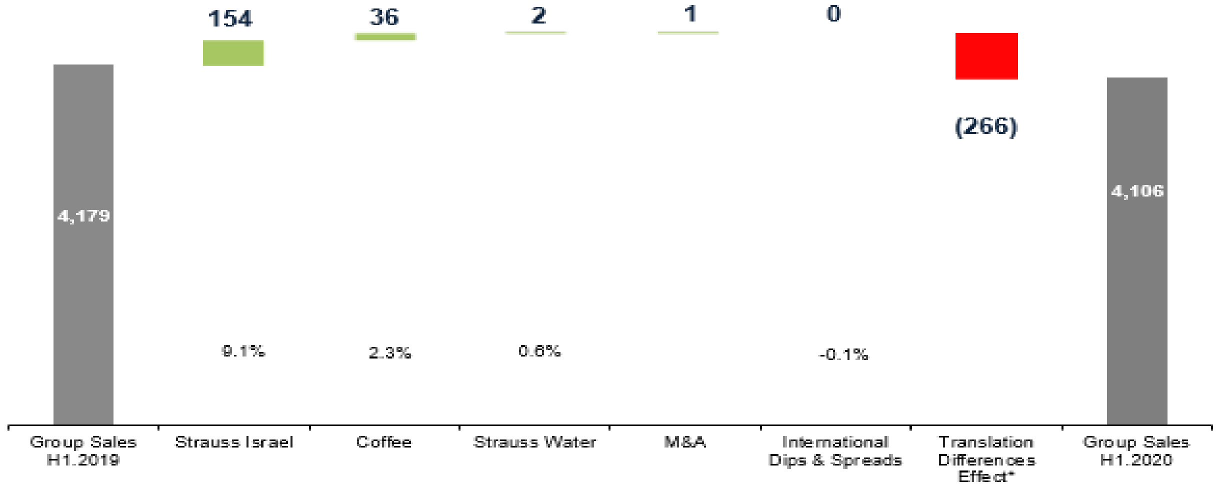


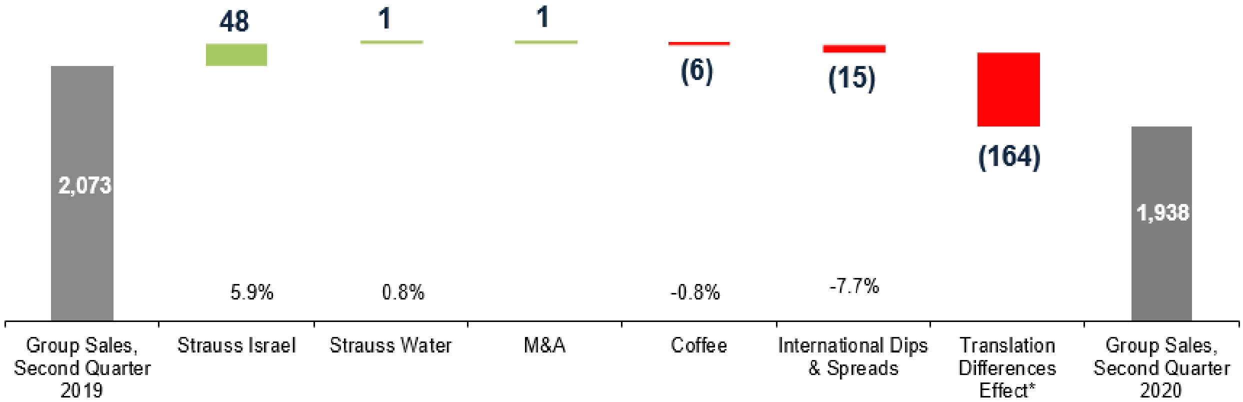
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

3.1.1 <u>Sales – non-GAAP</u>

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





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

The Group's sales in the first half of 2020 were impacted by negative translation differences amounting to approximately NIS 266 million, of which NIS 215 million are due to the depreciation of the Brazilian Real against the Shekel (see also the foreign exchange rate table in section 2.4 in this report).

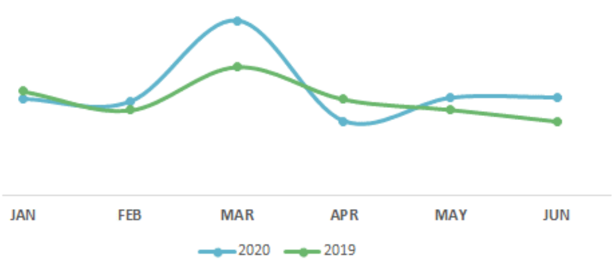
In the second quarter the Group's sales were affected by negative translation differences amounting to approximately NIS 164 million, of which NIS 138 million are due to the depreciation of the Brazilian Real against the Shekel (see also the foreign exchange rate table in section 2.4 in this report).

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

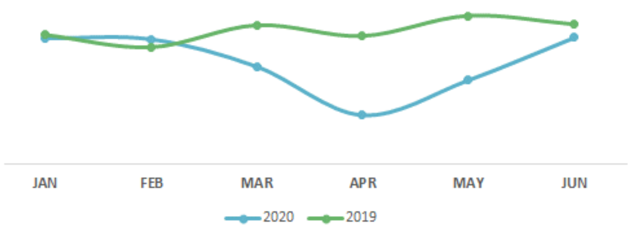
- See section 3.2.1.1 below for further explanations on organic growth in sales by the Coffee segment.
- See section 3.2.2 below for further explanations on organic growth in sales by the Strauss Israel segment.
- See section 3.2.3 below for further explanations on organic growth in sales by the International Dips & Spreads segment.
- See section 3.2.4 below for further explanations on organic growth in sales by the Strauss Water segment.
- Inorganic growth is the result of sales by the joint venture active in milk substitutes, which is part of the coffee business. For further information on inorganic growth, see section 3.2.1.1.1 below.

Following is the trend of the Group's sales by month, compared to the corresponding periods last year*:

Sales to the retail market



Sales to the AFH market



* Excluding the translation differences effect.

3.1.2 Gross Profit – Non-GAAP

	First Half				Second Quarter			
	2020	**2019**	**% Chg**	**% chg less translation differences effect**	**2020**	**2019**	**% Chg**	**% chg less translation differences effect**
Gross profit		667	(2.7%)	2.3%	743	822	(9.6%)	(3.5%)
Gross profit margin	39.5%	39.9%			38.4%	39.6%		

The Group's non-GAAP gross profit in the first half of 2020 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 82 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 65 million) (see also the exchange rate table in section 2.4 in this report).

In the second quarter, the Group's non-GAAP gross profit was negatively affected by translation differences into Shekels, which amounted to approximately NIS 51 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 43 million) (see also the exchange rate table in section 2.4 in this report).

The Group's non-GAAP gross profit in the first half and second quarter of the year dropped by approximately NIS 46 million and NIS 79 million, respectively, compared to the corresponding periods last year:

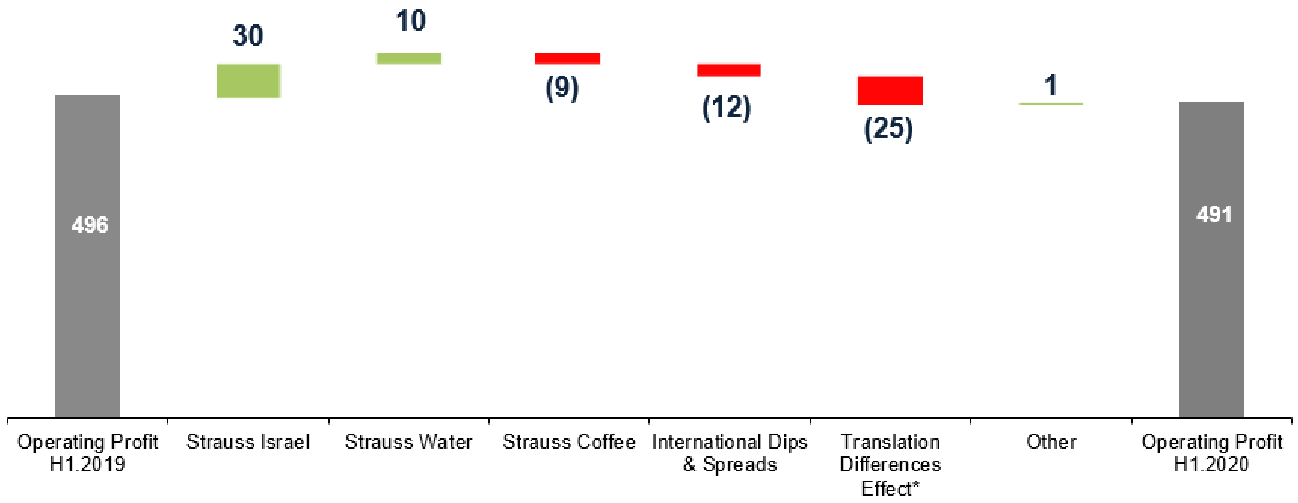
- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments dropped in the half-year and quarter by approximately NIS 19 million and NIS 18 million, respectively, compared to the corresponding periods last year. The decrease in gross profit is mainly the result of COVID-19 in the US, which led to a drop in sales and a change in the sales mix.
- See section 3.2.1 below for further explanations on the change in gross profit in the Coffee segment.
- See section 3.2.2 below for further explanations on the change in gross profit in the Strauss Israel segment.

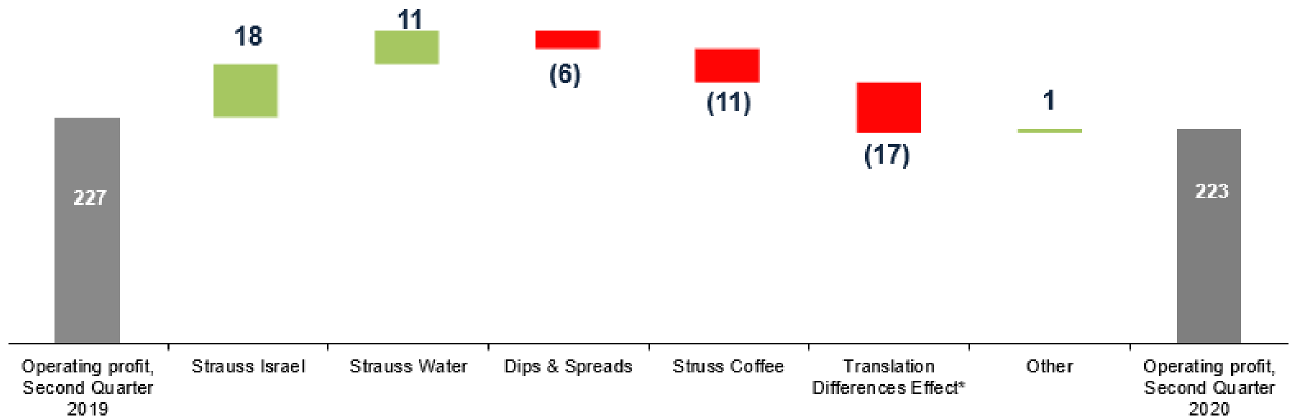
3.1.3 Operating Profit before Other Expenses – Non-GAAP

	First Half				Second Quarter			
	2020	**2019**	**% Chg**	**% chg less translation differences effect**	**2020**	**2019**	**% Chg**	**% chg less translation differences effect**
Operating profit (EBIT)	491	496	(1.0%)	4.5%	223	227	(1.6%)	6.3%
Operating profit margin	12.0%	11.9%			11.5%	11.0%		

The Group's non-GAAP operating profit (EBIT) in the first half and second quarter of 2020 decreased by approximately NIS 5 million and NIS 4 million, respectively, and was adversely affected by negative translation differences into Shekels, which amounted to approximately NIS 25 million and NIS 17 million, respectively, compared to the corresponding periods last year (see also the exchange rate table in section 2.4 in this report).

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



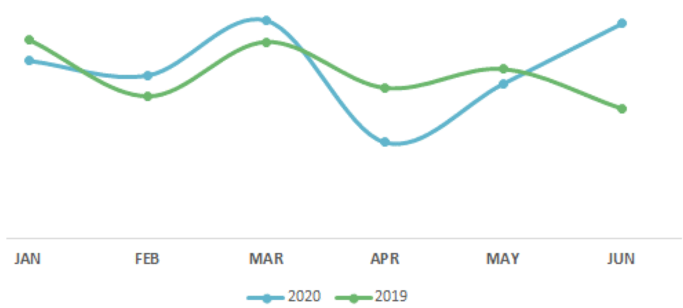


* The translation differences effect is calculated according to the average exchange rates in the relevant period.

