STRAUSS GROUP LTD.
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On October 17, 2020 the Company announced the passing of Michael Strauss OBM –

industrialist, leader & noted Israeli & international businessman

Michael Strauss was among the founders of and a major contributor to the development of the Israeli food industry, son of the founders of Strauss Group, and a man who, alongside his great love for industry, devoted the last decades of his life to public and social activity, including the advancement of the city of Acre, stemming from a profound commitment to building coexistence in Israel

The perpetual development he drove and his strong commitment to Israeli industry imbued the local industry with a healthy competitive and creative spirit, making a unique contribution to Israel's development and prosperity and helping to generate healthy and sustainable growth.

Under his leadership, Strauss Group flourished and grew to become a leading food company in Israel, with businesses in more than twenty countries worldwide. His unflagging entrepreneurial spirit and indefatigable drive to improve and excel, his curiosity to discover people's needs and his desire to always be at the forefront of food technology have made Strauss an innovative company and have enabled it to enter new product categories and business areas, including the development of the dairy dessert category, the yogurt revolution in Israel, ice cream, fresh salads and dips and spreads, and specialty cheeses.

Michael Strauss forged and cultivated close ties and partnerships in Israel and internationally, from local kibbutzim on the one hand to leading global food corporations such as Danone, Unilever and PepsiCo on the other. These partnerships have since formed the foundation for continuous organizational learning and have made a decisive contribution to the Group's strength.

Michael Strauss mentored generations of managers, grooming them for values-based leadership, social sensitivity & far-reaching strategic thinking. He was a model of inspiration and a paradigm of balancing vision and strategy with action, daring in the business arena with responsibility to the public.

Michael Strauss served as chairman of Strauss Holdings until several years ago, and is the controlling shareholder of Strauss Group.

The infrastructure he built in the Company, along with its values, culture and spirit, are and will continue to be a meaningful component as Strauss continues on its path toward the future.

Strauss Group bows its head to honor his passing

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 nine months ended September 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 1 in the Description of the Company's Business Report, the Activity of the Company and Description of the General Development of its Business

On October 17, 2020 the Company regretfully announced that Mr. Michael Strauss OBM, among the owners of Strauss Group, leader of the Company for decades and one of its controlling shareholders (through Strauss Holdings Ltd.), had passed away on October 17, 2020. After a court order with respect to his estate has been issued, the Company will announce the implications on the holdings in Strauss Holdings Ltd., which is the direct controlling shareholder of the Company. For further information, see Note 1 to the Condensed Consolidated Interim Financial Statements of the Company as at September 30, 2020, and also the Immediate Report of October 17, 2020 (reference no. 2020-01-103882).

2. 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 September 30, 2020. For restrictions on dividend distributions in the context of the debentures (Series F), issued in July 2020, see Note 8.3 to the Condensed Consolidated Interim Financial Statements of the Company as at September 30, 2020.

3. 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. The net consideration paid by the Três Corações Joint Venture for the acquisition, taking into account the cash balances held by Mitsui Alimentos on the Closing Date, is approximately BRL 209 million (approximately NIS 128 million). For further information, see Note 4.2 to the Condensed Consolidated Interim Financial Statements of the Company as at September 30, 2020, and also the Immediate Reports of February 18, 2020, July 5, 2020, August 2, 2020 and October 7, 2020 (reference no. 2020-01-014263, 2020-01-063052, 2020-01-081531 and 2020-01-100219, respectively).

4. 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 8.3 to the Condensed Consolidated Interim Financial Statements of the Company as at September 30, 2020 and the Immediate Reports of July 7, 2020 (reference no. 2020-01-072306 and 2020-01-072366, respectively).

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

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).

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).

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

For updates, see Note 6 to the Condensed Consolidated Interim Financial Statements of the Company as at September 30, 2020.

6. Regulation 26 in the Additional Information Report

On October 28, 2020 Ms. Tzipi Ozer-Armon took office as a director of the Company. For further information, see the Immediate Report of October 29, 2020 (reference no. 2020-01-117186).

7. Regulation 29 in the Additional Information Report

On September 30, 2020 the Annual General and Special Meeting of Shareholders of the Company approved the award of equity based compensation to the Company CEO, Mr. Giora Bardea. On the same date, the Meeting of Shareholders approved compensation for Mr. Adi Strauss, a director of the Company and relative of the controlling shareholder, as an expert director, for three years commencing on the date of approval by the General Meeting, and amendment of the Company's Remuneration Policy with respect to insurance arrangements. For further information, see the Immediate Report of October 1, 2020 (reference no. 2020-01-097921).

Date: November 17, 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 SEPTEMBER 30, 2020

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED SEPTEMBER 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

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"**) herewith respectfully submits the Board of Directors' Report for the third 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").

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

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 business 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 presented in the financial statements as the **"Other Operations"** segment, which includes, among others, Strauss Group's FoodTech incubator, The Kitchen Hub, and other Group Headquarters activities.

The Group is a leading player in most of the markets in which it operates. The center of the Group's activity is in Israel, where it is the second-largest corporation in the food and beverage market. In the third quarter of 2020 the Group held a 12.1% 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 Group operates in a number of key geographic regions: **The operation in Israel** includes the business of Strauss Israel, the coffee operation in Israel and Strauss Water's business in Israel; **the operation in Brazil**, which is conducted through the Três Corações joint venture[2], 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] business in Netherlands and Germany and the Florentin brand; and **the operation in the US and Canada**, which includes Sabra's[4] 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.

2. CHANGES IN THE ECONOMIC ENVIRONMENT

2.1 Update on the impact of coronavirus pandemic (COVID-19)

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 third 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 maintain financial stability and flexibility, while ensuring adequate liquidity in all geographies. The Group has also continued to invest in the construction of new production facilities in Israel and other countries of operations, in advanced technologies, in exploring M&A opportunities and in the development of brands, categories and business areas possessing growth potential. These include various dairy alternatives, health products, fresh foods, coffee capsules, and entry to the POE (point of entry) water market – a whole-house water treatment solution – in China. The Group continues to review various business opportunities and to prepare for possible challenges.

2.1.1 Impacts of COVID-19 crisis on the Group's business and business results in the third 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 waves of the pandemic and the extent of its containment in each geography, the restrictions imposed on businesses and the effect of the restrictions on consumer behavior. The third quarter was characterized by continuing efforts to cope with the pandemic and with entering and exiting lockdowns in the various geographies where the Group operates. Following are the main occurrences observed in these months:

Consumer behavior – In the third quarter a number of behavioral characteristics that emerged when the pandemic broke out continued. These include, among others, continued growth in 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; and a drop in purchases of impulse products, which are intended for AFH consumption. Additionally, growing price awareness has been observed in light of the economic crisis that is developing in the different countries.

Geographies – In the third quarter, growth in the Group's sales in Israel remained above the average growth levels observed in recent years in most categories, except for sales of impulse products (snacks and candy), which are intended for AFH consumption, and the AFH coffee category, where sales dropped following the decrease in sales to the institutional market and the closure of points of sale in the Elite Café chain. Among other things, growth was due to increased in-home food consumption following the lockdowns imposed on consumers and the closure of AFH entertainment and dining venues. In the US, increased demand for products for consumption at home continued, including hummus. Consequently, Sabra's sales improved despite the challenges in maintaining supply chain continuity posed by COVID. In Eastern Europe, local currency sales increased in all countries of operations with the exception of Serbia, where stability was recorded. In Brazil, local currency sales increased. In China and the UK, sales of water bars increased in local currency.

Product categories – In the third quarter, growth in demand for the Group's products for in-home consumption in Israel was evident, particularly dairy products, salads and dips and spreads, chocolate tablets and Yad Mordechai products. By contrast, sales in the sweet snack impulse category, products that serve for AFH consumption, remained weak. Sales of family packs of Sabra products in the US increased, whereas single-serve packs used mainly for AFH consumption such as on-the-go, at work and at school, dropped.

Sales channels – In the third quarter the growth trend in the Group's sales to supermarket chains, minimarkets and neighborhood grocery stores continued, 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 sales at convenience stores.

Impact on the Group's business units:

Strauss Israel – Following the lockdown in Israel, which began in mid-September and continued until mid-October, demand for dairy products, salads and confectionery for in-home consumption rose, while demand for impulse snacks, mainly consumed away-from-home, dropped. 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 third 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 in March. This year, the Company also increased the grant of discounts and campaigns for retailers, and will maintain this policy depending on market conditions 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 both lockdowns, and the Company estimates that they will continue to operate regularly even if further lockdowns are imposed. 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 it will, in fact, occur, or that it 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 third quarter, a return to heightened activity levels in water bar sales was observed during the summer months. 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 third quarter sales in China continued to recover, and the Company recorded sales growth in local currency. During the quarter, online sales in China continued to grow.

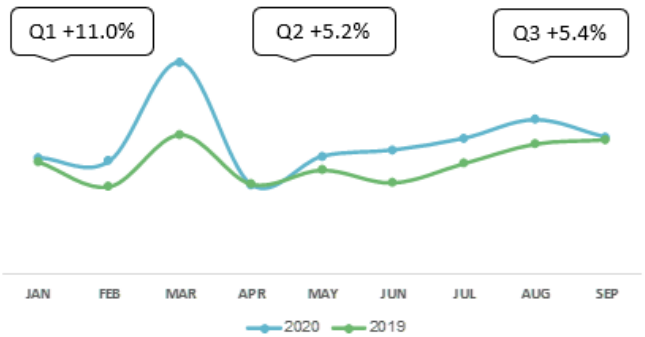
In the UK – A significant improvement was evident in the pace of sales of water bars in the third quarter.

Strauss Coffee – In the reporting period the impact on the coffee business was mixed, according to the different sales channels. Sales to the retail market rose moderately in the third quarter as a result of an increase in coffee consumption at home (basic coffee brands, coffee beans and capsules for home consumption) in most countries of operations. Growth was also observed in online sales. In the institutional and AFH channel, after a recovery at the start of the quarter, commencing at the end of September sales dropped significantly, mainly 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.

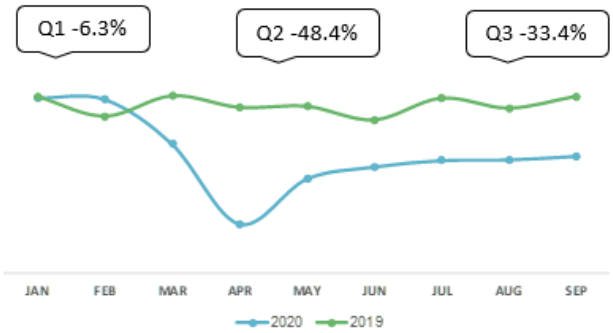
The International Dips & Spreads business – During the third quarter a recovery in Sabra's sales compared to the second quarter was evident following improved functioning of the supply chain. However, AFH market sales and sales of products consumed away from home in all channels remained weak, impeding the pace of sales growth. In addition, wage costs continued to rise due to incentives and support for production, operations and sales employees, besides the additional costs of personal protective equipment and high supply chain costs due to building high inventory levels in light of the uncertainty. Quarterly marketing expenses dropped in relation to the corresponding quarter as a result of the timing of these expenses this year. Obela experienced a slight increase in demand for its dip products, and high supply chain costs due to the impact of social distancing requirements in Australia.

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 September 30, 2020 the balance of cash and cash equivalents and deposits in the Group's financial statements was approximately NIS 809 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 see also Note 8.3 to the Condensed Consolidated Interim Financial Statements of the Company as at September 30, 2020.

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.

2.1.2 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 following 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 lockdowns, a drop in demand for the Company's products is possible as a result of consumers having stocked up prior to the lockdowns. 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, and with respect to the intention to close the gaps in production and the scenarios of future effects, as well as the Company's ability to maintain financial stability and flexibility and persevere in activities such as exploring M&A opportunities, brand development, etc., 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 such as the situation in the markets where the Company operates, changes in consumption habits, etc., 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 nine months of 2020 the average prices of Arabica green coffee (traded on the New York Mercantile Exchange) rose, as did the prices of green coffee in Brazil, cocoa, sugar, tahini and honey, compared to the corresponding period last year. Conversely, the average prices of Robusta green coffee (traded on the London Commodity Exchange) and the prices of sesame, raw milk (the "target price", particularly in the first quarter) and olive oil dropped. In the third quarter of the year, the average prices of green coffee (traded on the New York and London exchanges) rose, as did the prices of green coffee in Brazil, sugar and honey, compared to the corresponding period, whereas the average prices of cocoa, sesame, raw milk (the "target price"), tahini and olive oil dropped.

The price of raw milk ("target price") has maintained a trend of moderate decrease: at the beginning of the fourth quarter of 2020 the target price remains unchanged compared to the third quarter, constituting a decrease of approximately 0.9% since the beginning of the year (following a drop of around 2.6% in 2019).

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

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

The Group also has a committee for the management of 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 nine months and third quarter of 2020 the average prices of Brent oil were approximately 34% and 30% 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 33%.

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 in the first nine months and third quarter of 2020, particularly the Brazilian Real and Russian Ruble, led to material negative translation differences in the periods. In terms of changes in exchange rates in the nine months and quarter (based on closing prices) the Shekel appreciated against part of the functional currencies, significantly against the Brazilian Real and the Russian Ruble, with a negative net effect on the Group's equity in the periods, 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 38%.

In the first nine months and third quarter of 2020 part of the average exchange rates of the functional currencies against the US Dollar dropped compared to the corresponding periods last year, most notably the Real and the Ruble, leading to an increase in the cost of green coffee. Conversely, the Dollar depreciated against other currencies, including the Shekel.