The change in the Group's operating profit in the first half and second quarter of 2020 was the result of the following:

- An increase of approximately NIS 1 million in EBIT of the Other Operations segment in half-year and quarter compared to the corresponding periods last year. The increase is the result of savings in consulting fees and travel expenses compared to the corresponding periods following COVID-19.
- 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.

Sales growth in May-June was accompanied by an improvement in the Company's operating profit.
Following is the trend of the Group's operating profit by month, compared to the corresponding periods last year*:



* Excluding the translation differences effect.

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

In the first half of 2020 the GAAP comprehensive income amounted to approximately NIS 76 million, compared to comprehensive income of NIS 241 million in the corresponding period last year. In the reporting period losses from translation differences, which are the main component of other comprehensive loss, amounted to approximately NIS 242 million, compared to foreign currency translation losses of NIS 66 million in the corresponding period last year.

Foreign currency translation losses in the half-year are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 189 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of 2019.

In the second quarter of the year the GAAP comprehensive income amounted to approximately NIS 107 million, compared to comprehensive income of NIS 135 million in the corresponding period last year. In the reporting period losses from translation differences, which are the main component of other comprehensive loss, amounted to approximately NIS 39 million, compared to foreign currency translation losses of NIS 5 million in the corresponding period last year.

Foreign currency translation losses in the second quarter mainly originated in the operations of Strauss Coffee; of said losses, approximately NIS 46 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of the first quarter of 2020.

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

	First Half			Explanation
	2020	2019	Change	
Cash flows from operating activities	369	311	58	Most of the increase is the result of a change in working capital compared to the corresponding period last year, mainly due to a change in the balance of receivables, which was partially offset by an increase in income tax paid following tax rebates for prior years, which were received in the corresponding period last year.
Cash flows used in investing activities	(160)	(8)	(152)	Most of the change 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 and dividends received from associates in the corresponding period last year.
Cash flows used in financing activities	(317)	(330)	13	The change is primarily due to utilization of a short-term credit facility from banks, which was partially offset by the receipt of long-term loans in the corresponding period last year.

	Second Quarter			Explanation
	2020	2019	Change	
Cash flows from operating activities	248	221	27	Most of the increase is the result of a change in working capital compared to the corresponding period last year, mainly due to a change in the balance of receivables, which was partially offset by an increase in income tax paid following tax rebates for prior years, which were received in the corresponding period.
Cash flows used in investing activities	(62)	(32)	(30)	Most of the change is due to dividends received from associates in the corresponding period last year.
Cash flows used in financing activities	(203)	(203)	-	Cash flows used in financing activities remained unchanged due to utilization of a short-term credit facility from banks, which was fully offset by the receipt of long-term loans in the corresponding period last year.

Following is information on average credit volumes:

	First Half			Second Quarter			Explanation
	2020	2019	Change	2020	2019	Change	
Average long-term credit volume according to the Non-GAAP Report	2,509	2,728	(219)	2,488	2,765	(277)	Most of the change in the average short-term credit volume is due to the utilization of a secure credit facility. Most of the change in the long-term credit volume is due to a decrease in debentures, loans and credit and lease liabilities.
Average short-term credit volume according to the Non-GAAP Report	265	141	124	296	153	143	
Average long-term credit volume according to the Financial Statements	2,287	2,503	(216)	2,248	2,541	(293)	
Average short-term credit volume according to the Financial Statements	54	24	30	91	28	63	

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

	First Half		Second Quarter	
	2020	2019	2020	2019
Change in net working capital, Financial Statements	7	(92)	86	19
Change in net working capital, Non-GAAP Report	(146)	(233)	46	2

Additional information

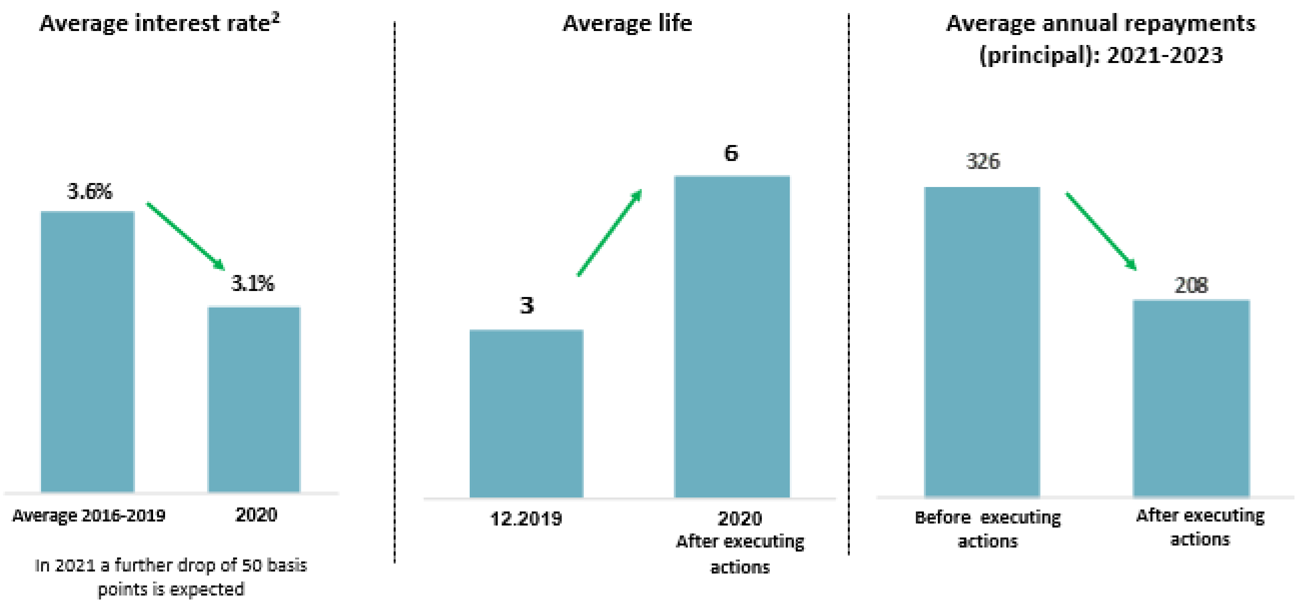
	June 30, 2020	December 31, 2019
Liquidity ratio	1.01	1.12
Liabilities in respect of long-term loans and credit (including current maturities)	2,240	2,411
Short-term credit (excluding current maturities)	71	8
Supplier credit	729	732
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	33.6%	34.6%
Net financial debt-to-EBITDA ratio according to the Financial Statements	1.7	1.7
Net financial debt-to-EBITDA ratio according to the Non-GAAP Report	1.6	1.6
Equity attributable to the shareholders of the Company	2,145	2,277

On July 7, 2020 the Company issued debentures (Series F). The net proceeds of the issue were approximately NIS 691 million. For further information, including with respect to financial covenants undertaken by the Company for as long as the debentures (Series F) have not been sold in their entirety, see Note 9.2 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020 with regard to post-statement of financial position date events.

On June 30, 2020, the Company's equity was NIS 2,145 million. The financial debt-to-EBITDA ratio was 1.7, and the equity-to-assets ratio was 33.6%. As at June 30, 2020 the Company is in compliance with the required covenants.

Further to the issue of debentures (Series F) as described above and at the date of publication, the Company effected a prepayment of loans from financial institutions at an amount of approximately NIS 388 million (see also Note 9.3 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020), and at the date of publication, plans to effect additional prepayments of loans at an amount of approximately NIS 135 million by the end of the year. The purpose of these actions is to ensure business continuity while securing the Company's ability to continue to invest in its growth. The issue of the debentures and the prepayments will lead to a significant extension of the average life of the debt from three to six years, to a decrease in financing costs (a decrease in the average interest rate) and will reduce the future repayment burden, the collective purpose being to allow for stability and financial flexibility while maintaining a high credit rating.

Following is the expected impact of the actions executed by the Company on the Group's major debt indices[1]:



(1) The indices shown are calculated on the basis of the interest rate, average life and repayment dates (principal) of debentures issued by the Company (including Series F, issued in July 2020), and long-term loans from banks and others taken by the Group companies according to the GAAP Report (for the details of the debentures and loans, see Note 20.3 to the Consolidated Financial Statements as at December 31, 2019). In addition, the calculations were made assuming the prepayment of loans with a short average life during the second half of 2020.

(2) Calculated by dividing interest expenses for the period by the average outstanding debt for the period, not including losses on the prepayment of loans in 2020.

The information in this section with regard to further prepayments, a significant extension from three to six years in average life, a decrease in financing costs and a reduction in the future repayment burden to enable stability and financial flexibility, is forward-looking information as this term is defined in the Securities Law, which is based on the Company's plans and on information in its possession at 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 the situation in the markets where the Company is active, including the impacts of the COVID-19 crisis.

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.

On July 5, 2020 the Company reported that Midroog had assigned an Aa1.il rating to the Series F Debentures to be issued by the Company up to an amount of NIS 700 million par value. For information, see the Immediate Report of July 5, 2020, reference number 2020-01-063184.

On July 5, 2020 the Company reported that Maalot had assigned an ilAA+ rating to the Series F Debentures to be issued by the Company up to an amount of NIS 700 million par value. For further information, see the Immediate Report of July 5, 2020, reference number 2020-01-063196.

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 Half		**Second Quarter**		**Year Ended December 31**
	2020	**2019**	**2020**	**2019**	**2019**
Cash flow from operating activities (according to the Non-GAAP Report)	353	355	276	304	930
Acquisition of fixed assets and investment in intangibles, net (according to the Non-GAAP Report)	133	160	70	92	332
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,053	2,388	2,053	2,388	2,023
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	172	162	86	82	337
Strauss Israel:					
Health & Wellness	44	38	22	20	82
Fun & Indulgence	30	29	15	15	58
Strauss Coffee:					
Israel Coffee	19	17	10	8	36
International Coffee	37	37	17	19	75
International Dips & Spreads	13	14	6	7	26
Strauss Water	19	18	10	9	38
Other	10	9	6	4	22

The Group's EBITDA (non-GAAP) totaled approximately NIS 663 million in the first half of 2020 compared to NIS 658 million in the corresponding period in 2019, an increase of 0.7%.

In the second quarter of the year the Group's EBITDA (non-GAAP) totaled approximately NIS 309 million, compared to NIS 309 million in the corresponding period last year, a decrease of 0.2%.

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

3.2.1 Strauss Coffee

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reportable segments for the half-year ended June 30, 2020 and 2019 (in NIS millions)*:

	First Half			Explanation
	2020	2019	% Chg	
Israel Coffee				
Net sales	368	387	(5.0%)	The drop in sales in the first half of 2020 compared to the corresponding period last year is mainly the result of the closure of Elite Café points of sale and a drop in sales to the institutional and AFH market following the COVID-19 outbreak.
Operating profit	86	86	0.3%	The operating profit in the first half of 2020 remained unchanged compared to the corresponding period last year. The increase in the operating profit margin is mainly due to a decrease in operating expenses.
% operating profit	23.4%	22.2%		
International Coffee				
Net sales	1,226	1,420	(13.6%)	Coffee sales in the first half of 2020 were negatively affected by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year. The increase in coffee sales in local currency in the first half of this year mainly reflects growth in quantities sold in most geographies, excluding Romania and Serbia. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	94	125	(25.0%)	The change in the operating profit of the International Coffee segment in the first half of this year reflects: • A decrease in the operating profit of the Três Corações joint venture in Brazil[1] in the half, mainly as a result of an increase in green coffee prices in Brazil, which was partially offset by an increase in quantities sold, an improvement in the profitability of the marketing and distribution activity for capsules and coffee machines under the Três brand and the green coffee export business. • The operating profit and profit margin in Russia grew in the first half of 2020 compared to the corresponding period, mainly as a result of growth in quantities sold following increased demand. • A decrease in operating profit in most CEE countries in the first half, primarily as a result of a drop in quantities sold, particularly to the institutional and AFH market. Operating profit in the first half of 2020 was negatively affected by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year.
% operating profit	7.7%	8.8%		
Total Strauss Coffee				
Net sales	**1,594**	**1,807**	**(11.8%)**	In the first half of 2020 Strauss Coffee's sales dropped by approximately NIS 213 million compared to the corresponding period. Translation differences into Shekels in the half had a negative impact on sales by the Strauss Coffee segment and amounted to NIS 250 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 215 million.
Organic growth excluding foreign currency effects	**2.3%**	**(2.5%)**		
Gross profit	**565**	**664**	**(15.0%)**	The decrease in the gross profit margin in the first half of 2020 is the result of an increase in green coffee prices in Brazil and rising manufacturing costs, which were partially offset by growth in quantities sold. Gross profit in the first half of the year was adversely impacted by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year.
% gross profit	**35.4%**	**36.8%**		
Operating profit	**180**	**211**	**(14.6%)**	The decrease in the operating profit margin is mainly the result of the drop in the gross profit margin as mentioned, and was partially offset by a decrease in selling and marketing expenses.
% operating profit	**11.3%**	**11.7%**		

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

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

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reportable segments for the quarter ended June 30, 2020 and 2019 (in NIS millions)*:

	Second Quarter			Explanation
	2020	**2019**	**% Chg**	
Israel Coffee				
Net sales	133	165	(19.9%)	The drop in sales in the second quarter of 2020 compared to the corresponding period last year is mainly the result of the closure of Elite Café points of sale and a drop in sales to the institutional and AFH market following the COVID-19 outbreak and the timing of Passover.
Operating profit	25	28	(10.0%)	The decrease in operating profit in the second quarter of 2020 compared to the corresponding period last year is mainly the result of the drop in sales as mentioned above, and was partially offset by lower selling and marketing expenses due to the timing of Passover.
% operating profit	19.2%	17.1%		
International Coffee				
Net sales	617	748	(17.4%)	Coffee sales in the second quarter of 2020 were negatively affected by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year. The increase in coffee sales in local currency in the second quarter of this year mainly reflects growth in quantities sold in all countries of operations, excluding Romania and Serbia. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	48	71	(33.3%)	The change in the operating profit of the International Coffee segment in the second quarter of this year reflects: • A decrease in the operating profit of the Três Corações joint venture in Brazil[1] in the quarter, mainly as a result of an increase in green coffee prices in Brazil, which was partially offset by an increase in quantities sold. • The operating profit and profit margin in Russia dropped in the second quarter of 2020 compared to the corresponding period mainly as a result of an increase in green coffee prices and a rise in operating expenses, which was partially offset by growth in quantities sold. • A decrease in operating profit in most CEE countries in the second quarter, primarily as a result of a drop in quantities sold, among other things, to the institutional and AFH market. Operating profit in the second quarter of 2020 was negatively affected by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year.
% operating profit	7.7%	9.5%		
Total Strauss Coffee				
Net sales	**750**	**913**	**(17.9%)**	In the second quarter of 2020 Strauss Coffee's sales dropped by approximately NIS 163 million compared to the corresponding period. Translation differences into Shekels in the second quarter had a negative impact on sales by the coffee company and amounted to NIS 160 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 138 million.
Organic growth excluding foreign currency effects	**(0.8%)**	**(1.4%)**		
Gross profit	**244**	**331**	**(26.7%)**	The decrease in the gross profit margin in the second quarter of 2020 is the result of an increase in green coffee prices in Brazil, which was partially offset by growth in quantities sold. Gross profit in the second quarter of the year was adversely impacted by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year.
% gross profit	**32.4%**	**36.3%**		
Operating profit	**73**	**99**	**(26.6%)**	The decrease in the operating profit margin is mainly the result of the drop in the gross profit margin as mentioned, and was partially offset by savings in selling and marketing expenses.
% operating profit	**9.7%**	**10.9%**		

* 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).
ancompany, São Miguel Holding e Investimentos S.A. (50%). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

3.2.1.1 Strauss Coffee sales by major geographical regions

Following are sales by the coffee business in the major geographical regions (not including intercompany sales) and growth rates for the half-year ended June 30, 2020 and 2019 (in NIS millions)*:

Geographical region	First Half 2020	2019	% Chg	% change in local currency**	Explanation
Israel Coffee	**368**	**387**	**(5.0%)**	**(5.0%)**	Most of the drop in sales in the first half of 2020 compared to the corresponding period last year is due to the closure of the Elite Café points of sale and a drop in sales to the institutional and AFH market following the COVID-19 outbreak.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	709	880	(19.4%)	6.5%	Growth in the Três Corações joint venture's[1] local currency sales is due to growth in quantities sold in the retail chains, offset by a drop in sales to the institutional and AFH market. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	260	252	3.3%	10.1%	Most of the growth in local currency sales is the result of an increase in quantities sold in the retail chains in Russia, offset by a drop in sales to the institutional and AFH market. The Company's sales in the first half of 2020 were adversely affected by a total amount of approximately NIS 16 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	136	135	0.9%	9.8%	Growth in local currency sales is mainly 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 half of 2020 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 11 million) compared to the corresponding period last year.
Romania	71	88	(19.2%)	(13.3%)	The drop in local currency sales is mainly the result of a decrease in quantities sold, *inter alia* to the institutional and AFH market in the period, compared to the corresponding period last year. The Company's sales in the first half of 2020 were negatively affected by the depreciation of the Romanian Leu against the Shekel (approximately NIS 6 million) compared to the corresponding period last year.
Serbia	50	65	(23.5%)	(19.6%)	The drop in local currency sales is mainly the result of a decrease in quantities sold, *inter alia* to the institutional and AFH market in the period, compared to the corresponding period last year. The Company's sales in the first half of 2020 were negatively affected by the depreciation of the Serbian Dinar against the Shekel (approximately NIS 3 million) compared to the corresponding period last year.
Total International Coffee	**1,226**	**1,420**	**(13.6%)**	**4.8%**	
Total Coffee	**1,594**	**1,807**	**(11.8%)**	**2.4%**	

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

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

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

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

Following are sales by the coffee business in the major geographical regions (not including intercompany sales) and growth rates for the quarter ended June 30, 2020 and 2019 (in NIS millions)*:

Geographical region	Second Quarter 2020	Second Quarter 2019	% Chg	% change in local currency**	Explanation
Israel Coffee	**133**	**165**	**(19.9%)**	**(19.9%)**	The drop in sales in the second quarter of 2020 compared to the corresponding period last year is mainly due to the closure of the Elite Café points of sale and a drop in sales to the institutional and AFH market following the COVID-19 outbreak, as well as the timing of Passover.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	366	470	(22.0%)	9.5%	Growth in the Três Corações joint venture's[1] local currency sales is mainly due to growth in quantities sold in the retail chains, partially offset by a drop in sales to the institutional and AFH market. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	122	133	(7.6%)	2.7%	Growth in local currency sales is mainly the result of an increase in quantities sold in Russia, mainly in the retail chains, offset by a drop in sales to the institutional and AFH market. The Company's sales in the second quarter of 2020 were adversely affected by a total amount of approximately NIS 13 million compared to the corresponding period last year following the appreciation of the Shekel against the Russian Ruble and the Ukrainian Hryvnia.
Poland	68	64	6.4%	16.9%	Growth in local currency sales is mainly the result of an increase in quantities sold in the period compared to the corresponding period last year. The Company's sales in the second quarter of 2020 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 6 million) compared to the corresponding period last year.
Romania	34	45	(26.0%)	(21.3%)	The drop in local currency sales is mainly the result of a decrease in quantities sold to the institutional and AFH market in the period compared to the corresponding period last year. The Company's sales in the second 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	27	36	(24.9%)	(21.8%)	The drop in local currency sales is mainly the result of a decrease in quantities sold to the institutional and AFH market in the period compared to the corresponding period last year. The Company's sales in the second quarter of 2020 were negatively affected by the depreciation of the Serbian Dinar against the Shekel (approximately NIS 1 million) compared to the corresponding period last year.
Total International Coffee	**617**	**748**	**(17.4%)**	**4.8%**	
Total Coffee	**750**	**913**	**(17.9%)**	**(0.6%)**	

* 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 half of 2020 the Três Corações joint venture's average value market share in roast and ground (R&G) coffee was approximately 28.0%, compared to 28.3% 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 (for further information, see section 3 above).

In the first half of 2020 the Três Corações joint venture's[1] local currency revenues grew by approximately 6.5% (6.5% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee) compared to the corresponding period last year (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

In the second quarter of the year the Três Corações joint venture's[1] local currency revenues grew by approximately 9.5% (9.2% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee) compared to the corresponding period last year (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

The increase in the Três Corações joint venture's[1] local currency sales in the half-year and quarter reflects growth in sales volumes of most of the products sold by the company, which was partially offset by a drop in R&G sales prices.

The Três Corações joint venture's[1] Shekel sales in the first half and second quarter of the year were negatively affected by the appreciation of the Shekel against the Brazilian Real, with the resulting impact amounting to NIS 215 million and NIS 138 million, respectively, compared to the corresponding periods last year.

The Três Corações joint venture's[1] gross profit in local currency dropped 2.4% in the first half and amounted to approximately BRL 277 million (approximately NIS 197 million) compared to the corresponding period last year. In the half-year, Três Corações' gross profit margin fell 2.6% and amounted to 27.6%. The drop in the gross profit margin primarily reflects an increase in the cost of green coffee and a drop in the Três Corações joint venture's sales prices.

In the second quarter of 2020, the Três Corações joint venture's[1] gross profit in local currency dropped 7.6% and amounted to approximately BRL 150 million (approximately NIS 97 million) compared to the corresponding period last year. In the second quarter, Três Corações' gross profit margin fell 4.9% and amounted to 26.5%. The drop in the gross profit margin primarily reflects an increase in the cost of green coffee and a drop in the Três Corações joint venture's sales prices.

Operating profit (before other income/expenses) in Brazilian Reals fell in the first half by approximately 16.4% and amounted to approximately BRL 70 million (NIS 49 million), mainly as a result of the drop in the gross profit margin and an increase in operating expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

In the second quarter of the year, the operating profit (before other income/expenses) in Brazilian Reals fell by approximately 12.8% and amounted to approximately BRL 45 million (NIS 30 million), mainly as a result of the drop in the gross profit margin and an increase in operating expenses (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[1] in Brazil established a joint venture with a company that manufactures and sells dairy substitute products (plant-based, mainly cashews) with an investment of approximately BRL 39 million (reflecting 100%).

On February 17, 2020 Café Três Corações S.A., a subsidiary of Três Corações Alimentos S.A., a joint venture owned by the subsidiary Strauss Coffee B.V. (50%) and Sao Miguel FIP (50%), entered into an agreement with unrelated third parties for the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil. On July 31, 2020, the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil by Café Três Corações S.A. was completed. In consideration for 100% of the shares of Mitsui Alimentos, the Três Corações joint venture[1] paid a total amount of approximately BRL 216 million (approximately NIS 142 million; the Group's share: approximately NIS 71 million). To clarify, the purchase price may be subject to further adjustments, *inter alia,* in respect of working capital on the closing date. For further information, see Note 4.2 and Note 9.4 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020.

(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%)).

3.2.2 The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the second quarter of 2020, according to StoreNext[1] figures, held a 12.2% share of the total domestic retail food and beverage market in value terms (compared to 12.0% in the corresponding period last year), reflecting an increase of 0.2% compared to the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Group's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew 9.1% in value terms, whereas according to StoreNext, in the second quarter of 2020 the Israeli food and beverage market rose by 8.7% in value.

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

	First Half			Second Quarter		
	2020	**2019**	**% Chg**	**2020**	**2019**	**% Chg**
Israel sales	2,491	2,355	5.8%	1,136	1,120	1.5%

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 in Israel. Distribution to the retail market began in July 2020, and to the AFH market, will begin in January 2021.