[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 nine months and third quarter of 2020 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Nine Months		% Change	Average Exchange Rate in Third Quarter		% Change
		2020	2019		2020	2019	
United States Dollar	USD	3.477	3.589	(3.1%)	3.418	3.525	(3.0%)
Euro	EUR	3.906	4.033	(3.2%)	3.996	3.920	1.9%
Ukrainian Hryvnia	UAH	0.131	0.136	(3.5%)	0.124	0.140	(11.2%)
Russian Ruble	RUB	0.049	0.055	(10.5%)	0.047	0.055	(14.8%)
Serbian Dinar	RSD	0.033	0.034	(2.8%)	0.034	0.033	2.0%
Romanian Leu	RON	0.809	0.851	(4.9%)	0.825	0.829	(0.5%)
Polish Zloty	PLN	0.883	0.938	(5.8%)	0.900	0.908	(0.9%)
Brazilian Real	BRL	0.693	0.925	(25.0%)	0.636	0.890	(28.5%)
Chinese Renminbi	CNY	0.497	0.523	(5.0%)	0.494	0.503	(1.7%)
Canadian Dollar	CAD	2.569	2.700	(4.9%)	2.566	2.671	(3.9%)
Australian Dollar	AUD	2.352	2.510	(6.3%)	2.445	2.417	1.2%
Mexican Peso	MXN	0.160	0.186	(13.9%)	0.155	0.181	(14.7%)
Pound Sterling	GBP	4.419	4.570	(3.3%)	4.415	4.347	1.6%

The following table presents the average exchange rates **against the Dollar** in the first nine months and third quarter of 2020 compared to the corresponding periods last year:

Currency		Average Exchange Rate in First Nine Months		% Change	Average Exchange Rate in Third Quarter		% Change
		2020	2019		2020	2019	
New Israeli Shekel	ILS	0.288	0.279	3.2%	0.293	0.284	3.1%
Ukrainian Hryvnia	UAH	0.038	0.038	(0.4%)	0.036	0.040	(8.4%)
Russian Ruble	RUB	0.014	0.015	(7.6%)	0.014	0.015	(12.1%)
Serbian Dinar	RSD	0.010	0.010	0.3%	0.010	0.009	5.2%
Romanian Leu	RON	0.233	0.237	(1.8%)	0.241	0.235	2.6%
Polish Zloty	PLN	0.254	0.261	(2.7%)	0.263	0.258	2.2%
Brazilian Real	BRL	0.199	0.258	(22.6%)	0.186	0.252	(26.3%)
Chinese Renminbi	CNY	0.143	0.146	(1.9%)	0.145	0.143	1.4%
Pound Sterling	GBP	1.271	1.273	(0.1%)	1.292	1.233	4.8%

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

Currency		Proximate to date of publication	Average Exchange Rate in Fourth Quarter 2019	% Change
United States Dollar	USD	3.356	3.491	(3.9%)
Euro	EUR	3.974	3.866	2.8%
Ukrainian Hryvnia	UAH	0.120	0.144	(16.9%)
Russian Ruble	RUB	0.044	0.055	(20.4%)
Serbian Dinar	RSD	0.034	0.033	2.8%
Romanian Leu	RON	0.815	0.811	0.5%
Polish Zloty	PLN	0.889	0.902	(1.5%)
Brazilian Real	BRL	0.622	0.849	(26.8%)
Chinese Renminbi	CNY	0.032	0.496	(93.5%)
Canadian Dollar	CAD	2.565	2.645	(3.0%)
Australian Dollar	AUD	2.451	2.386	2.7%
Mexican Peso	MXN	0.166	0.181	(8.5%)
Pound Sterling	GBP	4.428	4.495	(1.5%)

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

Currency		Proximate to date of publication	Average Exchange Rate in Fourth Quarter 2019	% Change
New Israeli Shekel	ILS	0.298	0.286	4.0%
Ukrainian Hryvnia	UAH	0.036	0.041	(13.6%)
Russian Ruble	RUB	0.013	0.016	(17.2%)
Serbian Dinar	RSD	0.010	0.009	6.9%
Romanian Leu	RON	0.243	0.232	4.6%
Polish Zloty	PLN	0.265	0.258	2.5%
Brazilian Real	BRL	0.185	0.243	(23.8%)
Chinese Renminbi	CNY	0.152	0.142	7.0%
Pound Sterling	GBP	1.319	1.288	2.5%

As at the middle of the fourth quarter of 2020, the trend of erosion of the Real against the Shekel has continued, and is approximately 26.8% compared to the average exchange rate in the fourth quarter of 2019, which is expected to also impact the Company's results for the last quarter of this year.

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 labeling products with symbols informing consumers that the food contains large amounts of sodium, sugars or saturated fat, to enable consumers to make informed food choices in the interests of their health. The threshold values of sodium, sugars and saturated fat, above which it is mandatory to affix a red label on the front of pack, were determined in two phases, the first of which has been binding since January 2020, and the second, commencing January 2021. The Group 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 to food manufacturers, importers and marketers, that food products that are healthy and recommended for consumption and satisfy the criteria that were defined be labeled with a green symbol.

In the Company's estimate, as at the date of this report, the labeling of products has no material impact on the Company's business results following the publication of the final recommendations.

2.6 Sustainability, ethics and social investment – Against the backdrop of the world COVID-19 crisis, the Group rallied to help and to contribute to its communities. In the third quarter and into the fourth quarter, the Group's societal strategy focused on population groups that had been economically harmed directly as a result of the crisis, and on medical teams.

In the past few months, through the Latet humanitarian aid organization and the national food bank, Leket Israel, the Group has supported some 80 thousand families through donations of food and fruit and vegetable parcels. The Group's employees in Israel helped pack the parcels.

Further, with the approaching Jewish New Year and High Holidays and the start of the school year, Strauss Israel, in collaboration with Latet, launched a large-scale, first-of-a-kind aid program, in which for four months (September-December) Strauss Israel provides ongoing help in the form of digital coupons to ten thousand families who were affected by the economic fallout of the pandemic. Every month, each family is given coupons for the purchase of the Group's products, which can be used at a number of food chains. The initiative is innovational in terms of the direct connection between the Group and the families. The financial value of the initiative is estimated at approximately NIS 8 million.
Besides food contributions, the Group continues to further social initiatives in the sphere of diversity and inclusion and in promoting a balanced diet. Among other things, in Israel, as part of the Social Economic Forum, the Group has been leading the roundtable to improve productivity in Arab society.

Ethics – In the third quarter of 2020 the Group launched a new Code of Ethics, which includes up-to-date reference to the following subjects: Strauss's employees; its consumers, suppliers and customers; conduct in the competitive arena; the environment; state authorities; shareholders and debenture holders; our communities; anti-bribery and corruption; management, recordkeeping and reporting; privacy protection; and implementation of ethical rules at Strauss.

The Group also published revised charters and policy papers in the spheres of ethics and sustainability, which supplement and broaden the scope of the Code of Ethics, in all of the Group's official working languages, on the following subjects: data and privacy protection, anti-bribery and corruption policy, human rights, diversity and inclusion, product safety, environmental sustainability, responsible marketing, responsible procurement, animal welfare, occupational safety and hygiene, social investment, the fair competition charter and the ethical charter for suppliers.

3. ANALYSIS OF FINANCIAL RESULTS

The Group has a number of jointly controlled companies in which the Company or subsidiaries hold a 50% stake: 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 results of operations of the jointly controlled companies are included in the Management (Non-GAAP) Reports of the Company (as defined below) according to the holding rate 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 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 in which Group Management measures the results of the subsidiaries and jointly controlled companies, in the Management (Non-GAAP) Reports the Group presents the activity segments by presenting the Group's relative share of the income and expenses of the jointly controlled companies (50%) with additional adjustments which are 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 Financial Statements.

The next pages present the Non-GAAP Reports, the Financial Statements (GAAP Reports) and the various adjustments made by Company Management in making the transition from the Financial Statements to the Non-GAAP Reports.

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

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

	First Nine Months			Explanation
	2020	2019	% Chg	
Sales	**6,280**	**6,422**	**(2.2%)**	The decrease in sales 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 in the Israel Coffee segment; and in the International Dips & Spreads segment due to negative translation differences as a result of the weaker Dollar and the drop in away-from-home (AFH) sales in the US following the COVID-19 outbreak. By contrast, sales by Strauss Israel grew in most categories following high growth in in-home consumption and increased demand in the wake of the COVID-19 outbreak; as well as growth in Strauss Water in Israel following growth in the customer base. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effects	4.5%	2.6%		
Cost of sales	3,835	3,868	(0.9%)	The decrease in gross profit in the nine months was mainly the result of the drop in sales, as mentioned. The gross profit margin dropped mainly as a result of an increase in green coffee prices in Brazil in the International Coffee segment, and an increase in manufacturing costs following the COVID-19 outbreak. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**2,445**	**2,554**	**(4.2%)**	
% of sales	38.9%	39.8%		
Selling and marketing expenses	1,339	1,426	(6.1%)	The percentage of selling and marketing expenses of total sales remained essentially unchanged. The decrease in selling and marketing expenses mainly originated in the International Coffee segment due to the drop in the business of Elite Café, and translation differences, primarily due to the depreciation of the Brazilian Real.
General and administrative expenses	395	398	(0.6%)	The decrease is due to the depreciation of the Brazilian Real and savings in consultation, travel and business entertainment expenses and was partially offset by an increase in welfare, hygiene and safety expenses, as well as product donations following the COVID-19 outbreak.
Total operating expenses	**1,734**	**1,824**	**(4.9%)**	
Company's share of profit of equity-accounted investees	30	22	37.0%	Most of the increase is due to growth 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 HSW in the second quarter, which was partially offset by losses of equity-accounted investees active in Strauss's incubator.
Operating profit – non-GAAP	**741**	**752**	**(1.5%)**	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 and a drop in sales to the AFH market in the US. By contrast, growth in the operating profit of the Strauss Israel segment was recorded, primarily as a result of an increase in quantities sold, and in the Strauss Water segment following growth in the customer base. The operating profit margin rose due to the growth in HSW's profits and savings in operating expenses, which was partially offset by the drop in the gross profit margin. For further information, see section 3.1.3 below.
% of sales	11.8%	11.7%		
Financing expenses, net	(89)	(107)	(17.2%)	The decrease in financing expenses in the first nine months is due to financing income from foreign currency derivatives and CPI linkage differentials 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 Notes 4.8 and 8.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020.
Income before taxes – non-GAAP	**652**	**645**	**1.2%**	
Income tax	(135)	(158)	(14.3%)	The decrease in the effective tax rate in the first nine months 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	20.7%	24.4%		
Income for the period – non-GAAP	**517**	**487**	**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	**464**	**446**	**4.1%**	
% of sales	7.4%	6.9%		
Attributable to non-controlling interests	53	41	28.3%	
EPS (NIS)	4.01	3.86	3.7%	

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

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

	Third Quarter			Explanation
	2020	2019	% Chg	
Sales	**2,174**	**2,243**	**(3.1%)**	The decrease in sales 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 in the Israel Coffee segment, and in the International Dips & Spreads segment due to translation differences as a result of the weakening of the Dollar and 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 in all categories thanks to high growth in in-home consumption, and in the Strauss Water segment due to increased sales of appliances in the third quarter and growth in the customer base. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effects	3.9%	6.1%		
Cost of sales	1,350	1,356	(0.5%)	The decrease in gross profit in the third quarter is mainly the result of the drop in sales as mentioned. The gross profit margin dropped mainly as a result of an increase in green coffee prices in Brazil in the International Coffee segment, an increase in manufacturing costs following the COVID-19 outbreak and a change in the sales mix. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**824**	**887**	**(7.1%)**	
% of sales	37.9%	39.6%		
Selling and marketing expenses	458	505	(9.4%)	The decrease in selling and marketing expenses is due to high expenses in the first quarter incurred by Sabra due to advertising in the US Super Bowl. This is in addition to the drop in marketing expenses in some businesses, particularly the Elite Café chain in the Israel Coffee segment, and translation differences, mainly following the depreciation of the Brazilian Real.
General and administrative expenses	126	133	(5.2%)	The decrease is primarily due to savings in consultation, travel and business entertainment expenses following the COVID-19 outbreak and translation differences, mainly as a result of the depreciation of the Brazilian Real, and was partially offset by increased product donations.
Total operating expenses	**584**	**638**	**(8.5%)**	
Company's share of profit of equity-accounted investees	10	7	39.7%	Most of the increase is due to growth in the profits of Haier Strauss Water following sales growth, which was partially offset by losses of equity-accounted investees active in Strauss's incubator.
Operating profit – non-GAAP	**250**	**256**	**(2.3%)**	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. 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 Strauss Water segment following growth in the number of appliances sold, and the International Dips & Spreads segment by streamlining operating expenses. The operating profit margin rose due to growth in HSW's profits and savings in operating expenses, 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%	11.4%		
Financing expenses, net	(26)	(36)	(30.2%)	The decrease in financing expenses in the third quarter of 2020 is the result of financing income from foreign currency derivatives and exchange differences, compared to expenses in the corresponding period, and a decrease in interest expenses, and was partially offset by a revision of cash flows of loans following forecasts for prepayment. For further information, see Notes 4.8 and 8.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020.
Income before taxes – non-GAAP	**224**	**220**	**2.6%**	
Income tax	(48)	(53)	(9.7%)	The decrease in the effective tax rate in the third quarter of 2020 is due to the profit mix for tax purposes between the companies in the different countries, as well as a decrease in the deferred tax reserve in respect of the profit of certain foreign companies, as yet undistributed.
Effective tax rate	21.0%	23.8%		
Income for the period – non-GAAP	**176**	**167**	**6.1%**	The change is primarily due to a decrease in financing and tax expenses, which was offset in part by a decrease in operating profit.
Attributable to the Company's shareholders	**158**	**153**	**4.2%**	
% of sales	7.3%	6.8%		
Attributable to non-controlling interests	18	14	25.0%	
EPS (NIS)	1.37	1.32	4.0%	

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

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

	First Nine Months			Third Quarter		
	2020	2019	% Change	2020	2019	% Change
Israel						
Net sales	2,787	2,579	8.1%	953	899	6.1%
Operating profit	328	290	13.3%	106	98	8.6%
Coffee						
Net sales	2,445	2,793	(12.4%)	851	986	(13.6%)
Operating profit	283	338	(16.4%)	103	127	(19.4%)
International Dips & Spreads						
Net sales	561	583	(3.8%)	186	193	(3.8%)
Operating profit	54	62	(13.3%)	17	10	65.2%
Water						
Net sales	487	467	4.1%	184	165	10.5%
Operating profit	70	55	27.0%	25	20	24.2%
Other						
Net sales	-	-	N/A	-	-	N/A
Operating profit	6	7	(7.2%)	(1)	1	(238.7%)
Total						
Net sales	**6,280**	**6,422**	**(2.2%)**	**2,174**	**2,243**	**(3.1%)**
Operating profit	**741**	**752**	**(1.5%)**	**250**	**256**	**(2.3%)**