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

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 half-year and quarter ended June 30, 2020 and 2019 (in NIS millions)*:

	First Half			Second Quarter			
	2020	2019	% Chg	2020	2019	% Chg	
Net sales	1,834	1,680	9.1%	851	803	5.9%	The increase in sales in the first half of 2020 compared to the corresponding period last year reflects volume growth in all units, which was the result of high growth in in-home consumption and increased demand following the COVID-19 outbreak. Growth was primarily in the yogurt, dairy dessert, milk beverage and fresh food categories. The drop in sales by the Fun & Indulgence segment in the second quarter was mainly due to a drop in sales of single serve confectionery and snack products which are mainly consumed away from home, a certain decrease in purchases of impulse products, and to consumers refraining from social gatherings due to the COVID-19 outbreak.
Gross profit	738	666	10.9%	342	316	8.4%	The increase in gross profit is attributed to growth in sales volumes and favorable procurement conditions attributed to exchange rates.
% gross profit	40.3%	39.6%		40.3%	39.3%		
Operating profit	222	192	15.7%	98	80	21.7%	The growth in operating profit mainly reflects growth in sales volumes and an improved gross profit margin. The decrease in the operating profit and EBIT margin in the Fun & Indulgence segment is the result of a drop in sales and a negative mix.
% operating profit	12.1%	11.4%		11.5%	10.0%		

	First Half			Second Quarter		
	2020	2019	% Chg	2020	2019	% Chg
Health & Wellness						
Net sales	1,235	1,099	12.3%	618	561	10.2%
Operating profit	149	119	25.6%	83	64	30.7%
% operating profit	12.1%	10.8%		13.4%	11.3%	
Fun & Indulgence						
Net sales	599	581	3.1%	233	242	(4.1%)
Operating profit	73	73	(0.5%)	15	16	(11.8%)
% operating profit	12.2%	12.6%		6.4%	7.0%	

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

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 26 weeks ended June 30, 2020 was 62.6%, compared to 61.5% 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 Half			Second Quarter			Explanation
	2020	2019	% Chg	2020	2019	% Chg	
Sales	674	698	(3.5%)	319	357	(10.9%)	In the first half and second quarter of 2020 Sabra's sales decreased by approximately NIS 24 million and NIS 38 million, respectively, compared to the corresponding periods last year. Excluding foreign currency effects, the drop in Sabra's sales in the half and quarter amounted to 0.4% and 9.0%, respectively, compared to the corresponding periods last year. The decrease in sales in the second quarter is mainly due to the COVID-19 outbreak in the US, which caused a significant drop in sales, mainly in the AFH market, and difficulties in the supply chain. Sabra's sales in the first half and second quarter of the year were negatively affected by translation differences of approximately NIS 22 million and NIS 8 million, respectively, compared to the corresponding periods last year (of which NIS 11 million and NIS 4 million are the Company's share).
Organic growth excluding foreign currency effects	(0.4%)	6.6%		(9.0%)	6.7%		
Operating profit before other expenses	80	114	(29.7%)	41	60	(31.2%)	In the first half and second quarter of 2020 the operating profit dropped by approximately NIS 34 million and NIS 19 million, respectively, compared to the corresponding periods last year. The drop in EBIT and the EBIT margin in the half and quarter is due to the drop in sales, a change in the sales mix following increased in-home consumption and an increase in labor and manufacturing costs as a result of the COVID-19 outbreak. The operating profit in the first half was negatively affected by the depreciation of the US Dollar against the Shekel (approximately NIS 3 million) compared to the corresponding period. In the second quarter, the translation differences effect on the operating profit compared to last year was negligible.
% operating profit	11.9%	16.4%		12.9%	16.7%		

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

3.2.3.2 Obela

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

	First Half			Second Quarter		
	2020	2019	% Chg	2020	2019	% Chg
Sales	76	82	(7.1%)	36	38	(4.0%)
Organic growth excluding foreign currency effects	2.6%	12.0%		5.1%	7.7%	
Operating loss	(7)	(11)	36.9%	(4)	(6)	38.1%

* 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 half-year and quarter ended June 30, 2020 and 2019 (in NIS millions)*:

	First Half			Second Quarter			Explanation
	2020	2019	% Chg	2020	2019	% Chg	
Net sales	303	302	0.5%	159	159	0.7%	Most of the growth in the first half and second quarter of 2020 compared to the corresponding periods last year originated in the business in Israel, mainly as a result of growth in the customer base, which was offset by a drop in water bar sales following the COVID-19 outbreak.
Operating profit	45	35	28.6%	30	19	61.3%	The increase in operating profit in the first half of the year compared to the corresponding period mainly reflects an increase in the Company's share of the profit of HSW following recognition of a regional development grant at an amount of approximately NIS 11 million (the Company's share), which was partially offset by a drop in sales of new water bars to upgrading customers and other costs arising as a result of the COVID-19 outbreak. Excluding the profit of HSW, in the first half the operating profit remained unchanged, and the EBIT margin fell by 0.1% and amounted to 6.9% compared to last year. Excluding the profit of HSW, in the second quarter the operating profit rose by NIS 1 million, and the EBIT margin rose by 0.7% and amounted to 8.1% compared to last year.
% operating profit	15.0%	11.7%		19.1%	11.9%		

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

3.2.4.1 <u>Results of Haier Strauss Water (HSW)</u>

<u>Following are selected financial data on HSW’s business (in NIS millions, reflecting 100% ownership, unaudited)*</u>:

	First Half			Second Quarter			Explanation
	2020	**2019**	**% Chg**	**2020**	**2019**	**% Chg**	
Sales	245	295	(16.9%)	139	141	(1.3%)	The first half was marked by a drop in sales (growth in the second quarter, excluding foreign currency effects), mainly as a result of the impacts of COVID-19 in the first quarter of 2020.
Organic growth excluding foreign currency effects	(11.3%)	16.6%		4.9%	5.7%		
Net profit	51	32	61.5%	38	16	135.2%	The increase in net profit in the first half and second quarter is mainly due to the recognition of a regional development grant of approximately NIS 11 million (the Company’s share) in China, which was awarded to HSW in the second quarter of 2020.
Change excluding foreign currency effects	72.9%	47.1%		150.1%	8.4%		

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

In March 2020 the board of directors of Haier Strauss Water (HSW) approved an investment of approximately 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 order to leverage competitive capabilities in a growing and developing market. Furthermore, 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 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020.

The information contained in this section, the date of construction of the plant, including the 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 <u>Other Operations</u>

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 second quarter of 2020 there is a working capital deficiency of approximately NIS 357 million. There is no such deficiency in the consolidated financial statements of the Company for the second quarter of 2020. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 66 million. In light of the working capital deficiency in the solo report, on August 16, 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 June 30, 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,. E and F) 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 by 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. GENERAL

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

6. INFORMATION ON DEBENTURE SERIES

For the information required under the Eighth Schedule to the Reporting Regulations with respect to the Series F Debentures issued on July 7, 2020, see Note 9.2 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020.

		Series D Debentures	Series E Debentures
A.	Nominal/par value	172	573
B.	Carrying value of debentures	175	569
C.	Carrying value of interest payable	2	-
D.	Market value	188	619

7. STATUS OF LIABILITIES REPORT ACCORDING TO PAYMENT DATES

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

8. 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 June 30, 2020 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at June 30, 2020.

9. POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

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

August 16, 2020

STRAUSS GROUP LTD.
FINANCIAL STATEMENTS
AS AT JUNE 30, 2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at June 30, 2020 (unaudited)

Contents

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	June 30 2020	June 30 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	411	394	525
Securities and deposits	-	10	-
Trade receivables	952	986	999
Income tax receivables	3	3	2
Other receivables and debit balances	122	112	119
Inventory	603	604	543
Assets held for sale	12	14	15
Total current assets	2,103	2,123	2,203
Investments and non-current assets			
Investment in equity-accounted investees	1,282	1,384	1,332
Other investments and long-term debit balances	120	92	92
Fixed assets	1,740	1,734	1,746
Right-of-use assets	188	270	265
Intangible assets	920	936	931
Investment property	4	5	4
Deferred tax assets	20	17	17
Total investments and non-current assets	4,274	4,438	4,387
Total assets	6,377	6,561	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: August 16, 2020

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

Strauss Group Ltd.

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

	June 30 2020	June 30 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Current liabilities			
Current maturities of debentures	67	62	62
Short-term credit and current maturities of long-term loans and other long-term liabilities	482	321	398
Current maturities of lease liabilities	80	88	93
Trade payables	729	700	732
Income tax payables	114	118	96
Other payables and credit balances	592	555	552
Provisions	27	31	27
Total current liabilities	2,091	1,875	1,960
Non-current liabilities			
Debentures	677	743	743
Long-term loans and other long-term liabilities	869	1,152	923
Lease liabilities	136	213	200
Long-term payables and credit balances	24	21	15
Employee benefits, net	47	50	48
Deferred tax liabilities	247	258	271
Total non-current liabilities	2,000	2,437	2,200
Equity and reserves			
Share capital	253	252	253
Share premium	1,051	1,051	1,051
Reserves	(2,082)	(1,741)	(1,838)
Retained earnings	2,923	2,544	2,811
Total equity attributable to the shareholders of the Company	2,145	2,106	2,277
Non-controlling interests	141	143	153
Total equity	2,286	2,249	2,430
Total liabilities and equity	6,377	6,561	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 six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Sales	2,878	2,768	1,333	1,338	5,695
Cost of sales	1,709	1,623	799	780	3,347
Gross profit	1,169	1,145	534	558	2,348
Selling and marketing expenses	636	636	300	322	1,320
General and administrative expenses	204	198	96	99	416
	840	834	396	421	1,736
Share of profit of equity-accounted investees	118	153	70	85	270
Operating profit before other income (expenses)	447	464	208	222	882
Other income	1	-	1	-	3
Other expenses	(1)	(3)	-	(2)	(7)
Other income (expenses), net	-	(3)	1	(2)	(4)
Operating profit	447	461	209	220	878
Financing income	5	3	1	-	5
Financing expenses	(62)	(68)	(48)	(38)	(121)
Financing expenses, net	(57)	(65)	(47)	(38)	(116)
Income before taxes	390	396	162	182	762
Income tax	(73)	(87)	(16)	(41)	(168)
Income for the period	317	309	146	141	594
Attributable to:					
The shareholders of the Company	282	283	126	127	537
Non-controlling interests	35	26	20	14	57
Income for the period	317	309	146	141	594
Earnings per share					
Basic earnings per share (NIS)	2.43	2.45	1.09	1.10	4.65
Diluted earnings per share (NIS)	2.41	2.43	1.08	1.09	4.60

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Income for the period	317	309	146	141	594
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:					
Foreign currency translation differences	(50)	(11)	24	6	(38)
Other comprehensive loss from equity-accounted investees	(192)	(55)	(63)	(11)	(126)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net	(242)	(66)	(39)	(5)	(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	(2)	-	(1)	-
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	1	(2)	-	(1)	-
Comprehensive income for the period	76	241	107	135	430
Attributable to:					
The shareholders of the Company	40	214	87	120	373
Non-controlling interests	36	27	20	15	57
Comprehensive income for the period	76	241	107	135	430

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the shareholders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve from transactions with non-controlling interests**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions								
Six-month period ended June 30, 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	-	-	-	-	-	282	282	35	317
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(51)	-	(51)	1	(50)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(192)	-	(192)	-	(192)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(243)	1	(242)	1	(241)
Total comprehensive income (loss) for the period	-	-	-	-	(243)	283	40	36	76
Share-based payment	-	-	-	-	-	9	9	-	9
Improved interest to subsidiary	-	-	-	(1)	-	-	(1)	1	-
Dividend to shareholders of the Company	-	-	-	-	-	(180)	(180)	-	(180)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(49)	(49)
Balance as at June 30, 2020	253	1,051	(20)	(393)	(1,669)	2,923	2,145	141	2,286

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

Strauss Group Ltd.

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

	Attributable to the shareholders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve From Transactions with non-Controlling Interests**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	NIS millions								
Six-month period ended June 30, 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	-	-	-	-	-	283	283	26	309
Income for the period									
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(12)	-	(12)	1	(11)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(55)		(55)	-	(55)
Changes in employee benefits, net	-	-	-	-	-	(2)	(2)	-	(2)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(67)	(2)	(69)	1	(68)
Total comprehensive income (loss) for the period	-	-	-	-	(67)	281	214	27	241
Share-based payment	-	-	-	-	-	9	9	-	9
Dividend to shareholders of the Company	-	-	-	-	-	(200)	(200)	-	(200)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(34)	(34)
Balance as at June 30, 2019	252	1,051	(20)	(392)	(1,329)	2,544	2,106	143	2,249

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

Strauss Group Ltd.