Following are the condensed financial accounting (GAAP) income statements for the quarter and nine months ended September 30, 2020 and 2019 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2020	2019	% Change	2020	2019	% Change
Sales	4,419	4,272	3.4%	1,541	1,504	2.4%
Cost of sales excluding impact of commodity hedges	2,623	2,512	4.4%	932	889	4.7%
Adjustments for commodity hedges**	(1)	3		(19)	3	
Cost of sales	2,622	2,515	4.2%	913	892	2.3%
Gross profit	**1,797**	**1,757**	**2.3%**	**628**	**612**	**2.6%**
% of sales	40.7%	41.1%		40.7%	40.7%	
Selling and marketing expenses	972	979	(0.8%)	336	343	(2.3%)
General and administrative expenses	301	297	1.5%	97	99	(1.5%)
Total expenses	**1,273**	**1,276**	**(0.3%)**	**433**	**442**	**(2.1%)**
Share of profit of equity-accounted investees	182	218	(16.6%)	64	65	(1.6%)
Operating profit before other expenses	**706**	**699**	**1.1%**	**259**	**235**	**10.2%**
% of sales	16.0%	16.4%		16.8%	15.6%	
Other expenses, net	-	(3)		-	-	
Operating profit after other expenses	**706**	**696**	**1.4%**	**259**	**235**	**10.4%**
Financing expenses, net	(82)	(96)	(14.4%)	(25)	(31)	(20.7%)
Income before tax	**624**	**600**	**3.9%**	**234**	**204**	**15.1%**
Income tax	(121)	(131)	(7.6%)	(48)	(44)	9.7%
Effective tax rate	19.4%	21.8%		20.5%	21.5%	
Income for the period	**503**	**469**	7.2%	**186**	**160**	16.6%
Attributable to: **The Company's shareholders**	**450**	**428**	**5.0%**	**168**	**145**	**16.0%**
Non-controlling interests	53	41	28.9%	18	15	22.4%

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

** Reflects mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to 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 September 30, 2020 and December 31, 2019 (in NIS millions)*:

	September 30, 2020	December 31, 2019	% Chg	Explanation
Total current assets	2,569	2,203	16.6%	The change is primarily the result of an increase in trade receivables and in cash balances and deposits.
Of which: Cash and cash equivalents balance	689	525	31.2%	For information on the change in the cash and cash equivalents item, see section 3.1.5 below. In accordance with Company policy, cash is mainly held in liquid deposits.
Total non-current assets	4,250	4,387	(3.1%)	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 213 million are the result of the depreciation of the Brazilian Real against the Shekel, which were partially offset by the profits of investees.
Total current liabilities	1,924	1,960	(1.8%)	The change is primarily due to a decrease in loans and short-term credit, which was partially offset by an increase in trade and other payables.
Total non-current liabilities	2,461	2,200	11.8%	The change is primarily due to an increase in debentures following the issuance of the Series F Debentures, which was partially offset by a decrease in long-term loans and credit following prepayment, and in lease liabilities.
Total equity attributable to the Company's shareholders	2,276	2,277	(0.0%)	The change is primarily the result of an increase in profits attributable to the majority shareholders, which was offset by 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.
Total equity attributable to non-controlling interests	158	153	3.5%	The change is primarily the result of an increase in the profit of investees, which was offset by a dividend paid in the period.

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

	September 30, 2020	December 31, 2019	Change	Explanation
Gross debt – Non-GAAP Reports	3,039	2,852	187	Most of the increase in gross debt is due to the issuance of the Series F Debentures, and was partially offset by a decrease in short and long-term loans and credit (*inter alia*, in light of the early prepayment of long-term loans; see Notes 4.8 and 8.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020) and lease liabilities. Cash balances and deposits increased as a result of the Company's free cash flow, leading to a decrease in net debt.
Gross debt – Financial Statements	2,556	2,419	137	
Net debt – Non-GAAP Reports	1,993	2,023	(30)	
Net debt – Financial Statements	1,747	1,894	(147)	

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

Unofficial Translation from Hebrew

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

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

	First Nine Months 2020			First Nine Months 2019			Third Quarter 2020			Third Quarter 2019		
	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method
Sales	4,419	1,861	6,280	4,272	2,150	6,422	1,541	633	2,174	1,504	739	2,243
Cost of sales excluding impact of commodity hedges	2,623	1,212	3,835	2,512	1,356	3,868	932	418	1,350	889	467	1,356
Adjustments for commodity hedges	(1)	-	(1)	3	-	3	(19)	-	(19)	3	-	3
Cost of sales	2,622	1,212	3,834	2,515	1,356	3,871	913	418	1,331	892	467	1,359
Gross profit	**1,797**	**649**	**2,446**	**1,757**	**794**	**2,551**	**628**	**215**	**843**	**612**	**272**	**884**
% of sales	40.7%		39.0%	41.1%		39.7%	40.7%		38.8%	40.7%		39.4%
Selling and marketing expenses	972	367	1,339	979	447	1,426	336	122	458	343	162	505
General and administrative expenses	301	107	408	297	115	412	97	33	130	99	39	138
Company's share of profit of equity-accounted investees	182	(152)	30	218	(196)	22	64	(54)	10	65	(58)	7
Operating profit before other expenses	**706**	**23**	**729**	**699**	**36**	**735**	**259**	**6**	**265**	**235**	**13**	**248**
% of sales	16.0%		11.6%	16.4%		11.5%	16.8%		12.2%	15.6%		11.1%
Other income (expenses), net	-	(3)	(3)	(3)	1	(2)	-	(2)	(2)	-	-	-
Operating profit after other expenses	**706**	**20**	**726**	**696**	**37**	**733**	**259**	**4**	**263**	**235**	**13**	**248**
Financing expenses, net	(82)	(7)	(89)	(96)	(11)	(107)	(25)	(1)	(26)	(31)	(5)	(36)
Income before tax	**624**	**13**	**637**	**600**	**26**	**626**	**234**	**3**	**237**	**204**	**8**	**212**
Income tax	(121)	(13)	(134)	(131)	(26)	(157)	(48)	(3)	(51)	(44)	(8)	(52)
Effective tax rate	19.4%		21.1%	21.8%		25.1%	20.5%		21.2%	21.5%		24.5%
Income for the period	503	-	503	469	-	469	186	-	186	160	-	160
Attributable to: The Company's shareholders	**450**	**-**	**450**	**428**	**-**	**428**	**168**	**-**	**168**	**145**	**-**	**145**
Non-controlling interests	53	-	53	41	-	41	18	-	18	15	-	15

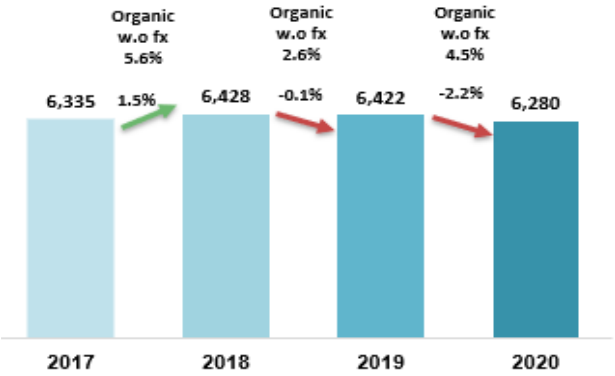
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

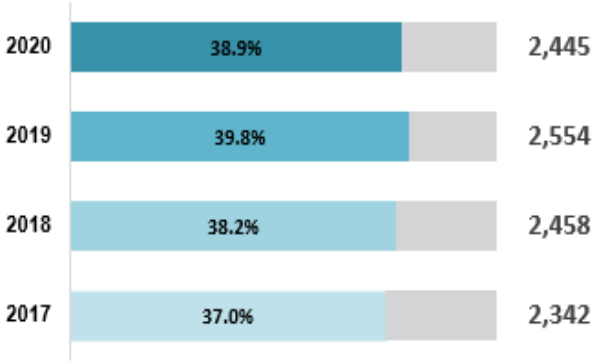
	First Nine Months			Third Quarter		
	2020	2019	% Chg	2020	2019	% Chg
Operating profit (according to the proportionate consolidation method) after other expenses	**726**	**733**	**(1.0%)**	**263**	**248**	**5.6%**
Share-based payment	13	14		4	5	
Adjustments for commodity hedges	(1)	3		(19)	3	
Other expenses, net	3	2		2	-	
Operating profit – non-GAAP	**741**	**752**	**(1.5%)**	**250**	**256**	**(2.3%)**
Financing expenses, net	(89)	(107)		(26)	(36)	
Income tax	(134)	(157)		(51)	(52)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(1)	(1)		4	(1)	
Income for the period – non-GAAP	**517**	**487**	**6.2%**	**176**	**167**	**6.1%**
Attributable to: The Company's shareholders	**464**	**446**	**4.1%**	**158**	**153**	**4.2%**
Non-controlling interests	**53**	**41**	**28.3%**	**18**	**14**	**25.0%**

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

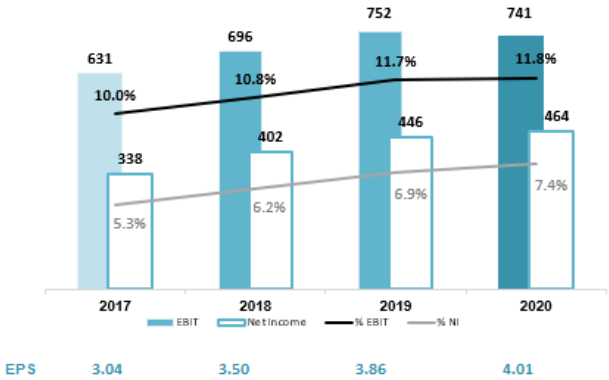
Net sales



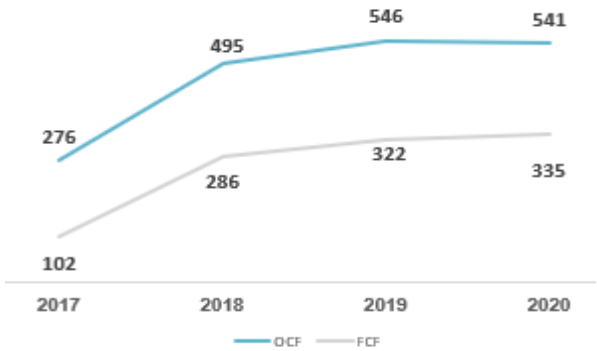
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow

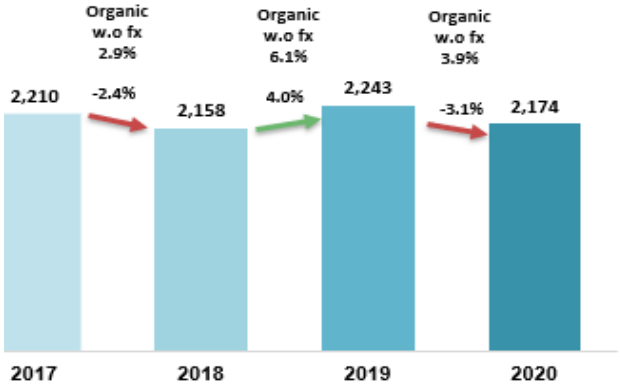


* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

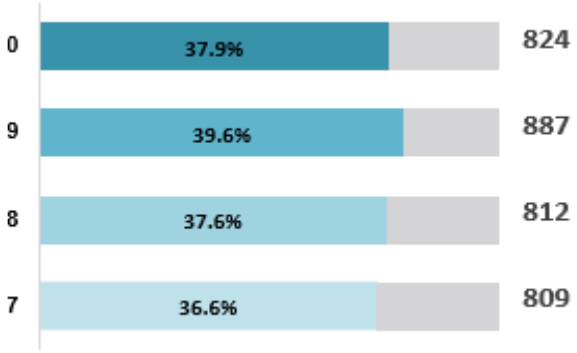
Unofficial Translation from Hebrew

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

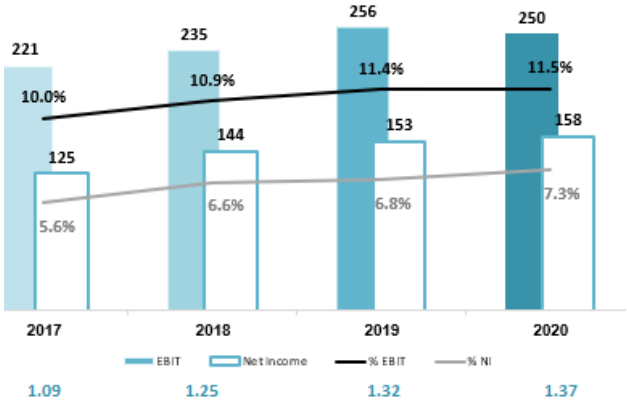
Net sales



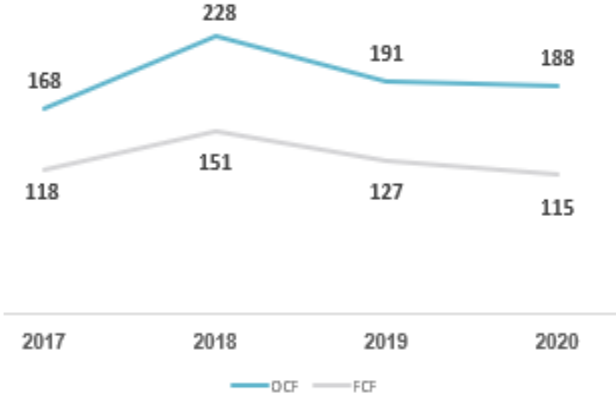
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow