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

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Three-month period ended June 30, 2020 – unaudited:									
Balance as at April 1, 2020	253	1,051	(20)	(393)	(1,630)	2,792	2,053	170	2,223
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	126	126	20	146
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	24	-	24	-	24
Other comprehensive loss from equity-accounted investees	-	-	-	-	(63)	-	(63)	-	(63)
Total other comprehensive loss for the period, net of tax	-	-	-	-	(39)	-	(39)	-	(39)
Total comprehensive income (loss) for the period	-	-	-	-	(39)	126	87	20	107
Share-based payment	-	-	-	-	-	5	5	-	5
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(49)	(49)
Balance as at June 30, 2020	253	1,051	(20)	(393)	(1,669)	2,923	2,145	141	2,286

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

Strauss Group Ltd.

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

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation Reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Three-month period ended June 30, 2019 – unaudited:									
Balance as at April 1, 2019	252	1,051	(20)	(392)	(1,323)	2,413	1,981	162	2,143
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	127	127	14	141
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	5	-	5	1	6
Other comprehensive loss from equity-accounted investees	-	-	-	-	(11)	-	(11)	-	(11)
Changes in employee benefits, net	-	-	-	-	-	(1)	(1)	-	(1)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(6)	(1)	(7)	1	(6)
Total comprehensive income (loss) for the period	-	-	-	-	(6)	126	120	15	135
Share-based payment	-	-	-	-	-	5	5	-	5
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(34)	(34)
Balance as at June 30, 2019	252	1,051	(20)	(392)	(1,329)	2,544	2,106	143	2,249

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

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

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Year ended December 31, 2019 – audited:									
Balance as at January 1, 2019	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 shareholders of the Company	-	-	-	-	-	(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.

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Cash flows from operating activities					
Income for the period	317	309	146	141	594
Adjustments:					
Depreciation	122	111	61	56	233
Amortization of intangible assets	15	15	7	8	32
Reversal of impairment loss of fixed assets, intangible assets and investment property, net	-	-	-	-	(2)
Other expenses, net	-	1	-	1	3
Expenses in respect of share-based payment	9	9	5	5	20
Financing expenses, net	57	65	47	38	116
Income tax expenses	73	87	16	41	168
Share of profit of equity-accounted investees	(118)	(153)	(70)	(85)	(270)
Change in inventory	(71)	(53)	(44)	(16)	-
Change in trade and other receivables	42	(27)	233	92	(65)
Change in long-term trade receivables	13	(7)	9	(6)	(12)
Change in trade and other payables	23	(7)	(104)	(52)	17
Change in employee benefits	-	2	2	1	3
Interest paid	(42)	(41)	(17)	(17)	(85)
Interest received	1	3	-	-	4
Income tax received (paid), net	(72)	(3)	(33)	14	(84)
Net cash provided by operating activities	369	311	248	221	672
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	-	61	-	(9)	71
Proceeds from sale of fixed assets, intangible assets and investment property	5	6	3	5	10
Investment in fixed assets	(80)	(78)	(41)	(44)	(181)
Investment in intangible assets	(20)	(23)	(11)	(11)	(49)
Repayment of loans granted	8	7	4	3	17
Loans granted (1)	(51)	(9)	(5)	(4)	(19)
Income from sublease	4	3	2	2	7
Dividends from investee companies	-	31	-	31	133
Investment in investee companies	(26)	(6)	(14)	(5)	(13)
Net cash used in investing activities	(160)	(8)	(62)	(32)	(24)

(1) For further information, see Note 4.4.

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

Strauss Group Ltd.

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Cash flows from financing activities					
Short-term bank credit, net	64	-	65	2	(18)
Receipt of long-term loans	-	50	-	50	50
Repayment of long-term loans and debentures	(122)	(120)	(34)	(4)	(261)
Change in liabilities in respect of credit card factoring	16	16	15	4	31
Exercise of share options	-	-	-	-	1
Payment of lease liabilities	(46)	(42)	(20)	(21)	(91)
Dividends paid	(180)	(200)	(180)	(200)	(200)
Dividend to non-controlling interests in a subsidiary	(49)	(34)	(49)	(34)	(54)
Net cash used in financing activities	(317)	(330)	(203)	(203)	(542)
Increase (decrease) in cash and cash equivalents	(108)	(27)	(17)	(14)	106
Cash and cash equivalents at beginning of period	525	426	430	409	426
Effect of exchange rate fluctuations on cash balances	(6)	(5)	(2)	(1)	(7)
Cash and cash equivalents at end of period	411	394	411	394	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 other countries 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 June 30, 2020 and for the six-month and three-month periods 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 August 16, 2020.

1.2 First-time adoption of the amendment to IFRS 16, *Leases: COVID-19-Related Rent Concessions*

The amendment contains a practical expedient for the accounting treatment of rent concessions in leases where the Company is the lessee, occurring as a direct consequence of the COVID 19 pandemic, and:

- Lease payments are the same as, or less than, lease payments immediately preceding the change;

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

1.2 First-time adoption of the amendment to IFRS 16, *Leases: COVID-19-Related Rent Concessions* (cont'd)

- The lease payments waived by the lessor were to have been paid until June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

In such cases, the amendment enables the Company not to assess whether the rent concession is a lease modification (in general, it will be accounted for as a variable lease payment). The amendment will be applied retrospectively commencing in annual reporting periods beginning on June 1, 2020, by amending opening retained earnings in the annual reporting period in which the amendment was initially applied, without restating comparative figures. Application of the amendment does not have a material effect on the financial statements.

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.

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 six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Income					
Sales to external customers:					
Health & Wellness	1,235	1,099	618	561	2,277
Fun & Indulgence	599	581	233	242	1,134
Total Israel	1,834	1,680	851	803	3,411
Israel Coffee	368	387	133	165	754
International Coffee	1,226	1,420	748	617	2,972
Total Coffee	1,594	1,807	913	750	3,726
International Dips and Spreads	375	390	198	178	771
Water	303	302	159	159	628
Other	-	-	-	-	-
Sales to other segments:					
Health & Wellness	3	3	1	1	11
Fun & Indulgence	5	6	3	2	7
Total Israel	8	9	4	3	18
Israel Coffee	1	1	-	-	2
International Coffee	1	1	-	-	2
Total Coffee	2	2	-	-	4
Total segment income	4,116	4,190	2,077	1,941	8,558
Elimination of intersegment sales	(10)	(11)	(4)	(3)	(22)
Total segment income excluding intersegment sales	4,106	4,179	2,073	1,938	8,536
Adjustment to the equity method	(1,228)	(1,411)	(735)	(605)	(2,841)
Total consolidated income	2,878	2,768	1,338	1,333	5,695

Note 3 - Operating Segments (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Profit (loss)					
Health & Wellness	149	119	83	64	251
Fun & Indulgence	73	73	15	16	119
Total Israel	222	192	98	80	370
Israel Coffee	86	86	25	28	143
International Coffee	94	125	48	71	281
Total Coffee	180	211	73	99	424
International Dips and Spreads	37	52	19	27	71
Water	45	35	30	19	75
Other	7	6	3	2	(7)
Total segment profit	491	496	223	227	933
Unallocated income (expenses):					
Adjustments for commodity hedges (1)	(18)	-	(4)	13	15
Other expenses, net	(1)	(2)	-	(1)	(2)
Share-based payment	(9)	(9)	(5)	(5)	(20)
Total segment operating profit	463	485	214	234	926
Adjustment to the equity method	(16)	(24)	(5)	(14)	(48)
Total operating profit in the consolidated financial statements	447	461	209	220	878
Financing expenses, net	(57)	(65)	(47)	(38)	(116)
Income before taxes	390	396	162	182	762

(1) Reflects mark-to-market 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. For information on the closing, after the statement of financial position date, see Note 9.5.

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 COVID-19, which was declared a global pandemic, in most countries in the world. Following the outbreak, Israel and many countries have 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 civilians 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 the sites. The Company has also created a digital work environment that allows for work from home wherever possible. At the date of this report, all of the Group's production and distribution facilities have continued to operate normally.

As at June 30, 2020 and as at the date of approval of the financial statements, the Group experienced an increase in sales of products for in-home consumption and by contrast, a drop in sales to the institutional market and sales of products sold away-from-home. In the second quarter the pace of growth in the Company's sales slowed in relation to sales levels in March in the first quarter, with April being the weakest month in the second quarter. In May and June the growth pace of the Company's sales picked up gradually in all sales channels, particularly AFH and impulse, which were harmed due to the lockdowns and social distancing in the Group's countries of operations, following easements in the lockdowns and restrictions commencing in May. The trend of improvement has also continued in July.
The Group also experienced a weakening of the functional currencies in a number of countries in which it is active. This erosion has especially affected the International Coffee segment and also has an impact on the Group's sales and operating profit percentage, since the cost of raw materials in local currency in those countries has risen.

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

The Company has examined the implications of COVID-19 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;
- The Company contracted with financial institutions to raise and secure sources of finance. See section 4.5 below;
- The Company reviewed the impact on critical estimates and judgments in the financial statements.

Following qualitative and quantitative tests in all business units, the Company estimates that at the date of this report, the COVID-19 outbreak does not have a material effect 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 and May 2020 the Company contracted in a number of agreements with banks and an institutional body to establish secure credit facilities for its regular activities and to maintain financial flexibility and stability, among other things, in view of the situation described in section 4.3 above, at a total amount of NIS 600 million, of which NIS 300 million are for a period of one year, NIS 100 million are for a period of two years and NIS 200 million for a period of three years.

4.6 In May 2020 the HSW joint venture received a government grant further to the commencement of operations in a Chinese territory which creates entitlement to a grant. The grant led to an increase of approximately NIS 11 million in the Company's share of profit of equity-accounted investees.

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.

5.2 In the reporting period, 237,127 option warrants granted to managers were exercised for 104,536 shares in consideration for their par value.

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, other than as provided in Note 6.3 below.

6.2 Further to Note 24.1.3.2 to the Annual Financial Statements with regard to a claim filed with the court in New York, USA pertaining to a settlement agreement between the parties with respect to a debt owed by the claimant, on June 15, 2020 the court set aside a motion for a rehearing. The claimant has the option of petitioning the US Supreme Court to review the case. In the estimate of Company management, even if such a motion is filed, the chances of the claim being accepted are less than 50%.

6.3 Further to Note 24.1.1 to the Annual Financial Statements with regard to a claim against the subsidiary Strauss Water Ltd. at an amount of approximately NIS 85 million, pertaining to the alleged collection of payment for warranty fees during the warranty period, in which services under the warranty are meant to be provided free of charge, on July 13, 2020 the Lod Central District Court approved the claimant’s notice of withdrawal from a monetary claim and a motion for its certification as a class action.

The Company did not recognize a provision for claims pending as at June 30, 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.		
	June 30		December 31	June 30		December 31
	2020	2019	2019	2020	2019	2019
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Current assets	373	350	318	1,149	1,123	1,289
Of which:						
Cash and cash equivalents	124	94	77	367	147	462
Non-current assets	526	545	533	736	922	896
Total assets	899	895	851	1,885	2,045	2,185
Current liabilities	104	150	172	861	907	1,065
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	7	45	35	429	399	584
Non-current liabilities	105	84	66	259	133	115
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	97	75	55	240	100	99
Total liabilities	209	234	238	1,120	1,040	1,180

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

	Sabra Dipping Company					**Três Corações Alimentos S.A.**				
	For the six months ended		**For the three months ended**		**For the year ended**	**For the six months ended**		**For the three months ended**		**For the year ended**
	June 30 2020	**June 30 2019**	**June 30 2020**	**June 30 2019**	**December 31 2019**	**June 30 2020**	**June 30 2019**	**June 30 2020**	**June 30 2019**	**December 31 2019**
	Unaudited				**Audited**	**Unaudited**				**Audited**
	NIS millions									
Income	674	698	319	357	1,369	1,422	1,765	734	944	3,598
Profit for the period	56	81	29	43	111	79	129	50	77	269
Other comprehensive income (loss)	1	(29)	(19)	(11)	(49)	(296)	(42)	(73)	(1)	(113)
Total comprehensive income (loss)	57	52	10	32	62	(217)	87	(23)	76	156
Of which:										
Depreciation and amortization	23	22	12	11	44	30	33	14	15	68
Interest income	-	-	-	-	1	8	5	4	3	11
Interest expenses	2	3	1	2	5	12	13	5	7	27
Income tax expenses	*(22)	*(31)	*(11)	*(16)	*(43)	(7)	(20)	(5)	(14)	(45)

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

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

7.2 The Group has attached to these condensed consolidated interim financial statements the condensed consolidated interim financial statements of Três Corações Alimentos S.A., an equity-accounted investee (50% owned by the Group) in Brazil. The investee's presentation currency is the Brazilian real.

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

	Shekel-real exchange rate		
	Average exchange rate for the period	**Closing rate for the period**	**% change based on closing rate**
For the six-month period ended on:			
June 30, 2020	0.72	0.64	(26.0)
June 30, 2019	0.94	0.93	(3.3)
For the three-month period ended on:			
June 30, 2020	0.66	0.64	(7.2)
June 30, 2019	0.92	0.93	0.4
For the year ended December 31, 2019	0.91	0.86	(11.1)

From 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 37%.

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.

The fair value of the Company's debentures, based on the prices of the Tel Aviv Stock Exchange (TASE), and their carrying amounts (including accrued interest) as presented in the statement of financial position, are as follows:

	June 30, 2020		June 30, 2019		December 31, 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	Unaudited				Audited	
	NIS millions					
Series D Debentures	177	188	208	226	208	223
Series E Debentures	569	619	599	636	599	651

Note 8 - Financial Instruments (cont'd)

8.2 Fair value hierarchy of financial instruments measured at fair value

The different levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in 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.

	June 30, 2020		June 30, 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	6	6	12	4	19	3
Trade payables- derivatives	(19)	(4)	(22)	(3)	(11)	(3)
	(13)	2	(10)	1	8	-

For information on 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.

8.3 On June 30, 2020 the Company revised the estimated expected cash flows of two long-term loans received from financial institutions in view of forecasts for their prepayment as at the reporting date. As a result of the revision, the Company recognized financing expenses of approximately 13 million. For information on the prepayment of the loans after the statement of financial position date, see Note 9.3.

Note 9 – Post-Statement of Financial Position Date Events

9.1 For information on developments in pending claims after the date of the statement of financial position, see Note 6.3.

9.2 In July 2020 the Company issued debentures (Series F), which were listed on TASE. The net proceeds of the issue amounted to approximately NIS 691 million. Following are the terms and conditions of the debentures (Series F):

	Series F
Issuing date	July 7, 2020
Type of interest	Fixed
Annual interest rate	1.9%
Effective interest rate on listing date, taking issuance costs into account	2.04%
Face value on issuing date	NIS 700 million
Linkage conditions	Principal and interest are not linked to any index
Payment dates of principal	14 yearly payments on June 30 of each of the years 2024-2037. Four first payments of 5% each and 10% further payments of 8% each.
Interest payment dates	Half-yearly interest on December 31 and June 30, from December 31, 2020 to June 30, 2037.
Collateral or pledges	None
Name of rating company	Midroog; Maalot
Rating on issuing date	Aa1; AA+
Early redemption	The Company may, at its exclusive discretion, effect the early redemption of all or a portion of the Debentures (Series F) at its initiative. For information, see clause 5.2 of the Debenture (Series F) Trust Deed, which was attached to the shelf offering report published by the Company on July 5, 2020 (reference no. 2020-01-063460).
Trustee	Reznik Paz Nevo Trusts Ltd. of 14 Yad Harutzim Street, Tel Aviv – Jaffa.

For as long as the Series F Debentures have not been redeemed in full, the Company undertakes to comply with financial covenants that are similar to the financial stipulations pertaining to the Series E Debentures, as described in Note 20.6 to the Annual Financial Statements, with the exception of a financial stipulation pertaining to minimal equity, which for Series F Debentures is as follows: The Company's equity in its consolidated financial statements, excluding a decrease in equity arising as a result of the acquisition of non-controlling interests made after the issuing date of the Series F Debentures, shall not be less than NIS 600 million. Failure to satisfy said minimal equity requirement for three or more consecutive calendar quarters shall serve as cause for immediate repayment. Further, if the equity is less than NIS 800 million, the Company undertakes not to effect a distribution, as this term is defined in the Companies Law.

Note 9 – Post-Statement of Financial Position Date Events (cont'd)

Additionally, the Trust Deed contains customary causes for a call for immediate repayment, including the following: Transfer of control of the Company, as a result of which the debenture rating falls below AA- on Maalot's rating scale or Aa3 on Midroog's rating scale, with certain transfers of control being excepted; a substantive change in the Company's business as defined in the Trust Deed; a revision of the debenture rating, such that the new rating has been downgraded to below BBB- on Maalot's rating scale (or equivalent), and said downgrade is not the result of a change in methodology and/or the rating companies' rating scales; violation of the financial covenants described above; etc.

Further, until the final repayment date of the Series (F) Debentures, the Company has undertaken not to create a floating charge on all of its property and rights, at present or in the future (negative pledge), in favor of any third party to secure any debt or liability (other than in agreed cases, as specified in the Trust Deed).

9.3 In July and August 2020 the Company effected the full prepayment of two long-term loans received from institutional bodies at a total amount (principal and interest) of approximately NIS 388 million. See Note 8.3 with regard to the revision of the estimated cash flows at June 30, 2020.

9.4 In July 2020 a dividend of approximately NIS 15 million (the Company's share) was received from Três Corações Alimentos S.A, a joint venture in Brazil 50% owned by the subsidiary Strauss Coffee B.V.

9.4 Further to Note 4.2, on July 31, 2020, the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil was completed by Café Três Corações S.A., a subsidiary of the Três Corações joint venture owned by the subsidiary Strauss Coffee B.V. (50%) and Sao Miguel FIP (50%). In consideration for 100% of the shares of Mitsui Alimentos, the Três Corações joint venture paid a total amount of approximately BRL 216 million (approximately NIS 142 million, the Group's share: NIS 71 million). To clarify, the purchase price may be subject to further adjustments, *inter alia,* following a review of working capital on the closing date.

9.5 On August 16, 2020 the board of directors of the Group approved the grant of 46,666 option warrants to a manager in the Group. The exercise price was set as the average closing price of the Company's share in the 30 trading days preceding the grant date plus a 5% premium. Entitlement to exercise the options will vest in two equal tranches, on August 16 of each of the years 2022-2023.

STRAUSS GROUP LTD.

SEPARATE FINANCIAL INFORMATION AS AT JUNE 30, 2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

<u>Separate Interim Financial Information as at June 30, 2020</u>

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Strauss Group Ltd.

Condensed Interim Information on Financial Position

	June 30 2020	June 30 2019	December 31 2019
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	100	261	235
Trade receivables	177	183	188
Other receivables and debit balances	57	46	33
Investee receivables	164	98	131
Inventory	126	114	136
Assets held for sale	5	7	9
Total current assets	629	709	732
Investments and non-current assets			
Investments in investees	2,077	2,128	2,134
Other investments and long-term debt balances	578	635	601
Right-of-use assets	81	136	141
Fixed assets	936	928	936
Investment property	3	3	3
Intangible assets	44	45	46
Total investments and non-current assets	3,719	3,875	3,861
Total assets	4,348	4,584	4,593

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

Date of approval of the separate financial information: August 16, 2020

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

Strauss Group Ltd.

Condensed Interim Information on Financial Position (cont'd)

	June 30 2020	June 30 2019	December 31 2019
	Unaudited	Unaudited	Audited
		NIS Millions	
Current liabilities			
Current maturities of debentures	67	62	62
Short-term credit and current maturities of long-term loans and other long-term liabilities	263	154	197
Current maturities of lease liabilities	34	34	36
Trade payables	206	200	205
Income tax	37	42	36
Other payables and credit balances	234	193	237
Investee payables	145	259	143
Total current liabilities	986	944	916
Non-current liabilities			
Debentures	677	743	743
Long-term loans and other long-term liabilities	331	526	383
Lease liabilities	58	108	110
Long-term payables and credit balances	22	16	11
Employee benefits, net	27	26	26
Deferred tax liabilities	102	115	127
Total non-current liabilities	1,217	1,534	1,400
Total equity attributable to the shareholders of the Company	2,145	2,106	2,277
Total liabilities and equity	4,348	4,584	4,593

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

Strauss Group Ltd.

Condensed Interim Information on Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Sales	542	529	221	224	1,022
Cost of sales	341	334	142	146	653
Gross profit	201	195	79	78	369
Selling and marketing expenses	119	116	59	59	231
General and administrative expenses	42	42	17	21	90
	161	158	76	80	321
Operating profit (loss) before other income (expenses)	40	37	3	(2)	48
Other income	1	-	1	-	3
Other expenses	(1)	(1)	(1)	(1)	(3)
Other expenses, net	-	(1)	-	(1)	-
Operating profit (loss)	40	36	3	(3)	48
Financing income	14	11	6	5	21
Financing expenses	(44)	(51)	(36)	(27)	(87)
Financing expenses, net	(30)	(40)	(30)	(22)	(66)
Income (loss) before taxes	10	(4)	(27)	(25)	(18)
Income tax (expense)	(1)	(13)	19	(4)	(34)
Net income (loss) after taxes	9	(17)	(8)	(29)	(52)
Income from investees	273	300	134	156	589
Income for the period attributable to the shareholders of the Company	282	283	126	127	537

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

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Income for the period attributable to the shareholders of the Company	282	283	126	127	537
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:					
Other comprehensive loss from investees	(243)	(67)	(39)	(6)	(164)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net of tax	(243)	(67)	(39)	(6)	(164)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods:					
Changes in employee benefits, net	1	(2)	-	(1)	-
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net of tax	1	(2)	-	(1)	-
Comprehensive income for the period attributable to the shareholders of the Company	40	214	87	120	373

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

Strauss Group Ltd.

Condensed Interim Information on Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2020	June 30 2019	June 30 2020	June 30 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Cash flows from operating activities					
Income for the period attributable to the shareholders of the Company	282	283	126	127	537
Adjustments:					
Depreciation	47	43	23	22	90
Amortization of intangible assets	6	6	3	3	13
Other income, net	-	-	-	-	(1)
Expenses in respect of share-based payment	5	6	3	3	13
Profit from investees	(273)	(300)	(134)	(156)	(589)
Financing expenses, net	30	40	30	22	66
Income tax expense (income)	1	13	(19)	4	34
Change in inventory	9	9	(3)	(10)	(13)
Change in trade and other receivables	(13)	(12)	68	50	(8)
Change in investee receivables	13	45	27	50	23
Change in trade and other payables	(4)	(13)	(72)	(48)	56
Change in investee payables	3	100	(24)	105	(17)
Change in employee benefits	1	2	1	2	4
Interest paid	(28)	(26)	(11)	(11)	(56)
Interest received	1	2	1	-	3
Income tax received (paid), net	(14)	22	(1)	15	2
Net cash provided by operating activities	66	220	18	178	157
Cash flows from investing activities					
Sale of marketable securities and deposits, net	-	70	-	-	70
Proceeds from sale of fixed and other assets	4	5	2	5	5
Investment in fixed assets	(25)	(28)	(14)	(13)	(63)
Investment in intangible assets	(4)	(5)	(2)	(3)	(11)
Repayment of long-term loans	5	3	3	2	10
Loans granted	(7)	(6)	(1)	(3)	(14)
Dividends from investees	107	27	107	27	221
Cash received in investing activities with investees	27	90	6	15	121
Cash paid in investing activities with investees	(49)	(4)	(12)	(4)	(36)
Net cash provided by investing activities	58	152	89	26	303
Cash flows from financing activities					
Repayment of debentures and long-term loans	(118)	(116)	(30)	-	(213)
Short-term bank credit, net	60	-	60	-	-
Dividends paid	(180)	(200)	(180)	(200)	(200)
Repayment of principal of lease liabilities	(21)	(17)	(10)	(9)	(34)
Net cash used in financing activities	(259)	(333)	(160)	(209)	(447)
Net increase (decrease) in cash and cash equivalents	(135)	39	(53)	(5)	13
Cash and cash equivalents as at beginning of period	235	222	153	266	222
Cash and cash equivalents as at end of period	100	261	100	261	235

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 Separate Interim 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 June 30, 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 Separate Interim 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 COVID-19 pandemic on the Group's activity, see Note 4.3 to the Condensed Consolidated Interim Financial Statements.