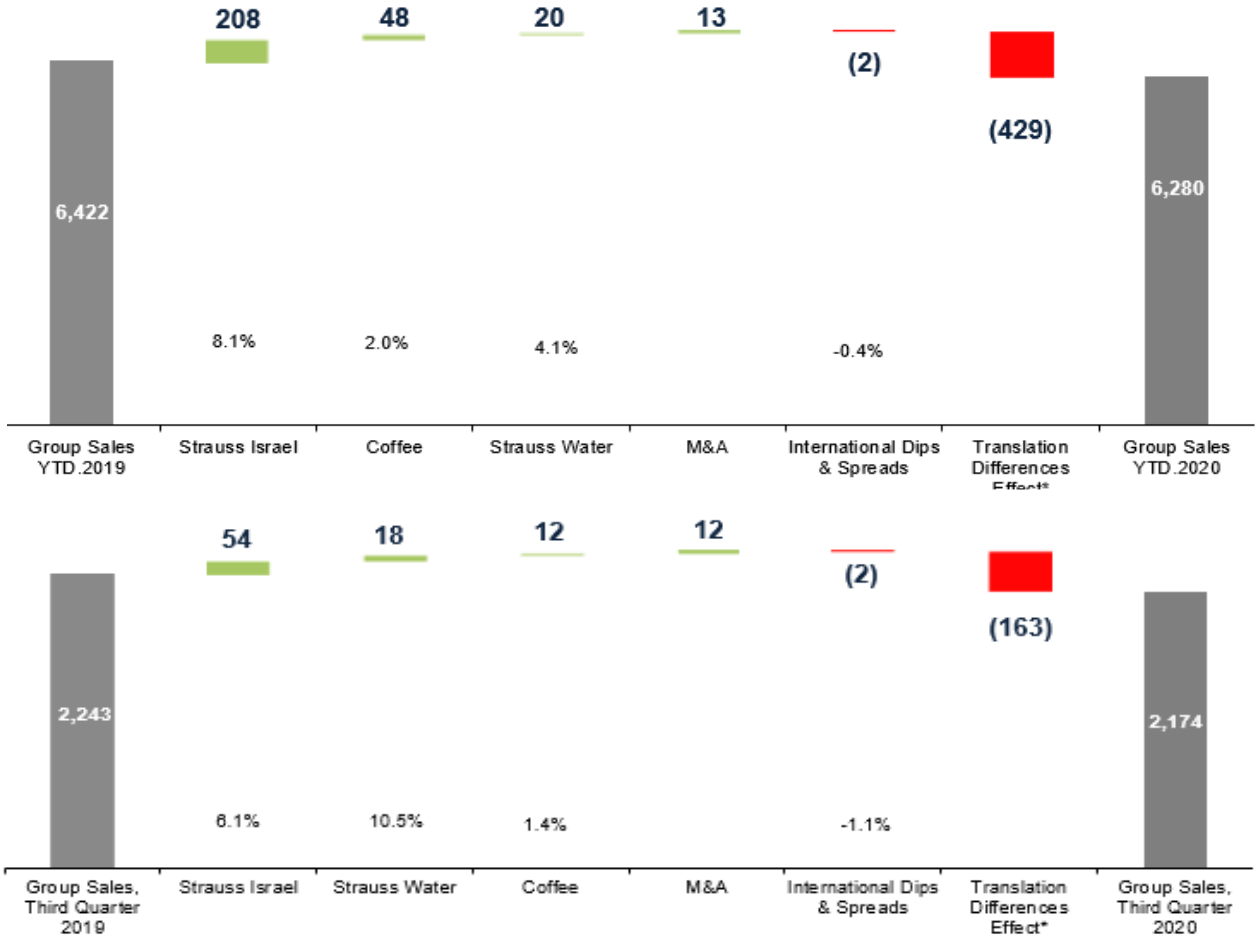


* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

3.1 Analysis of the Business Results of the Group

3.1.1 Sales – non-GAAP

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



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

The Group's sales in the first nine months of 2020 were impacted by negative translation differences amounting to approximately NIS 429 million, of which NIS 351 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 third quarter the Group's sales were affected by negative translation differences amounting to approximately NIS 163 million, of which NIS 136 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 **in local currency** was the result of the following factors:

- Inorganic growth in the Group's sales (in the first nine months and third quarter of 2020, approximately NIS 13 million and NIS 12 million, respectively, compared to the corresponding periods last year), primarily as a result of the acquisition of Mitsui Alimentos Ltda. in Brazil (see section 3.2.1.1.1 below for further information).
- 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.
- See section 2.1.1 above for further explanations on the sales trend by sales channel.

3.1.2 Gross Profit – Non-GAAP

	First Nine Months				Third Quarter			
	2020	2019	% Chg	% chg less translation differences effect	2020	2019	% Chg	% chg less translation differences effect
Gross profit	2,445	2,554	(4.2%)	0.9%	824	887	(7.1%)	(1.6%)
Gross profit margin	38.9%	39.8%			37.9%	39.6%		

The Group's non-GAAP gross profit in the first nine months of 2020 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 130 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 105 million) (see also the exchange rate table in section 2.4 in this report).

In the third quarter, the Group's non-GAAP gross profit was negatively affected by translation differences into Shekels, which amounted to approximately NIS 48 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 40 million) (see also the exchange rate table in section 2.4 in this report).

The Group's non-GAAP gross profit in the first nine months and third quarter of the year dropped by approximately NIS 109 million and NIS 63 million, respectively, compared to the corresponding periods last year:

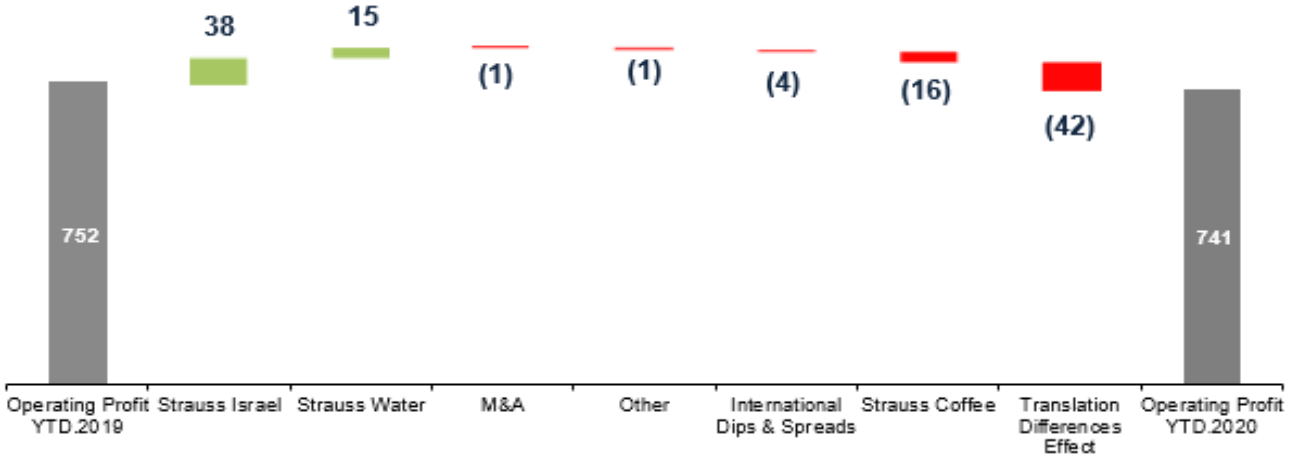
- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments dropped in the first nine months by approximately NIS 19 million and in the third quarter remained unchanged, compared to the corresponding periods last year. The decrease in gross profit is 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.

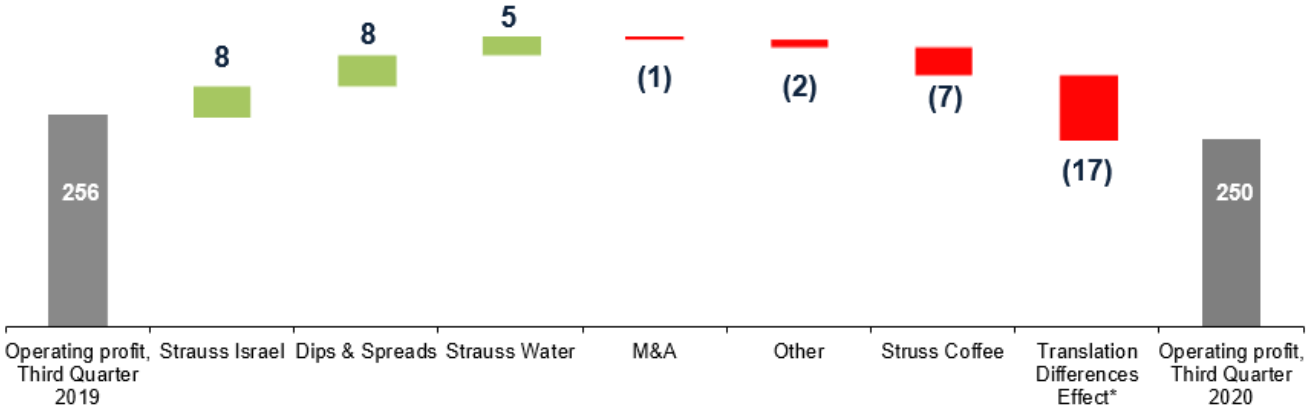
3.1.3 Operating Profit before Other Expenses – Non-GAAP

	First Nine Months				Third Quarter			
	2020	2019	% Chg	% chg less translation differences effect	2020	2019	% Chg	% chg less translation differences effect
Operating profit (EBIT)	741	752	(1.5%)	4.4%	250	256	(2.3%)	4.8%
Operating profit margin	11.8%	11.7%			11.5%	11.4%		

The Group's non-GAAP operating profit (EBIT) in the first nine months and third quarter of 2020 decreased by approximately NIS 11 million and NIS 6 million, respectively, and was adversely affected by negative translation differences into Shekels, which amounted to approximately NIS 42 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:





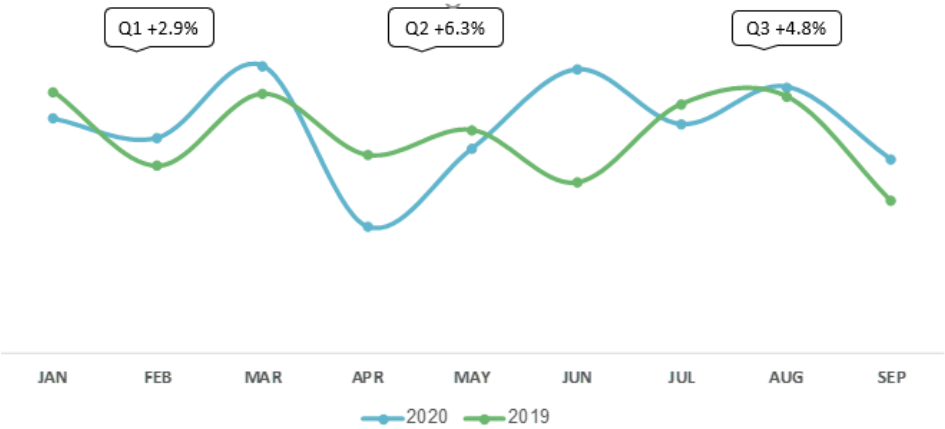
* The translation differences effect is calculated according to the average exchange rates in the relevant period.

The change in the Group's operating profit in the first nine months and third quarter of 2020 was the result of the following:

- A decrease of approximately NIS 1 million and NIS 2 million in EBIT of the Other Operations segment in the first nine months and third quarter, respectively, compared to the corresponding periods last year.
- See section 3.2.1 below for further explanations on the change in operating profit in the Coffee segment.
- See section 3.2.2 below for further explanations on the change in operating profit in the Strauss Israel segment.
- See section 3.2.3 below for further explanations on the change in operating profit in the International Dips & Spreads segment.
- See section 3.2.4 below for further explanations on the change in operating profit in the Strauss Water segment.

In the third quarter, the trend of improvement in the operating profit continued.

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 (GAAP Reports))

In the first nine months of 2020 the GAAP comprehensive income amounted to approximately NIS 220 million, compared to comprehensive income of NIS 263 million in the corresponding period last year. In the reporting period losses from translation differences, which are the main component of other comprehensive income, amounted to approximately NIS 283 million, compared to foreign currency translation losses of NIS 202 million in the corresponding period last year.

Foreign currency translation losses in the nine months are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 213 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 third quarter of the year the GAAP comprehensive income amounted to approximately NIS 144 million, compared to comprehensive income of NIS 22 million in the corresponding period last year. In the reporting period losses from translation differences, which are the main component of other comprehensive income, amounted to approximately NIS 41 million, compared to foreign currency translation losses of NIS 136 million in the corresponding period last year.

Foreign currency translation losses in the third quarter mainly originated in the operations of Strauss Coffee; of said losses, approximately NIS 24 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of the third quarter of 2020.

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

	First Nine Months			Explanation
	2020	2019	Change	
Cash flows from operating activities	532	431	101	Most of the increase is the result of the increase in profit and change in working capital compared to the corresponding period last year, mainly due to a change in receivables, which was partially offset by an increase in income tax paid following tax rebates for prior years received in the corresponding period last year.
Cash flows used in investing activities	(270)	(23)	(247)	Most of the change is due to an increase in deposits in the current period versus encashment of a deposit in the corresponding period in 2019, and the grant of a long-term loan in the current period (for further information on the loan, see section 3.2.4.1 below).
Cash flows used in financing activities	(93)	(440)	347	The change is primarily due to the proceeds from the issuance of the Series F Debentures versus prepayment of long-term loans (see Notes 4.8 and 8.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020), as well as current repayments of loans and debentures.

	Third Quarter			Explanation
	2020	2019	Change	
Cash flows from operating activities	163	120	43	Most of the increase is the result of the increase in profit and the change in working capital compared to the corresponding period last year, which was partially offset by an increase in interest paid (which includes, *inter alia*, a loss on prepayment; see Notes 4.8 and 8.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020).
Cash flows used in investing activities	(110)	(15)	(95)	Most of the change is due to an increase in deposits in the current period, which was partially offset by dividends received from associates.
Cash flows from (used in) financing activities	224	(110)	334	The change is primarily due to the proceeds from the issuance of the Series F Debentures versus prepayment of long-term loans (see Notes 4.8 and 8.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020), as well as current repayments of loans and debentures.

Following is information on average credit volumes:

	First Nine Months			Third Quarter			Explanation
	2020	2019	Change	2020	2019	Change	
Average long-term credit volume according to the Non-GAAP Reports	2,606	2,723	(117)	2,741	2,726	15	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 loans and credit and lease liabilities, and was offset by an increase in debentures due to the issuance of the Series F Debentures.
Average short-term credit volume according to the Non-GAAP Reports	256	146	110	246	160	86	
Average long-term credit volume according to the Financial Statements	2,375	2,502	(127)	2,497	2,513	(16)	
Average short-term credit volume according to the Financial Statements	42	21	21	28	16	12	

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

	First Nine Months		Third Quarter	
	2020	2019	2020	2019
Change in net working capital, Financial Statements	(25)	(160)	(32)	(68)
Change in net working capital, Non-GAAP Reports	(223)	(315)	(77)	(82)

Additional information

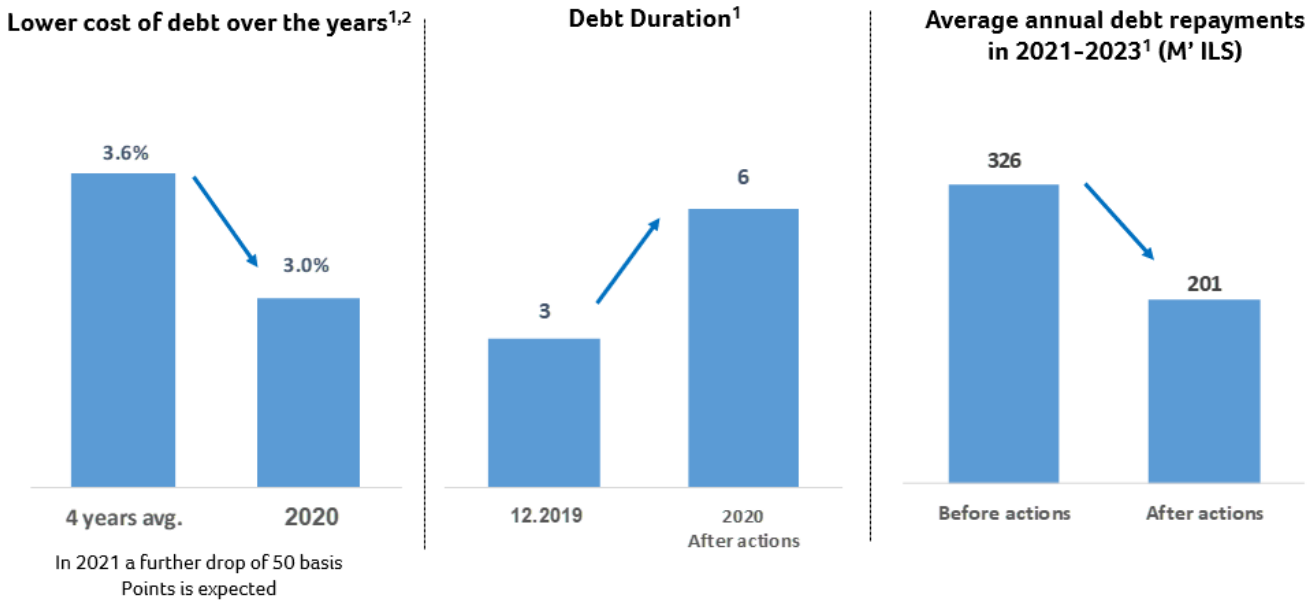
	September 30, 2020	December 31, 2019
Liquidity ratio	1.34	1.12
Liabilities in respect of long-term loans and credit (including current maturities)	2,537	2,411
Short-term credit (excluding current maturities)	19	8
Supplier credit	772	732
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	33.4%	34.6%
Net financial debt-to-EBITDA ratio according to the Financial Statements	1.5	1.7
Net financial debt-to-EBITDA ratio according to the Non-GAAP Reports	1.6	1.6
Equity attributable to the shareholders of the Company	2,276	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 redeemed in their entirety, see Note 8.3 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020.