Note 3 - Material Events in the Reporting 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 In March, 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 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 Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure, which was attached to the Periodic Report for the period ended March 31, 2020 (hereinafter: the "Latest Quarterly 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 March 31, 2020 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 Quarterly Report on Internal Control.

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

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

Managers' Statement

Statement of the Chief Executive Officer

I, Giora Bardea, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the second quarter of 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 March 31, 2020) and the date of the Reports, which could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

August 16, 2020

____

Giora Bardea, Chief Executive Officer

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

Managers' Statement

Statement of the Most Senior Financial Officer

I, Ariel Chetrit, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the second quarter of 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 March 31, 2020) and the date of the Reports that refers to the Interim Financial Statements and to any other financial information included in the Interim Report, which I estimate could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

August 16, 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 and six month periods ended 30 June 2020 and independent auditors' report on review of condensed consolidated interim financial statements

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

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

Introduction
We have reviewed the accompanying 30 June 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 30 June 2020;
- the condensed consolidated statement of income and other comprehensive income for the three and six month periods ended 30 June 2020;
- the condensed consolidated statement of changes in equity for the three and six month periods ended 30 June 2020;
- the condensed consolidated statement of cash flows for the three and six month periods ended 30 June 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 30 June 2020 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, August 14, 2020

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

Marcelo Pereira Gonçalves
Accountant CRC SP 220026/O-3

(In thousand of Brazilian Reais)

Assets	30 June 2020	31 December 2019
Current		
Cash and cash equivalents	578,172	538,045
Deposits	11,726	3,935
Trade receivables	661,467	449,177
Inventories	466,211	418,437
Recoverable taxes	75,765	73,506
Income tax receivables	2,808	3,197
Other current assets	13,186	14,899
	1,809,335	**1,501,196**
Non-current		
Judicial deposits	8,562	9,837
Loans to related parties	12,152	11,942
Recoverable taxes	81,153	70,203
Other non-current assets	16,216	15,580
Deferred tax assets	45,287	4,490
Investments	54,932	11,907
Fixed assets	569,767	539,342
Intangible assets	299,640	303,283
Right-of-use assets	70,239	76,137
	1,157,948	**1,042,721**
Total assets	**2,967,283**	**2,543,917**

Liabilities and equity	30 June 2020	31 December 2019
Current		
Short term loans	656,218	660,798
Trade payables	392,195	319,383
Short term lease liabilities	18,330	18,932
Income tax payables	16,011	26,404
Employees and other payroll related liabilities	88,029	53,970
Proposed dividends	44,400	44,400
Interest on equity payable	93,379	63,918
Payable taxes	24,982	23,300
Other current liabilities	21,462	28,933
	1,355,006	**1,240,038**
Non-current		
Long term loans	314,742	47,306
Long term lease liabilities	63,566	68,154
Other non-current liabilities	11,330	3,803
Provision for legal proceedings	18,762	15,047
	408,400	**134,310**
Equity		
Share capital	275,531	275,531
Translation reserve	(150,562)	(101,323)
Retained earnings	1,077,020	993,646
Equity attributable to owners of the Company	1,201,989	1,167,854
Non-controlling interests	1,888	1,715
Total Equity	**1,203,877**	**1,169,569**
Total liabilities and equity	**2,967,283**	**2,543,917**

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

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2020	**2019**	**2020**	**2019**
Revenue	2,001,701	1,879,207	1,124,156	1,029,382
Cost of sales	(1,448,360)	(1,312,354)	(825,801)	(706,431)
Gross profit	**553,341**	**566,853**	**298,355**	**322,951**
Selling and marketing expenses	(333,706)	(333,899)	(172,218)	(182,851)
General and administrative expenses	(83,470)	(66,209)	(37,988)	(36,268)
Equity method	4,252	1,200	3,212	971
Other income (expenses), net	(1,467)	1,317	(777)	246
Operating profit	**138,950**	**169,262**	**90,584**	**105,049**
Financial income	10,356	5,072	5,065	2,872
Financial expenses	(23,822)	(14,816)	(9,881)	(8,729)
Profit before income tax	**125,484**	**159,518**	**85,768**	**99,192**
Income tax expenses	(11,444)	(21,586)	(8,372)	(15,263)
Profit for the period	**114,040**	**137,932**	**77,396**	**83,929**
Profit attributable to:				
Owners of the Company	115,224	137,932	77,700	83,929
Non-controlling interests	(1,184)	-	(304)	-
Total profit for the year	**114,040**	**137,932**	**77,396**	**83,929**

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

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2020	**2019**	**2020**	**2019**
Profit for the period	114,040	137,932	77,396	83,929
Other comprehensive income (loss) items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences	(49,239)	(9,451)	(24,796)	(3,889)
Comprehensive income for the period	**64,801**	**128,481**	**52,600**	**80,040**
Comprehensive income attributable to:				
Owners of the Company	65,985	128,481	52,904	80,040
Non-controlling interests	(1,184)	-	(304)	-
Total comprehensive income for the period	**64,801**	**128,481**	**52,600**	**80,040**

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

(In thousand of Brazilian Reais)

	Share capital	Retained earnings			Translation adjustments	Accumulated profit	Total	Non- controlling interests	Total Equity
		Legal reserve	Tax incentives	Profit to distribute					
Balance at 31 March 2019	**274,546**	**54,909**	**328,339**	**463,639**	**(107,429)**	**-**	**1,014,004**	**-**	**1,014,004**
Profit for the period	-	-	-	-	-	83,929	83,929	-	83,929
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(3,889)	-	(3,889)	-	(3,889)
Total other comprehensive gain (loss):	-	-	-	-	(3,889)	83,929	80,040	-	80,040
Internal equity changes									
Capitalization of tax incentives	985		(985)				-	-	-
State VAT and Federal tax incentives	-	-	15,987	-	-	(15,987)	-	-	-
Legal reserve	-	197	-	-	-	(197)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(17,500)	(17,500)	-	(17,500)
Reserve for profit to be distributed	-	-	-	50,245	-	(50,245)	-	-	-
	985	197	15,002	50,245	-	(83,929)	(17,500)	-	(17,500)
Balance at 30 June 2019	**275,531**	**55,106**	**343,341**	**513,884**	**(111,318)**	**-**	**1,076,544**	**-**	**1,076,544**
Balance at 31 March 2020	**275,531**	**55,106**	**396,685**	**563,279**	**(125,766)**	**-**	**1,164,835**	**1,568**	**1,166,403**
Profit for the period	-	-	-	-	-	77,700	77,700	(304)	77,396
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(24,796)	-	(24,796)	-	(24,796)
Total other comprehensive gain (loss):	-	-	-	-	(24,796)	77,700	52,904	(304)	52,600
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	624	624
State VAT and Federal tax incentives	-	-	16,986	-	-	(16,986)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(15,750)	(15,750)	-	(15,750)
Reserve for profit to be distributed	-	-	-	44,964	-	(44,964)	-	-	-
	-	-	16,986	44,964	-	(77,700)	(15,750)	624	(15,126)
Balance at 30 June 2020	**275,531**	**55,106**	**413,671**	**608,243**	**(150,562)**	**-**	**1,201,989**	**1,888**	**1,203,877**

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

(In thousand of Brazilian Reais)

	Share capital	Retained earnings			Translation adjustments	Accumulated profit	Total	Non- controlling interests	Total Equity
		Legal reserve	Tax incentives	Profit to distribute					
Balance at 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	-	-	-	-	-	137,932	137,932	-	137,932
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(9,451)	-	(9,451)	-	(9,451)
Total other comprehensive gain (loss):	-	-	-	-	(9,451)	137,932	128,481	-	128,481
Internal equity changes									
Capitalization of tax incentives	985		(985)				-	-	-
State VAT and Federal tax incentives	-	-	30,813	-	-	(30,813)	-	-	-
Legal reserve	-	197	-	-	-	(197)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(33,060)	(33,060)	-	(33,060)
Reserve for profit to be distributed	-	-	-	73,862	-	(73,862)	-	-	-
	985	197	29,828	73,862	-	(137,932)	(33,060)	-	(33,060)
Balance at 30 June 2019	**275,531**	**55,106**	**343,341**	**513,884**	**(111,318)**	**-**	**1,076,544**	**-**	**1,076,544**
Balance at 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	-	-	-	-	-	115,224	115,224	(1,184)	114,040
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(49,239)	-	(49,239)	-	(49,239)
Total other comprehensive gain (loss):	-	-	-	-	(49,239)	115,224	65,985	(1,184)	64,801
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	1,357	1,357
State VAT and Federal tax incentives	-	-	28,585	-	-	(28,585)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(31,850)	(31,850)	-	(31,850)
Reserve for profit to be distributed	-	-	-	54,789	-	(54,789)	-	-	-
	-	-	28,585	54,789	-	(115,224)	(31,850)	1,357	(30,493)
Balance at 30 June 2020	**275,531**	**55,106**	**413,671**	**608,243**	**(150,562)**	**-**	**1,201,989**	**1,888**	**1,203,877**

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

(In thousand of Brazilian Reais)

	Six months period ended 30 June		Three months period ended 30 June	
	2020	**2019**	**2020**	**2019**
Cash flows from operating activities				
Profit for the period	114,040	137,932	77,396	83,929
Adjustments for:				
Depreciation and amortization	41,749	34,922	21,057	17,898
Gains in tax lawsuits	(20,491)	(38,337)	-	(28,889)
Termination of lease contracts	(13)	-	-	-
Provision for legal proceedings	3,715	505	489	1,218
Other income, net	1,467	(1,317)	777	(246)
Equity method	(4,252)	(1,200)	(3,212)	(971)
Finance expenses, net	13,466	9,744	4,816	5,857
Income tax expenses	11,444	21,586	8,372	15,263
Change in:				
Trade receivables	(199,308)	(168,084)	(135,840)	(72,915)
Inventories	(42,655)	6,998	8,121	2,024
Recoverable and payable taxes, net	(25,247)	9,569	(28,644)	(7,281)
Judicial deposits	1,275	(1,196)	43	(595)
Trade payables	72,812	(1,392)	54,766	48,921
Employees and other payroll related liabilities	34,059	7,445	24,282	11,243
Other current and non-current assets and liabilities	(2,740)	(5,741)	3,547	(1,760)
Change in operating activities	**(679)**	**11,434**	**35,970**	**73,696**
Interest paid	(19,899)	(12,982)	(12,558)	(9,614)
Interest received	9,518	5,770	4,377	3,947
Income tax paid	(1,589)	(234)	(1,569)	(20)
Net cash flows provided (used) by operating activities	**(12,649)**	**3,988**	**26,220**	**68,009**
Cash flows from investing activities				
Change in deposits	(6,180)	725	(3,728)	(477)
Payment for acquisition of operations	(31,911)	(6,233)	(511)	(1,348)
Proceeds from sales of fixed assets	1,292	3,059	1,009	1,689
Acquisition of fixed assets	(51,973)	(85,631)	(22,247)	(59,974)
Investments in intangible assets	(1,464)	(2,985)	(652)	(1,480)
Long term loans to related parties	-	6,325	-	6,325
Net cash flows used in investing activities	**(90,236)**	**(84,740)**	**(26,129)**	**(55,265)**
Cash flows from financing activities				
Proceeds from loans	626,969	297,432	332,051	269,094
Repayment of loans	(475,688)	(272,047)	(394,264)	(208,828)
Payment of lease liabilities	(8,269)	(8,445)	(4,079)	(4,060)
Net cash flows provided (used) by financing activities	**143,012**	**16,940**	**(66,292)**	**56,206**
Net increase (decrease) in cash and cash equivalents	**40,127**	**(63,812)**	**(66,201)**	**68,950**
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents as at beginning of period	538,045	221,467	644,373	88,705
Cash and cash equivalents as at end of period	578,172	157,655	578,172	157,655
	40,127	**(63,812)**	**(66,201)**	**68,950**