On September 30, 2020, the Company's equity was NIS 2,276 million. The financial debt-to-EBITDA ratio according to the Financial Statements was 1.5, and the equity-to-assets ratio was 33.4%. As at September 30, 2020 the Company is in compliance with the required covenants.

Further to the issuance of debentures (Series F) as described above and at the date of this report, the Company effected a prepayment of loans from financial institutions at an amount of approximately NIS 444 million (of which payments of principal amounting to NIS 105 million were paid in accordance with the original payment date) (see also Notes 4.8, 8.4 and 9.2 to the Condensed Consolidated Interim Financial Statements as at September 30, 2020), and plans to effect additional prepayments of loans at an amount of approximately NIS 108 million by the end of the year (of which payments of principal amounting to NIS 35 million will be paid in accordance with the original payment date). The purpose of these actions is to ensure business continuity while ensuring the Company's ability to continue to invest in its growth. The issuance of the debentures and the prepayments will lead to a significant extension of the average life of the debt from three to six years, 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 fourth quarter 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 upgrade to an Aa1.il rating with stable outlook.

On July 5, 2020 the Company reported that Midroog had assigned an Aa1.il rating with stable outlook 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+ with rating with stable outlook 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 Nine Months		**Third Quarter**		**Year Ended December 31**
	2020	**2019**	**2020**	**2019**	**2019**
Cash flow from operating activities (according to the Non-GAAP Report)	541	546	188	191	930
Acquisition of fixed assets and investment in intangibles, net (according to the Non-GAAP Report)	206	224	73	64	332
Net debt balance (according to the Non-GAAP Report) as at the reporting date	1,993	2,275	1,993	2,275	2,023
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	261	248	89	86	337
Strauss Israel:					
Health & Wellness	68	59	24	21	82
Fun & Indulgence	47	44	17	15	58
Strauss Coffee:					
Israel Coffee	28	27	9	10	36
International Coffee	56	56	19	19	75
International Dips & Spreads	20	20	7	6	26
Strauss Water	26	28	7	10	38
Other	16	14	6	5	22

The Group's EBITDA (non-GAAP) totaled approximately NIS 1,002 million in the first nine months of 2020 compared to NIS 1,000 million in the corresponding period in 2019, an increase of 0.2%.

In the third quarter of the year the Group's EBITDA (non-GAAP) totaled approximately NIS 339 million, compared to NIS 342 million in the corresponding period last year, a decrease of 0.7%.

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

3.2.1 Strauss Coffee

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

	First Nine Months			Explanation
	2020	2019	% Chg	
Israel Coffee				
Net sales	543	583	(6.8%)	The drop in sales in the first nine months 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	126	128	(1.9%)	The decrease in operating profit in the first nine months of 2020 was primarily the result of the drop in sales, as mentioned. The increase in the operating profit margin is mainly due to the decrease in operating expenses.
% operating profit	23.1%	22.0%		
International Coffee				
Net sales	1,902	2,210	(13.9%)	Coffee sales in the first nine months of 2020 were negatively affected by the appreciation of the Shekel against the functional currencies (notably the Brazilian Real) compared to the corresponding period last year. The increase in coffee sales in local currency in the nine months mainly reflects growth in quantities sold in most geographies. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	157	210	(25.3%)	The change in the operating profit of the International Coffee segment in the first nine months of this year reflects: • A decrease in the operating profit of the Três Corações joint venture in Brazil[1] in the nine months, mainly as a result of an increase in green coffee prices in Brazil and a drop in sales prices, which was partially offset by an increase in quantities sold. • The operating profit and profit margin in Russia grew in the first nine months of 2020 compared to the corresponding period, mainly as a result of growth in quantities sold following increased demand, and was partially offset by an increase in operating expenses. Operating profit in the first nine months of 2020 was negatively affected by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year.
% operating profit	8.3%	9.5%		
Total Strauss Coffee				
Net sales	**2,445**	**2,793**	**(12.4%)**	In the first nine months of 2020 Strauss Coffee's sales dropped by approximately NIS 348 million compared to the corresponding period. Translation differences into Shekels in the nine months had a negative impact on sales by the Strauss Coffee segment and amounted to NIS 409 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 351 million.
Organic growth excluding foreign currency effects	**2.0%**	**0.1%**		
Gross profit	**844**	**1,022**	**(17.3%)**	The decrease in the gross profit margin in the first nine months of 2020 is mainly the result of an increase in green coffee prices and a drop in sales prices in Brazil as well as rising manufacturing costs, which were partially offset by growth in quantities sold. Gross profit in the first nine months was adversely impacted by the appreciation of the Shekel against the functional currencies compared to the corresponding period last year.
% gross profit	**34.5%**	**36.6%**		
Operating profit	**283**	**338**	**(16.4%)**	The decrease in the operating profit margin is mainly the result of the drop in the gross profit margin, and was mostly offset by a decrease in selling and marketing expenses.
% operating profit	**11.6%**	**12.1%**		

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

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

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

	Third Quarter			Explanation
	2020	2019	% Chg	
Israel Coffee				
Net sales	175	196	(10.4%)	The drop in sales in the third 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.
Operating profit	40	42	(6.5%)	The decrease in operating profit in the third quarter of 2020 compared to the corresponding period last year is mainly the result of the drop in sales as mentioned above. The increase in the operating profit margin is mainly the result of the decrease in operating expenses.
% operating profit	22.5%	21.5%		
International Coffee				
Net sales	676	790	(14.4%)	Coffee sales in the third 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 third quarter of the year mainly reflects growth in quantities sold in all countries of operations. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	63	85	(25.7%)	The change in the operating profit of the International Coffee segment in the third quarter of 2020 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. • An increase in operating profit in most CEE countries in the third quarter, primarily as a result of growth in quantities sold and savings in selling and marketing expenses. Operating profit in the third 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	9.4%	10.8%		
Total Strauss Coffee				
Net sales	**851**	**986**	**(13.6%)**	In the third quarter of 2020 Strauss Coffee's sales dropped by approximately NIS 135 million compared to the corresponding period. Translation differences into Shekels in the quarter had a negative impact on sales by the coffee company and amounted to NIS 159 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 136 million.
Organic growth excluding foreign currency effects	**1.4%**	**5.1%**		
Gross profit	**279**	**358**	**(21.7%)**	The decrease in the gross profit margin in the third quarter of 2020 is mainly the result of an increase in green coffee prices in Brazil and rising manufacturing costs, which was partially offset by growth in quantities sold. Gross profit in the third 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	**32.9%**	**36.3%**		
Operating profit	**103**	**127**	**(19.4%)**	The decrease in the operating profit margin is mainly the result of the drop in the gross profit margin, and was partially offset by savings in selling and marketing expenses.
% operating profit	**12.1%**	**12.9%**		

* 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).

3.2.1.1 Strauss Coffee sales by major geographical regions

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

Geographical region	First Nine Months				Explanation
	2020	2019	% Chg	% change in local currency**	
Israel Coffee	**543**	**583**	**(6.8%)**	**(6.8%)**	Most of the drop in sales in the first nine months 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%	1,084	1,356	(20.1%)	7.8%	Growth in the Três Corações joint venture's[1] local currency sales is due to growth in quantities sold, mainly in the retail chains, and to growth in the green coffee export business. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	408	414	(1.6%)	8.3%	Most of the growth in local currency sales is the result of an increase in quantities sold in Russia, mainly in the retail chains. During the third quarter an innovative distribution center was inaugurated in Ukraine. The Company's sales in the first nine months of 2020 were adversely affected by a total amount of approximately NIS 38 million compared to the corresponding period last year following the appreciation of the Shekel against the Russian Ruble and Ukrainian Hryvnia.
Poland	207	207	0.3%	6.4%	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 nine months of 2020 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 12 million) compared to the corresponding period last year.
Romania	120	135	(11.2%)	(7.0%)	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 first nine months 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	83	98	(15.0%)	(12.9%)	The drop in local currency sales is mainly the result of a decrease in quantities sold in the period, compared to the corresponding period last year. The Company's sales in the first nine months of 2020 were negatively affected by the depreciation of the Serbian Dinar against the Shekel (approximately NIS 2 million) compared to the corresponding period last year.
Total International Coffee	**1,902**	**2,210**	**(13.9%)**	**5.6%**	
Total Coffee	**2,445**	**2,793**	**(12.4%)**	**2.6%**	

* 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.

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

Geographical region	Third Quarter				Explanation
	2020	2019	% Chg	% change in local currency**	
Israel Coffee	**175**	**196**	**(10.4%)**	**(10.4%)**	The drop in sales in the third 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.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	375	476	(21.3%)	10.0%	Growth in the Três Corações joint venture's[1] local currency sales is due to growth in quantities sold in most categories, to the acquisition of Mitsui Alimentos Ltda. in Brazil and to growth in the green coffee export business. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	148	162	(9.1%)	5.5%	Growth in local currency sales is mainly the result of an increase in quantities sold in Russia and Ukraine, mainly in the retail chains, due to increased demand following the COVID-19 outbreak. During the third quarter an innovative distribution center was inaugurated in Ukraine. The Company's sales in the third quarter of 2020 were adversely affected by a total amount of approximately NIS 22 million compared to the corresponding period last year following the appreciation of the Shekel against the Russian Ruble and Ukrainian Hryvnia.
Poland	71	72	(0.7%)	0.3%	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, which was offset by a drop in sales prices. The Company's sales in the third quarter of 2020 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 1 million) compared to the corresponding period last year.
Romania	49	47	3.8%	4.3%	The increase in local currency sales is mainly the result of growth in quantities sold compared to the corresponding period last year. There was no material foreign currency effect on the Company's sales in the third quarter of 2020 compared to the corresponding period.
Serbia	33	33	2.0%	(0.2%)	The drop in local currency sales is mainly the result of the sales mix and was partially offset by an increase in quantities sold in the period compared to the corresponding period last year. The Company's sales in the third quarter of 2020 were positively affected by the appreciation of the Serbian Dinar against the Shekel (approximately NIS 1 million) compared to the corresponding period last year.
Total International Coffee	**676**	**790**	**(14.4%)**	**6.9%**	
Total Coffee	**851**	**986**	**(13.6%)**	**2.8%**	

* 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 nine months of 2020 the Três Corações joint venture's[1] average value market share in roast and ground (R&G) coffee was approximately 31.0%, compared to 28.9% in the corresponding period last year. It is noted that market share includes growth as a result of the acquisition of Mitsui Alimentos Ltda., which contributed approximately 2.2%. Excluding the acquisition of Mitsui, market share was approximately 0.1% lower (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 nine months of 2020 the Três Corações joint venture's[1] local currency revenues grew by approximately 7.8% (7.8% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee).
The increase in the Três Corações joint venture's[1] local currency revenues in the first nine months of the year reflects growth in sales volumes, mostly in the retail chains, as well as growth in green coffee exports.

In the third quarter of the year the Três Corações joint venture's[1] local currency revenues grew by approximately 10.0% (9.9% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee).
The increase in the Três Corações joint venture's[1] local currency sales in the third quarter reflects growth in sales volumes and the acquisition of the shares and business of Mitsui Alimentos.

The Três Corações joint venture's[1] Shekel sales in the first nine months and third quarter of the year were negatively affected by the appreciation of the Shekel against the Brazilian Real, with the resulting impact amounting to NIS 351 million and NIS 136 million, respectively, compared to the corresponding periods last year.

The Três Corações joint venture's[1] gross profit in local currency dropped 5.0% in the first nine months and amounted to approximately BRL 424 million (approximately NIS 291 million). In the nine months, Três Corações' gross profit margin fell 3.5% and amounted to 26.7%. 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 third quarter of 2020, the Três Corações joint venture's[1] gross profit in local currency dropped 9.5% and amounted to approximately BRL 147 million (approximately NIS 94 million). In the third quarter, Três Corações' gross profit margin fell 5.3% and amounted to 25.0%. 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 nine months by approximately 18.4% and amounted to approximately BRL 112 million (NIS 75 million), mainly as a result of the drop in the gross profit margin (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Company).

In the third quarter of the year, the operating profit (before other income/expenses) in Brazilian Reals fell by approximately 21.5% and amounted to approximately BRL 42 million (NIS 26 million), mainly as a result of the drop in the gross profit margin (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Company).

In February 2020 the Três Corações joint venture[1] in Brazil established a joint venture with a company that manufactures and sells health products in the dairy substitute category (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. The transaction was closed on July 31, 2020 following the satisfaction of all suspending conditions under the agreement (including receipt of approval by the Commissioner of CADE, the Brazilian Competition Authority). After additional adjustments made on the closing date, the total consideration amounted to approximately BRL 264 million (approximately NIS 162 million; the Group's share is approximately NIS 81 million), of which BRL 242 million are payable in cash and BRL 22 million are a contingent payment. On the acquisition date, the acquiree's cash balance was approximately BRL 33 million, and accordingly, the cash payment less the acquiree's cash balance is approximately BRL 209 million (approximately NIS 128 million; the Group's share is approximately NIS 64 million).