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

1 General information

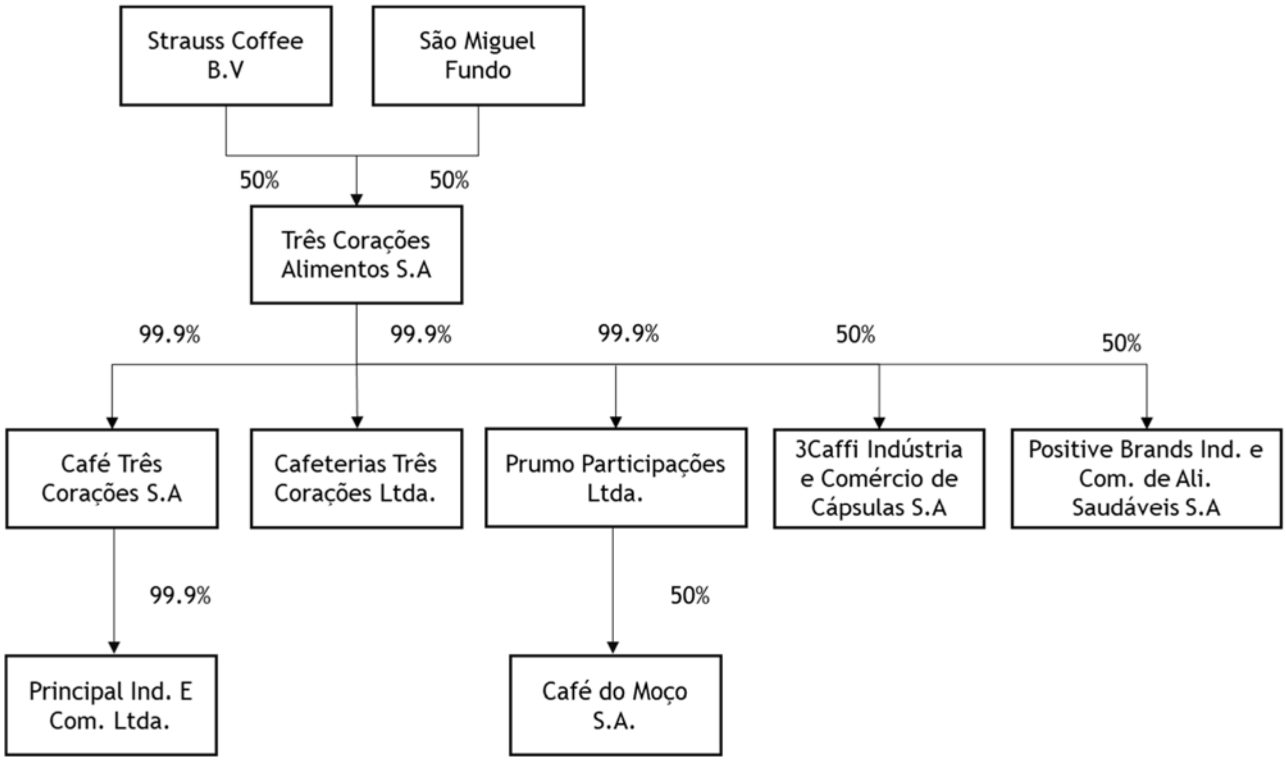
Três Corações Alimentos S.A. (the “Company”) together with its controlled entities (the “Group”) are an industrial and commercial group of companies, which operate in Brazil, in producing and selling branded coffee products, multi-beverage single portion capsules and machines, powdered juices, chocolate 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 Cafeterias Três Corações Ltda., Prumo Participações Ltda., which in turns controls the entity Café do Moço S.A. and also controls Café Três Corações S.A., which controls the entity 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) 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 30 June 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 started to work remotely since mid-March.

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 4.11% of total trade receivables as at 30 June 2020. The Group assesses the payment capacity of customers and has established policies for extending the maturity of accounts receivable when possible and necessary. In the period, there has been no significant increase so far 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 30 June 2020.

Since June, some Brazilian States have begun to implement a plan to resume economic activities divided into phases, following security protocols. This attitude was seen as positive by the market. In most States of Brazil restaurants and coffee shops were only allowed to open for personal attendance in July, subsequent to the closing of these financial statements and only within limited periods of time.

In June, the company started a gradual return plan for people working in the back office. Areas such as logistics and customer service have returned to work in the physical facilities. The Group is being very cautious with the return of employees as it is necessary to comply with the safety and distancing protocols.

Management understands that the Group has a significant headroom relating to goodwill and does not expect any impairment of such asset due to the temporary impact of COVID-19 crisis in Brazil.

The Group has reviewed its exposure to other business risks and has not identified any additional risks that could impact significantly the financial performance or position of the Group as at 30 June 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 August 14, 2020.

(In thousands of Brazilian Reals)

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$ 38,911, of which the amount of R$ 31,400 was 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	11
Total purchase consideration	38,911
Proportional interest in the net assets acquired – 50%	(1,675)
Goodwill (provisional amount)	**37,236**

The contingent consideration corresponds to the estimated amount calculated over 100% of the confirmed working capital in the balance sheet of Positive Brands on January 31, 2020 that exceeds R$ 3,000. On June 23, 2020 the parties finalized the validation of the working capital and agreed on the amount of R$ 11 for the contingent consideration, which was paid on June 24, 2020.

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

(In thousands of Brazilian Reals)

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.

During the acquisition process the Group spent R$ 241 with attorney's fees.

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 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.

(In thousands of Brazilian Reals)

Closing of the transaction was conditional upon approval by the Brazilian antitrust commission (CADE) which occurred on July 3, 2020. (See note 8.1).

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

On February 28, 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 30 June 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 7).

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

	30 June 2020	31 December 2019
Short term loans	656,218	660,798
Long term loans	314,742	47,306
Cash and cash equivalents	(578,172)	(538,045)
Net debt	**392,788**	**170,059**

The increase in net debt is mainly due to new loan agreements for working capital with Rabobank, in March, 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 and with Santander Bank, in April, in the amount of R$ 150,000, with debt cost of 100% of the Brazilian Interbank Deposit CDI rate plus 2,20% interest rate and maturity of 1-year.

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 started to increase at the end of 2019. Part of these loans will be settled in 2020 and part will be settled until the second quarter of 2021 with the execution of future green coffee sales agreements.

In April and May there was the payment of working capital loans with Itaú Bank and Santander Bank in the total amount of R$ 209,086.

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 2, 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, Management understands there is no need to provision any liability in the condensed consolidated financial statements as of June 30, 2020.

5.2 Goodwill Amortization

Tax authorities claim that the Group does not meet all criteria to deduct Goodwill amortization for tax purposes.

As of October 3, 2017, the Goodwill Amortization proceeding was judged in the Superior Chamber of Tax Appeals of CARF (Federal Administrative Court). After prevailing at the first administrative level, the Group lost the process on appeal, but only by a quality vote, which provides good basis for taking the issue to the judicial level. The quality vote occurs when there is a tie (4 x 4), and the final decision is left to the president of the session (always a judge on the Government side).

(In thousands of Brazilian Reals)

On April 5, 2019, the Group questioned judicially the validity of the quality vote and obtained a favorable preliminary decision on May 2, 2019 determining the suspension of the tax credit requirement until a new result of the judgment was announced.

On June 29, 2020, at the first judicial level, the proceeding nº 1008932-13.2019.4.01.3400 was judged determining that a different result should be entered of the judgment in the Superior Chamber of Tax Appeals of CARF, considering the tie as a result favorable to the Group.

The Group and its tax advisors are of the opinion that there is no need to record any liability. The Government may still contest the latest outcome of this proceeding at higher judicial instances.

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:

	30 June 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Short term loans	656,218	630,432	660,798	642,865
Long term loans	314,742	273,838	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.

(In thousands of Brazilian Reals)

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 30 June 2020 and 31 December 2019, the Group had no financial instruments measured at fair value.

7 Revenue

7.1 Disaggregated revenue information

	Products	Services	30 June 2020
Geographical markets			
Domestic	1,862,367	62	1,862,429
Foreign	139,272	-	139,272
	2,001,639	**62**	**2,001,701**

	Products	Services	30 June 2019
Geographical markets			
Domestic	1,779,601	87	1,779,688
Foreign	99,519	-	99,510
	1,879,120	**87**	**1,879,207**

(In thousands of Brazilian Reals)

7.2 Revenue reconciliation

	Six month periods ended June 30		Three month periods ended June 30	
	2020	**2019**	**2020**	**2019**
Gross revenue:				
Products – domestic	2,337,464	2,228,117	1,271,626	1,204,440
Products – foreign	139,272	99,519	97,245	57,414
Services	68	103	17	49
Other	100	106	67	50
Revenue deductions:				
Taxes on sales (a)	(222,789)	(180,169)	(133,840)	(85,691)
State VAT incentives	50,305	43,850	27,935	23,884
Discounts	(243,432)	(230,487)	(113,260)	(125,386)
Other deductions	(59,287)	(81,832)	(25,634)	(45,378)
Revenue	**2,001,701**	**1,879,207**	**1,124,156**	**1,029,382**

(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 six month period ended 30 June 2020 the amount recognized was R$ 20,491, relative to PIS only (R$ 38,337 for the six month period ended 30 June 2019, relative to both PIS and COFINS). There was no additional recognition in the second quarter of 2020.

8 Subsequent events

8.1 Mitsui Acquisition – Transaction closing

The acquisition of Mitsui Alimentos Ltda.'s business was definitively approved by Brazilian antitrust commission (CADE) on July 3, 2020.

On July 6, 2020, the subsidiary Café Três Corações S.A. notified the sellers Mitsui & Co., Ltd. and Mitsui & Co. (Brasil) S.A. about the final approval. Both parties agreed on the closing date as of July 31, 2020.

According to the Quota Purchase and Sale Agreement celebrated on February 6, 2020, the purchase price is R$ 213,754 (the original negotiated value was updated by 1.79% interest) and the purchase price shall be subject to two price adjustment mechanisms as indicated below:

- Preliminary purchase price adjustment: a preliminary working capital will be calculated based on the unaudited financial statements of June 30th, 2020. The difference between the Base Working Capital and the Preliminary Working Capital shall result in the Preliminary Purchase Price Adjustment, that will be basis for the payment to be made on the closing date. The parties also agreed that the purchase price can be decreased by deduction of certain subsequent costs to be incurred by the buyer, in an amount of less than or equal to R$ 2,150.

- Final purchase price adjustment: the closing balance sheet as of July 31, 2020 will be presented by the buyer to sellers within 30 days from the closing date evidencing the closing working capital and the final purchase price adjustment. If the final price results in an increase, the buyer will pay the difference to the sellers, but if it results in a decrease the sellers will reimburse the buyer for such amount. The exact definition of the Working capital and the procedure in case of disagreement are defined by the Purchase contract.

(In thousands of Brazilian Reals)

As of 31 July 2020 the Group paid the Preliminary Purchase Price to the sellers as demonstrated in the table below, calculated over the unaudited Financial Statements of June 30, 2020:

Original Purchase Price	210,000
Monetary Adjustment	3,754
Purchase Price	**213,754**
Working Capital - Sep.2019	(75,557)
Preliminary Working Capital - Jun.2020	81,550
Adjustments Preliminary Working Capital	(552)
Preliminary Adjustments	**5,441**
(-) Comercial Representatives	(500)
(-) Araçariguama License Cost	(1,645)
(-) Total Deductions	**(2,145)**
Purchase Price + Preliminary Price Adjustment	**217,050**

Management understands that will only be able to recognize and measure the final amounts involving this business combination (identifiable assets and assumed liabilities) after the issuance of the unaudited Financial Statements and balance sheet of July 31, 2020.
The fair values of the assets acquired and assumed liabilities will be subsequently measured and subject to an independent valuation for the purposes of Purchase price allocation.

8.2 Interest on equity payment

The profit destination related to 2019, in the total amount of R$ 113,500, was recommended by the Board to be paid in 2020, 50% in July and 50% in December. The amount of R$ 113,500 includes R$ 44,400 to be paid as dividends, with the remaining R$ 69,100 to be paid as interest on equity (over the respective amount there is the foreign shareholder's withholding income tax of R$ 5,182).

On July 15, 2020 there was the payment to the foreign shareholder in the net amount of R$ 24,119 (R$ 28,375 gross amount) related to interests on equity.

The Brazilian shareholder requested to postpone to October 2020 its payment of interest on equity in the amount of R$ 28,375.

* * *

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Chief Executive Officer

Danisio Costa Lima Barbosa
Chief Financial Officer

Adenise Evangelista de Melo
Accountant CRC/CE 8.126/O-3