(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 third quarter of 2020, according to StoreNext[1] figures, held a 12.1% 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 0.1% compared to the corresponding period. The Israeli market is the Group's home market, where the Company is active in various product categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew 8.1% in value terms in the first nine months of 2020, whereas according to StoreNext, the Israeli food and beverage market rose by 8.7% in value. The Group estimates that the difference is due to strong growth in categories in which Strauss is not active, such as fish and meat, wine, beer and alcoholic beverages, and canned foods.

According to StoreNext, Strauss's market share grew 0.1% in relevant categories in which the Group is active.

Sales by all of Strauss 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 Nine Months			Third Quarter		
	2020	2019	% Chg	2020	2019	% Chg
The Group's sales in Israel	3,794	3,610	5.1%	1,303	1,255	3.9%

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

In July 2020, the vegetable factory moved from Sde Nitzan to a new factory in Kibbutz Bror Hayil.

[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 nine months and quarters ended September 30, 2020 and 2019 (in NIS millions)*:

	First Nine Months			Third Quarter			Explanation
	2020	2019	% Chg	2020	2019	% Chg	
Net sales	2,787	2,579	8.1%	953	899	6.1%	The increase in sales in the first nine months of 2020 compared to the corresponding period last year reflects volume growth in most units, which was the result of high growth in in-home consumption and increased demand following the COVID-19 outbreak. Most of the growth was in the yogurt, dairy dessert, milk beverage, chocolate tablet and packaged salads categories, as well as the products of Yad Mordechai Strauss Apiary Ltd. The drop in sales by the Fun & Indulgence segment in the third quarter was mainly due to a drop in sales of single serve confectionery and snack products which are mainly consumed away from home, a decrease in purchases of impulse products, and to consumers refraining from social gatherings due to the COVID-19 outbreak.
Gross profit	1,112	1,024	8.6%	374	358	4.4%	The increase in gross profit is attributed to growth in sales volumes. The drop in the gross profit margin in the third quarter is mainly the result of a negative sales mix and the adverse impact on sales to the institutional and AFH market following the COVID-19 outbreak.
% gross profit	39.9%	39.7%		39.3%	39.9%		
Operating profit	328	290	13.3%	106	98	8.6%	The growth in operating profit and the operating profit margin in the nine months and third quarter mainly reflects growth in sales volumes and the streamlining of general overhead costs following the implementation of cross-organizational efficiency enhancement processes. The drop 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	11.8%	11.2%		11.1%	10.9%		

	First Nine Months			Third Quarter		
	2020	2019	% Chg	2020	2019	% Chg
Health & Wellness						
Net sales	1,911	1,712	11.6%	676	613	10.4%
Operating profit	235	189	24.9%	86	70	23.5%
% operating profit	12.3%	11.0%		12.7%	11.4%	
Fun & Indulgence						
Net sales	876	867	1.0%	277	286	(3.2%)
Operating profit	93	101	(8.3%)	20	28	(28.6%)
% operating profit	10.6%	11.7%		7.2%	9.8%	

* 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, through Obela in Mexico, Australia and New Zealand, and through Obela and the Florentin brand in 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 39 weeks ended September 30, 2020 was 61.9%, compared to 62.2% 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 Nine Months			Third Quarter			Explanation
	2020	2019	% Chg	2020	2019	% Chg	
Sales	1,001	1,043	(4.1%)	327	345	(5.4%)	In the first nine months and third quarter of 2020 Sabra's sales decreased by approximately NIS 42 million and NIS 18 million, respectively, compared to the corresponding periods last year. Excluding foreign currency effects, the drop in Sabra's sales in the nine months and quarter amounted to 1.1% and 2.4%, respectively, compared to the corresponding periods last year. The decrease in sales in the nine months and quarter is mainly due to the COVID-19 outbreak in the US, which caused a drop in sales, mainly in the AFH market. Sabra's sales in the first nine months and third quarter of the year were negatively affected by translation differences of approximately NIS 32 million and NIS 10 million, respectively, compared to the corresponding periods last year (of which NIS approximately 16 million and NIS 5 million are the Company's share).
Organic growth excluding foreign currency effects	(1.1%)	6.1%		(2.4%)	5.2%		
Operating profit before other expenses	118	138	(14.8%)	38	24	56.6%	The operating profit in the first nine months dropped by approximately NIS 20 million and rose by NIS 14 million in the third quarter, compared to the corresponding periods last year. The drop in EBIT and the EBIT margin in the nine months is due to the drop in sales and a change in the sales mix following increased in-home consumption as a result of the COVID-19 outbreak in the US. The increase in the operating profit and operating profit margin in the third quarter is mainly due to lower marketing expenses compared to the corresponding period last year as a result of the high cost of advertising in the American Super Bowl in the first quarter. The operating profit in the first nine months and third quarter was negatively affected by the depreciation of the US Dollar against the Shekel (approximately NIS 5 million and NIS 2 million, respectively) compared to the corresponding periods.
% operating profit	11.8%	13.3%		11.5%	7.0%		

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

3.2.3.2 Obela

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

	First Nine Months			Third Quarter		
	2020	2019	% Chg	2020	2019	% Chg
Sales	120	122	(1.4%)	44	40	10.5%
Organic growth excluding foreign currency effects	5.2%	11.4%		10.4%	10.2%	
Operating loss	(10)	(14)	27.4%	(3)	(3)	(3.6%)

* 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 nine months and quarters ended September 30, 2020 and 2019 (in NIS millions)*:

	First Nine Months			Third Quarter			Explanation
	2020	2019	% Chg	2020	2019	% Chg	
Net sales	487	467	4.1%	184	165	10.5%	Most of the growth in the first nine months and third quarter of 2020 compared to the corresponding periods last year is the result of growth in the customer base and in the number of appliances sold in the third quarter in Israel, as well as growth in the business in the UK.
Operating profit	70	55	27.0%	25	20	24.2%	The increase in operating profit in the first nine months 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) received in the second quarter, and growth in the customer base. The increase in EBIT in the third quarter compared to the corresponding period mainly reflects increased water bar sales and growth in the Company's share of the profit of HSW. Excluding the profit of HSW, in the first nine months of 2020 the operating profit rose by approximately NIS 2 million, and the EBIT margin rose by 0.1% and amounted to 7.0% compared to last year. Excluding the profit of HSW, in the third quarter the operating profit rose by NIS 2 million, and the EBIT margin rose by 0.6% and amounted to 7.2% compared to last year.
% operating profit	14.5%	11.9%		13.7%	12.2%		

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

3.2.4.1 Results of Haier Strauss Water (HSW)

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

	First Nine Months			Third Quarter			Explanation
	2020	2019	% Chg	2020	2019	% Chg	
Sales	387	429	(10.0%)	142	134	5.3%	The first nine months were marked by a negative growth trend (in the third quarter the growth trend was positive), primarily as a result of the impacts of COVID-19, which were mainly felt in the first quarter of 2020, followed by recovery in subsequent quarters.
Organic growth excluding foreign currency effects	(5.4%)	10.0%		6.8%	(1.5%)		
Net profit	77	52	47.5%	26	20	25.4%	The increase in net profit in the first nine months is mainly the result of 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. The increase in net profit in the third quarter is mainly the result of sales growth.
Change excluding foreign currency effects	54.8%	42.7%		27.8%	36.7%		

* 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 end until the second half of 2021. 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 September 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 Other Operations

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

4. ASPECTS OF CORPORATE GOVERNANCE

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

On October 29, 2020 the Board of Directors appointed Ms. Tzipi Ozer-Armon as an expert director of the Company. For further information, see the Immediate Report published by the Company on October 29, 2020 (reference number 2020-01-117186).

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

		Series D Debentures	Series E Debentures	Series F Debentures
A.	Nominal/par value	172	573	700
B.	Carrying value of debentures	174	569	692
C.	Carrying value of interest payable	-	3	3
D.	Market value	185	627	718

7. STATUS OF LIABILITIES REPORT ACCORDING TO PAYMENT DATES

See Form T-126, which was 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 September 30, 2020 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at September 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 September 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

November 17, 2020

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS
AS AT SEPTEMBER 30, 2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

Contents

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	September 30 2020	September 30 2019	December 31 2019
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	689	386	525
Securities and deposits	120	11	-
Trade receivables	1,080	1,124	999
Income tax receivables	6	2	2
Other receivables and debit balances	113	99	119
Inventory	549	562	543
Assets held for sale	12	14	15
Total current assets	2,569	2,198	2,203
Investments and non-current assets			
Investment in equity-accounted investees	1,265	1,335	1,332
Other investments and long-term debt balances	116	93	92
Fixed assets	1,737	1,720	1,746
Right-of-use assets	201	266	265
Intangible assets	910	909	931
Investment property	4	5	4
Deferred tax assets	17	18	17
Total investments and non-current assets	4,250	4,346	4,387
Total assets	6,819	6,544	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: November 17, 2020

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

	September 30 2020	September 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	274	402	398
Current maturities of lease liabilities	81	90	93
Trade payables	772	710	732
Income tax payables	114	118	96
Other payables and credit balances	588	592	552
Provisions	28	31	27
Total current liabilities	1,924	2,005	1,960
Non-current liabilities			
Debentures	1,368	743	743
Long-term loans and other long-term liabilities	621	995	923
Lease liabilities	145	205	200
Long-term payables and credit balances	26	24	15
Employee benefits, net	49	53	48
Deferred tax liabilities	252	263	271
Total non-current liabilities	2,461	2,283	2,200
Equity and reserves			
Share capital	253	252	253
Share premium	1,051	1,051	1,051
Reserves	(2,122)	(1,878)	(1,838)
Retained earnings	3,094	2,692	2,811
Total equity attributable to the shareholders of the Company	2,276	2,117	2,277
Non-controlling interests	158	139	153
Total equity	2,434	2,256	2,430
Total liabilities and equity	6,819	6,544	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 nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Sales	4,419	4,272	1,541	1,504	5,695
Cost of sales	2,622	2,515	913	892	3,347
Gross profit	1,797	1,757	628	612	2,348
Selling and marketing expenses	972	979	336	343	1,320
General and administrative expenses	301	297	97	99	416
	1,273	1,276	433	442	1,736
Share of profit of equity-accounted investees	182	218	64	65	270
Operating profit before other income (expenses)	706	699	259	235	882
Other income	2	1	1	1	3
Other expenses	(2)	(4)	(1)	(1)	(7)
Other expenses, net	-	(3)	-	-	(4)
Operating profit	706	696	259	235	878
Financing income	7	3	3	4	5
Financing expenses	(89)	(99)	(28)	(35)	(121)
Financing expenses, net	(82)	(96)	(25)	(31)	(116)
Income before taxes	624	600	234	204	762
Income tax	(121)	(131)	(48)	(44)	(168)
Income for the period	503	469	186	160	594
Attributable to:					
The shareholders of the Company	450	428	168	145	537
Non-controlling interests	53	41	18	15	57
Income for the period	503	469	186	160	594
Earnings per share					
Basic earnings per share (NIS)	3.88	3.71	1.45	1.25	4.65
Diluted earnings per share (NIS)	3.84	3.67	1.44	1.24	4.60

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Income for the period	503	469	186	160	594
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:					
Foreign currency translation differences	(71)	(60)	(21)	(49)	(38)
Other comprehensive loss from equity-accounted investees	(212)	(142)	(20)	(87)	(126)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net	(283)	(202)	(41)	(136)	(164)
Other comprehensive loss items that will not be reclassified to profit or loss in subsequent periods, net:					
Changes in employee benefits, net	-	(4)	(1)	(2)	-
Total other comprehensive loss items that will not be reclassified to profit or loss in subsequent periods, net	-	(4)	(1)	(2)	-
Comprehensive income for the period	220	263	144	22	430
Attributable to:					
The shareholders of the Company	167	220	127	6	373
Non-controlling interests	53	43	17	16	57
Comprehensive income for the period	220	263	144	22	430

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Nine-month period ended September 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	-	-	-	-	-	450	450	53	503
Components of other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(71)	-	(71)	-	(71)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(212)	-	(212)	-	(212)
Total other comprehensive loss for the period, net of tax	-	-	-	-	(283)	-	(283)	-	(283)
Total comprehensive income (loss) for the period	-	-	-	-	(283)	450	167	53	220
Share-based payment	-	-	-	-	-	13	13	-	13
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 September 30, 2020	253	1,051	(20)	(393)	(1,709)	3,094	2,276	158	2,434

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Nine-month period ended September 30, 2019 – unaudited:									
Balance as at January 1, 2019	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246
Effect of first-time adoption of IFRS 16	-	-	-	-	-	(13)	(13)	-	(13)
Balance as at January 1, 2019 after first-time adoption	252	1,051	(20)	(392)	(1,262)	2,454	2,083	150	2,233
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	428	428	41	469
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(62)	-	(62)	2	(60)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(142)	-	(142)	-	(142)
Changes in employee benefits, net	-	-	-	-	-	(4)	(4)	-	(4)
Total other comprehensive income (loss) for the period, net of tax	-	-	-	-	(204)	(4)	(208)	2	(206)
Total comprehensive income (loss) for the period	-	-	-	-	(204)	424	220	43	263
Share-based payment	-	-	-	-	-	14	14	-	14
Dividend to shareholders of the Company	-	-	-	-	-	(200)	(200)	-	(200)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(54)	(54)
Balance as at September 30, 2019	252	1,051	(20)	(392)	(1,466)	2,692	2,117	139	2,256

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Three-month period ended September 30, 2020 – unaudited:									
Balance as at July 1, 2020	253	1,051	(20)	(393)	(1,669)	2,923	2,145	141	2,286
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	168	168	18	186
Components of other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(20)	-	(20)	(1)	(21)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(20)	-	(20)	-	(20)
Changes in employee benefits, net	-	-	-	-	-	(1)	(1)	-	(1)
Total other comprehensive loss for the period, net of tax	-	-	-	-	(40)	(1)	(41)	(1)	(42)
Total comprehensive income (loss) for the period	-	-	-	-	(40)	167	127	17	144
Share-based payment	-	-	-	-	-	4	4	-	4
Balance as at September 30, 2020	253	1,051	(20)	(393)	(1,709)	3,094	2,276	158	2,434

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

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

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

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.

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Cash flows from operating activities					
Income for the period	503	469	186	160	594
Adjustments:					
Depreciation	186	170	64	59	233
Amortization of intangible assets	23	23	8	8	32
Reversal of impairment loss of fixed assets, intangible assets and investment property, net	-	-	-	-	(2)
Other expenses, net	-	1	-	-	3
Expenses in respect of share-based payment	13	14	4	5	20
Financing expenses, net	82	96	25	31	116
Income tax expenses	121	131	48	44	168
Share of profit of equity-accounted investees	(182)	(218)	(64)	(65)	(270)
Change in inventory	(25)	(22)	46	31	-
Change in trade and other receivables	(90)	(165)	(132)	(138)	(65)
Change in long-term trade receivables	16	(11)	3	(4)	(12)
Change in trade and other payables	73	35	50	42	17
Change in employee benefits	1	3	1	1	3
Interest paid	(80)	(64)	(38)	(23)	(85)
Interest received	1	3	-	-	4
Income tax paid, net	(110)	(34)	(38)	(31)	(84)
Net cash provided by operating activities	532	431	163	120	672
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	(120)	61	(120)	-	71
Proceeds from sale of fixed assets, intangible assets and investment property	5	7	-	1	10
Investment in fixed assets	(120)	(111)	(40)	(33)	(181)
Investment in intangible assets	(36)	(34)	(16)	(11)	(49)
Repayment of loans granted	15	12	7	5	17
Loans granted (1)	(56)	(14)	(5)	(5)	(19)
Income from sublease	6	4	2	1	7
Dividends from investee companies	63	59	63	28	133
Investment in investee companies	(27)	(7)	(1)	(1)	(13)
Net cash used in investing activities	(270)	(23)	(110)	(15)	(24)

(1) For further information, see Note 4.4.

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

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

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Cash flows from financing activities					
Short-term bank credit, net	13	(8)	(51)	(8)	(18)
Proceeds from issuance of debentures, net of issuance costs (1)	691	-	691	-	-
Receipt of long-term loans	-	50	-	-	50
Repayment of long-term loans and debentures	(271)	(188)	(149)	(68)	(261)
Prepayment of long-term loans (2)	(261)	-	(261)	-	-
Change in liabilities in respect of credit card factoring	31	26	15	10	31
Exercise of share options	-	-	-	-	1
Payment of lease liabilities	(67)	(66)	(21)	(24)	(91)
Dividends paid	(180)	(200)	-	-	(200)
Dividend to non-controlling interests in a subsidiary	(49)	(54)	-	(20)	(54)
Net cash provided by financing activities	(93)	(440)	224	(110)	(542)
Increase (decrease) in cash and cash equivalents	169	(32)	277	(5)	106
Cash and cash equivalents at beginning of period	525	426	411	394	426
Effect of exchange rate fluctuations on cash balances	(5)	(8)	1	(3)	(7)
Cash and cash equivalents at end of period	689	386	689	386	525

(1) For further information, see Notes 4.8 and 8.3.
(2) For further information, see Note 8.4.

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 September 30, 2020 and for the nine-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 OBM (indirectly) through his holdings in Strauss Holdings Ltd. (hereinafter: "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. On October 17, 2020 the Company announced the passing of Mr. Michael Strauss OBM. After a court order with respect to his estate has been issued, the Company will announce the implications on the holdings in Strauss Holdings.

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 November 17, 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 the remaining 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. The effect of the application of the amendment on the financial statements was expressed in immaterial amounts.

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 nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Income					
Sales to external customers:					
Health & Wellness	1,911	1,712	676	613	2,277
Fun & Indulgence	876	867	277	286	1,134
Total Israel	2,787	2,579	953	899	3,411
Israel Coffee	543	583	175	196	754
International Coffee	1,902	2,210	676	790	2,972
Total Coffee	2,445	2,793	851	986	3,726
International Dips and Spreads	561	583	186	193	771
Water	487	467	184	165	628
Other	-	-	-	-	-
Sales to other segments:					
Health & Wellness	4	5	1	2	11
Fun & Indulgence	7	9	2	3	7
Total Israel	11	14	3	5	18
Israel Coffee	1	2	-	1	2
International Coffee	2	2	1	1	2
Total Coffee	3	4	1	2	4
Total segment income	6,294	6,440	2,178	2,250	8,558
Elimination of intersegment sales	(14)	(18)	(4)	(7)	(22)
Total segment income excluding intersegment sales	6,280	6,422	2,174	2,243	8,536
Adjustment to the equity method	(1,861)	(2,150)	(633)	(739)	(2,841)
Total consolidated income	4,419	4,272	1,541	1,504	5,695

Note 3 - Operating Segments (cont'd)

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Profit (loss)					
Health & Wellness	235	189	86	70	251
Fun & Indulgence	93	101	20	28	119
Total Israel	328	290	106	98	370
Israel Coffee	126	128	40	42	143
International Coffee	157	210	63	85	281
Total Coffee	283	338	103	127	424
International Dips and Spreads	54	62	17	10	71
Water	70	55	25	20	75
Other	6	7	(1)	1	(7)
Total segment profit	741	752	250	256	933
Unallocated income (expenses):					
Adjustments for commodity hedges (1)	1	(3)	19	(3)	15
Other expenses, net	(3)	(2)	(2)	-	(2)
Share-based payment	(13)	(14)	(4)	(5)	(20)
Total segment operating profit	726	733	263	248	926
Adjustment to the equity method	(20)	(37)	(4)	(13)	(48)
Total operating profit in the consolidated financial statements	706	696	259	235	878
Financing expenses, net	(82)	(96)	(25)	(31)	(116)
Income before taxes	624	600	234	204	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. The transaction was closed on July 31, 2020 following the satisfaction of all suspending conditions under the agreement (including receipt of approval by the Commissioner of CADE, the Brazilian Competition Authority). After additional adjustments made on the closing date, the total consideration amounted to approximately BRL 264 million (approximately NIS 162 million; the Group's share is approximately NIS 81 million), of which BRL 242 million are payable in cash and BRL 22 million are a contingent payment. On the acquisition date, the acquiree's cash balance was approximately BRL 33 million, and accordingly, the cash payment less the acquiree's cash balance is approximately BRL 209 million (approximately NIS 128 million; the Group's share is approximately NIS 64 million).

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 September 30, 2020 and 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 of products sold away-from-home (AFH) and impulse products. In the third quarter growth in the Group's sales continued, among other things as a result of an increase in in-home consumption of food products due to the lockdowns imposed on consumers and the closure of entertainment and dining venues.

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

In the third quarter and thereafter (through to the date of the report), demand for the Group's products remains high, but has slowed compared to the demand observed when the pandemic broke out and during the lockdown in March.

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.

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; said examination did not reveal signs of any impairment of said 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 in the second quarter.

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

4.7 In the reporting period the Company revised the estimate of the deferred tax liability and recorded income of approximately NIS 16 million, due, among other things, to the signing of an assessment agreement in Israel pertaining to the years 2015-2017.

4.8 In July 2020 the Company issued debentures (Series F), which were listed on the Tel Aviv Stock Exchange. For information on the debenture issue, see Note 8.3.

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 NIS M	Share price NIS	Exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %
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
August 16, 2020	46,666 to one manager	0.7	100.6	102.09	3.95-4.95	18.85-19.22	0.26-0.35
September 30, 2020	400,000 to the CEO	5.7	93.38	102.30	3.84-4.84	18.91-18.94	0.25-0.33

(*) The exercise price 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. The benefit arising from these grants will be classified as an expense on the financial statements over the abovementioned vesting periods.

5.2 Exercise in the reporting period

In the reporting period, 525,332 option warrants granted to managers (of which 27,439 are restricted stock) were exercised for 243,065 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 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 motion being accepted are less than 50%.

Note 6 – Contingent Liabilities (cont'd)

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 the monetary claim and the motion for its certification as a class action.

6.4 On September 7, 2020 a motion for class certification was filed with the Central District Court against the Company and the subsidiary, Strauss Health Ltd., pertaining to allegations of misleading in the labeling of the quantity of sugar present in products in the Gamadim series. The amount of the claim is approximately NIS 45 million, plus linkage differentials, interest and expenses. In the estimate of Company management and based on the position of its legal counsel, the chances of the claim being accepted are less than 50%.

6.5 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 97 million, pertaining to an alleged defect causing boiling water to be spattered by an appliance manufactured by the subsidiary, on October 19, 2020 the Tel Aviv – Jaffa District Court approved a consensual notice of withdrawal by the claimants from the monetary claim and the motion for its certification as a class action.

6.6 Further to Note 24.1.3.1 to the Annual Financial Statements and at the date of publication of this report, claims in the civil courts and other claims not mentioned in Note 24.1 to the Annual Financial Statements and in this Note amount to approximately NIS 86 million (NIS 58 million at the date of publication of the Annual Financial Statements), of which claims whose chances cannot be estimated amount to NIS 20 million.

The Company did not recognize a provision for claims pending as at September 30, 2020, which, in the opinion of its legal counsel, are not expected to be accepted, or the chances of which cannot be estimated.

Note 7 – Investment in Equity-Accounted Investees

7.1 Concise information on material equity-accounted investees:

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	September 30		December 31	September 30		December 31
	2020	2019	2019	2020	2019	2019
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Current assets	330	367	318	1,196	1,083	1,289
Of which:						
Cash and cash equivalents	97	116	77	290	167	462
Non-current assets	518	527	533	841	867	896
Total assets	848	894	851	2,037	1,950	2,185
Current liabilities	117	151	172	906	857	1,065
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	15	35	35	491	415	584
Non-current liabilities	100	75	66	364	123	115
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	89	64	55	283	93	99
Total liabilities	217	226	238	1,270	980	1,180

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

	Sabra Dipping Company					Três Corações Alimentos S.A.				
	For the nine months ended		For the three months ended		For the year ended	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited	Unaudited				Audited
	NIS millions									
Revenue	1,001	1,043	327	345	1,369	2,172	2,719	750	954	3,598
Income for the period	83	97	27	16	111	131	208	52	79	269
Other comprehensive income (loss)	(5)	(45)	(6)	(16)	(49)	(336)	(138)	(40)	(96)	(113)
Total comprehensive income (loss)	78	52	21	-	62	(205)	70	12	(17)	156
Of which:										
Depreciation and amortization	34	33	11	11	44	45	50	15	17	68
Interest income	1	-	1	-	1	10	7	2	2	11
Interest expenses	2	4	-	1	5	19	21	7	8	27
Income tax expenses	*(33)	*(38)	*(11)	*(7)	*(43)	(2)	(30)	5	(10)	(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 nine-month period ended on:			
September 30, 2020	0.69	0.61	(29.3)
September 30, 2019	0.92	0.84	(13.0)
For the three-month period ended on:			
September 30, 2020	0.64	0.61	(4.4)
September 30, 2019	0.89	0.84	(10.0)
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 38%.

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 deposits and 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:

	September 30, 2020		September 30, 2019		December 31, 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	Unaudited				Audited	
	NIS millions					
Series D Debentures	174	185	210	223	208	223
Series E Debentures	572	627	603	660	599	651
Series F Debentures	695	718	-	-	-	-

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.

	September 30, 2020		September 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	14	7	5	3	19	3
Trade payables- derivatives	(8)	(3)	(17)	(7)	(11)	(3)
	(6)	4	(12)	(4)	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.

Note 8 - Financial Instruments (cont'd)

8.3 In July 2020 the Company issued debentures (Series F), which were listed on TASE. The net proceeds from 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 8 - Financial Instruments (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).

On September 30, 2020 and in the reporting period, the Company was in compliance with all terms and conditions and obligations under the Trust Deed for the Series F Debentures.

8.4 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 (of which payments of principal of approximately NIS 105 million were repaid according to the original payment date). In the context of said prepayment, in the second quarter the Company recognized NIS 13 million in financing expenses as a result of the revision of expected cash flows (loss on prepayment).

8.5 On September 30, 2020 the Company revised the estimated expected cash flows of two long-term bank loans and a long-term loan received from an institutional body 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 7 million. In October 2020 the Company effected full prepayment of the two long-term bank loans at a total amount (principal and interest) of approximately NIS 56 million.

Note 9 – Events After the Statement of Financial Position Date

9.1 For information on developments in pending claims after the statement of financial position date, see Note 6.5.

9.2 For information on the prepayment of two bank loans after the statement of financial position date, see Note 8.5.

9.3 Further to Note 35.6.1 to the Annual Financial Statements with respect to entitlement to benefits under the Encouragement of Capital Investments Law, in October the Company paid the income tax authority approximately NIS 56 million, and consequently, to the extent that the Company's position is not accepted, the Company shall not be subject to any obligation in this respect.

STRAUSS GROUP LTD.

SEPARATE FINANCIAL

INFORMATION AS AT SEPTEMBER 30, 2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

Separate Interim Financial Information as at September 30, 2020

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Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Interim Information on Financial Position

	September 30 2020	September 30 2019	December 31 2019
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	343	203	235
Securities and deposits	120	-	-
Trade receivables	196	206	188
Other receivables and debit balances	40	40	33
Investee receivables	154	122	131
Inventory	127	120	136
Assets held for sale	5	7	9
Total current assets	985	698	732
Investments and non-current assets			
Investments in investees	2,214	2,077	2,134
Other investments and long-term debt balances	570	636	601
Right-of-use assets	94	138	141
Fixed assets	928	928	936
Investment property	3	3	3
Intangible assets	45	45	46
Total investments and non-current assets	3,854	3,827	3,861
Total assets	4,839	4,525	4,593

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

Date of approval of the separate financial information: November 17, 2020

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

Strauss Group Ltd.

Condensed Interim Information on Financial Position (cont'd)

	September 30 2020	September 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	35	198	197
Current maturities of lease liabilities	38	35	36
Trade payables	215	192	205
Income tax	40	39	36
Other payables and credit balances	238	241	237
Investee payables	220	197	143
Total current liabilities	853	964	916
Non-current liabilities			
Debentures	1,368	743	743
Long-term loans and other long-term liabilities	120	418	383
Lease liabilities	66	109	110
Long-term payables and credit balances	24	18	11
Employee benefits, net	28	29	26
Deferred tax liabilities	104	127	127
Total non-current liabilities	1,710	1,444	1,400
Total equity attributable to the shareholders of the Company	2,276	2,117	2,277
Total liabilities and equity	4,839	4,525	4,593

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Interim Information on Income

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Sales	795	785	253	256	1,022
Cost of sales	508	499	167	165	653
Gross profit	287	286	86	91	369
Selling and marketing expenses	174	175	55	59	231
General and administrative expenses	60	61	18	19	90
	234	236	73	78	321
Operating profit before other expenses	53	50	13	13	48
Other income	1	1	-	1	3
Other expenses	(1)	(3)	-	(2)	(3)
Other expenses, net	-	(2)	-	(1)	-
Operating profit	53	48	13	12	48
Financing income	20	16	9	5	21
Financing expenses	(62)	(73)	(21)	(22)	(87)
Financing expenses, net	(42)	(57)	(12)	(17)	(66)
Income (loss) before taxes	11	(9)	1	(5)	(18)
Income tax (expense)	(11)	(27)	(10)	(14)	(34)
Net income (loss) after taxes	-	(36)	(9)	(19)	(52)
Income from investees	450	464	177	164	589
Income for the period attributable to the shareholders of the Company	450	428	168	145	537

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

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019	December 31 2019
	Unaudited				Audited
	NIS Millions				
Income for the period attributable to the shareholders of the Company	450	428	168	145	537
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:					
Other comprehensive loss from investees	(283)	(204)	(40)	(137)	(164)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net of tax	(283)	(204)	(40)	(137)	(164)
Other comprehensive loss items that will not be reclassified to profit or loss in subsequent periods:					
Changes in employee benefits, net	-	(4)	(1)	(2)	-
Total other comprehensive loss items that will not be reclassified to profit or loss in subsequent periods, net of tax	-	(4)	(1)	(2)	-
Comprehensive income for the period attributable to the shareholders of the Company	167	220	127	6	373

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Interim Information on Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2020	September 30, 2019	September 30, 2020	September 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	450	428	168	145	537
Adjustments:					
Depreciation	74	66	27	23	90
Amortization of intangible assets	9	10	3	4	13
Other income, net	-	-	-	-	(1)
Expenses in respect of share-based payment	9	10	4	4	13
Profit from investees	(450)	(464)	(177)	(164)	(589)
Financing expenses, net	42	57	12	17	66
Income tax expense	11	27	10	14	34
Change in inventory	8	2	(1)	(7)	(13)
Change in trade and other receivables	(21)	(29)	(8)	(17)	(8)
Change in investee receivables	7	20	(6)	(25)	23
Change in trade and other payables	14	21	18	34	56
Change in investee payables	77	38	74	(62)	(17)
Change in employee benefits	1	2	-	-	4
Interest paid	(55)	(40)	(27)	(14)	(56)
Interest received	1	2	-	-	3
Income tax received (paid), net	(17)	19	(3)	(3)	2
Net cash provided by (used in) operating activities	160	169	94	(51)	157
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	(120)	70	(120)	-	70
Proceeds from sale of fixed and other assets	4	5	-	-	5
Investment in fixed assets	(37)	(41)	(12)	(13)	(63)
Investment in intangible assets	(8)	(8)	(4)	(3)	(11)
Repayment of long-term loans	10	6	5	3	10
Grant of long-term loans	(11)	(9)	(4)	(3)	(14)
Dividends from investees	107	107	-	80	221
Cash received in investing activities with investees	56	90	29	-	121
Cash paid in investing activities with investees	(49)	(5)	-	(1)	(36)
Net cash provided by (used in) investing activities	(48)	215	(106)	63	303
Cash flows from financing activities					
Repayment of debentures and long-term loans	(223)	(178)	(105)	(62)	(213)
Prepayment of loans	(261)	-	(261)	-	-
Short-term bank credit, net	-	-	(60)	-	-
Dividends paid	(180)	(200)	-	-	(200)
Proceeds from issuance of debentures, net of issuance costs	691	-	691	-	-
Repayment of principal of lease liabilities	(31)	(25)	(10)	(8)	(34)
Net cash provided by (used in) financing activities	(4)	(403)	255	(70)	(447)
Net increase (decrease) in cash and cash equivalents	108	(19)	243	(58)	13
Cash and cash equivalents as at beginning of period	235	222	100	261	222
Cash and cash equivalents as at end of period	343	203	343	203	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 September 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. For further information on the prepayment of the loan, see Note 7.

3.2 In the reporting period, the subsidiary Strauss Salads Trade Ltd. repaid a capital note at an amount of NIS 21 million.

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

Note 4 - Share-Based Payment

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

Note 5 - Contingent liabilities

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

Note 6 - Financial Instruments

6.1 Fair value of financial instruments

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

6.2 Fair value hierarchy of financial instruments measured at fair value

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

Note 7 – Post-Statement of Financial Position Date Events

On October 25, 2020 the Company and the subsidiary Strauss Water signed an update to the repayment dates of the loan granted by the Company to the subsidiary (see Note 3.1), such that the subsidiary repaid the outstanding balance of the loan in full (principal plus accrued interest), at an amount of approximately NIS 23 million.

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 June 30, 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 June 30, 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.

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

Managers' Statement

Statement of the Chief Executive Officer

I, Giora Bardea, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the third quarter of 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 June 30, 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.

November 17, 2020

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Giora Bardea, Chief Executive Officer

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

Managers' Statement

Statement of the Most Senior Financial Officer

I, Ariel Chetrit, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the third 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 June 30, 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.

November 17, 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 nine month periods ended 30 September 2020 and independent auditors' report on review of condensed consolidated interim financial statements

Contents

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

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

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

Fortaleza, November 13, 2020

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

Marcelo Pereira Gonçalves
Accountant CRC SP 220026/O-3

Três Corações Alimentos S.A.

Consolidated Interim Statements of Financial Position as of 30 September 2020 and 31 December 2019

(In thousand of Brazilian Reais)

Assets	30 September 2020	31 December 2019
Current		
Cash and cash equivalents	477,700	538,045
Deposits	14,942	3,935
Trade receivables	669,587	449,177
Inventories	691,652	418,437
Recoverable taxes	78,103	73,506
Income tax receivables	11,700	3,197
Other current assets	25,996	14,899
	1,969,680	**1,501,196**
Non-current		
Judicial deposits	8,981	9,837
Loans to related parties	12,215	11,942
Recoverable taxes	122,862	70,203
Other non-current assets	71,647	15,580
Deferred tax assets	29,590	4,490
Investments	58,796	11,907
Fixed assets	614,687	539,342
Intangible assets	396,926	303,283
Right-of-use assets	69,796	76,137
	1,385,500	**1,042,721**
Total assets	**3,355,180**	**2,543,917**

Liabilities and equity	30 September 2020	31 December 2019
Current		
Short term loans	787,691	660,798
Trade payables	375,069	319,383
Short term lease liabilities	20,210	18,932
Income tax payables	9,583	26,404
Employees and other payroll related liabilities	99,371	53,970
Proposed dividends	44,400	44,400
Interest on equity payable	84,523	63,918
Payable taxes	23,133	23,300
Other current liabilities	48,036	28,933
	1,492,016	**1,240,038**
Non-current		
Long term loans	403,871	47,306
Long term lease liabilities	61,618	68,154
Other non-current liabilities	44,082	3,803
Deferred tax liabilities	13,185	-
Provision for legal proceedings	77,326	15,047
	600,082	**134,310**
Equity		
Share capital	275,531	275,531
Translation reserve	(156,596)	(101,323)
Retained earnings	1,142,169	993,646
Equity attributable to owners of the Company	1,261,104	1,167,854
Non-controlling interests	1,978	1,715
Total Equity	**1,263,082**	**1,169,569**
Total liabilities and equity	**3,355,180**	**2,543,917**

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

Três Corações Alimentos S.A.

Consolidated Interim Satements of Income
Nine and three month periods ended 30 September 2020 and 2019
(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2020	**2019**	**2020**	**2019**
Revenue	3,181,147	2,952,243	1,179,446	1,073,036
Cost of sales	(2,333,162)	(2,059,874)	(884,802)	(747,520)
Gross profit	**847,985**	**892,369**	**294,644**	**325,516**
Selling and marketing expenses	(511,315)	(519,146)	(177,609)	(185,247)
General and administrative expenses	(120,295)	(100,948)	(36,825)	(34,739)
Equity method	8,116	2,837	3,864	1,637
Other income (expenses), net	(4,552)	1,187	(3,085)	(130)
Operating profit	**219,939**	**276,299**	**80,989**	**107,037**
Financial income	14,469	8,069	4,113	2,997
Financial expenses	(35,180)	(25,755)	(11,358)	(10,939)
Profit before income tax	**199,228**	**258,613**	**73,744**	**99,095**
Income tax expenses	(3,631)	(32,575)	7,813	(10,989)
Profit for the period	**195,597**	**226,038**	**81,557**	**88,106**
Profit attributable to:				
Owners of the Company	196,873	226,274	81,649	88,342
Non-controlling interests	(1,276)	(236)	(92)	(236)
Total profit for the period	**195,597**	**226,038**	**81,557**	**88,106**

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

	Nine months period ended 30 September		Three months period ended 30 September	
	2020	**2019**	**2020**	**2019**
Profit for the period	195,597	226,038	81,557	88,106
Other comprehensive income (loss) items that are or may be reclassified subsequently to profit or loss				
Foreign currency translation differences	(55,273)	(2,075)	(6,034)	7,376
Comprehensive income for the period	**140,324**	**223,963**	**75,523**	**95,482**
Comprehensive income attributable to:				
Owners of the Company	141,600	224,199	75,615	95,718
Non-controlling interests	(1,276)	(236)	(92)	(236)
Total comprehensive income for the period	**140,324**	**223,963**	**75,523**	**95,482**

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

		Retained earnings							
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments	Accumulated profit	Total	Non- controlling interests	Total Equity
Balance as at 30 June 2019	**275,531**	**55,106**	**343,341**	**513,884**	**(111,318)**	**-**	**1,076,544**	**-**	**1,076,544**
Profit for the period	-	-	-	-	-	88,342	88,342	(236)	88,106
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	7,376	-	7,376	-	7,376
Total other comprehensive gain (loss):	-	-	-	-	7,376	88,342	95,718	(236)	95,482
Internal equity changes									
Capitalization of tax incentives	-		-				-	-	-
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	3	3
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	761	761
State VAT and Federal tax incentives	-	-	20,156	-	-	(20,156)	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(19,100)	(19,100)	-	(19,100)
Reserve for profit to be distributed	-	-	-	49,086	-	(49,086)	-	-	-
	-	-	20,156	49,086	-	(88,342)	(19,100)	764	(18,336)
Balance as of 30 September 2019	**275,531**	**55,106**	**363,497**	**562,970**	**(103,942)**	**-**	**1,153,162**	**528**	**1,153,690**
Balance at 30 June 2020	**275,531**	**55,106**	**413,671**	**608,243**	**(150,562)**	**-**	**1,201,989**	**1,888**	**1,203,877**
Profit for the period	-	-	-	-	-	81,649	81,649	(92)	81,557
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(6,034)	-	(6,034)	-	(6,034)
Total other comprehensive gain (loss):	-	-	-	-	(6,034)	81,649	75,615	(92)	75,523
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	182	182
State VAT and Federal tax incentives	-	-	14,021	-	-	(14,021)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(16,500)	(16,500)	-	(16,500)
Reserve for profit to be distributed	-	-	-	51,128	-	(51,128)	-	-	-
	-	-	14,021	51,128	-	(81,649)	(16,500)	182	(16,318)
Balance as of 30 September 2020	**275,531**	**55,106**	**427,692**	**659,371**	**(156,596)**	**-**	**1,261,104**	**1,978**	**1,263,082**

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

		Retained earnings							
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments	Accumulated profit	Total	Non- controlling interests	Total Equity
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	-	-	-	-	-	226,274	226,274	(236)	226,038
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(2,075)	-	(2,075)	-	(2,075)
Total other comprehensive gain (loss):	-	-	-	-	(2,075)	226,274	224,199	(236)	223,963
Internal equity changes									
Capitalization of tax incentives	985		(985)				-	-	-
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	3	3
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	761	761
State VAT and Federal tax incentives	-	-	50,969	-	-	(50,969)	-	-	-
Legal reserve	-	197	-	-	-	(197)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(52,160)	(52,160)	-	(52,160)
Reserve for profit to be distributed	-	-	-	122,948	-	(122,948)	-	-	-
	985	197	49,984	122,948	-	(226,274)	(52,160)	764	(51,396)
Balance at 30 September 2019	**275,531**	**55,106**	**363,497**	**562,970**	**(103,942)**	**-**	**1,153,162**	**528**	**1,153,690**
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	-	-	-	-	-	196,873	196,873	(1,276)	195,597
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(55,273)	-	(55,273)	-	(55,273)
Total other comprehensive gain (loss):	-	-	-	-	(55,273)	196,873	141,600	(1,276)	140,324
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	1,539	1,539
State VAT and Federal tax incentives	-	-	42,606	-	-	(42,606)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(48,350)	(48,350)	-	(48,350)
Reserve for profit to be distributed	-	-	-	105,917	-	(105,917)	-	-	-
	-	-	42,606	105,917	-	(196,873)	(48,350)	1,539	(46,811)
Balance at 30 September 2020	**275,531**	**55,106**	**427,692**	**659,371**	**(156,596)**	**-**	**1,261,104**	**1,978**	**1,263,082**

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

	Nine months period ended 30 September		Three months period ended 30 September	
	2020	**2019**	**2020**	**2019**
Cash flows from operating activities				
Profit for the period	195,597	226,038	81,557	88,106
Adjustments for:				
Depreciation and amortization	64,693	54,659	22,944	19,737
Gains in tax lawsuits	(20,491)	(58,611)	-	(20,274)
Termination of lease contracts	(13)	(241)	-	(241)
Provision for legal proceedings	6,294	(291)	2,579	(796)
Other income, net	4,552	(1,187)	3,085	130
Equity method	(8,116)	(2,837)	(3,864)	(1,637)
Finance expenses, net	20,711	17,686	7,245	7,942
Income tax expenses	3,631	32,575	(7,813)	10,989
Change in:				
Trade receivables	(166,871)	(173,423)	32,437	(5,339)
Inventories	(219,451)	(31,011)	(176,796)	(38,009)
Recoverable and payable taxes, net	(15,782)	9,989	9,465	420
Judicial deposits	1,051	(1,984)	(224)	(788)
Trade payables	53,535	7,268	(19,277)	8,660
Employees and other payroll related liabilities	39,591	15,976	5,532	8,531
Other current and non-current assets and liabilities	(5,723)	(739)	(2,983)	5,999
Change in operating activities	**(46,792)**	**93,867**	**(46,113)**	**83,430**
Interest paid	(29,782)	(18,387)	(9,883)	(5,405)
Interest received	12,220	8,392	2,702	2,622
Income tax paid	(5,817)	(260)	(4,228)	(26)
Net cash flows provided (used) by operating activities	**(70,171)**	**83,612**	**(57,522)**	**80,621**
Cash flows from investing activities				
Change in deposits	(8,987)	(570)	(2,807)	(1,295)
Payment for acquisition of operations, net of cash	(215,988)	(5,236)	(184,077)	-
Proceeds from sales of fixed assets	1,757	5,407	465	2,348
Acquisition of fixed assets	(74,663)	(112,520)	(22,690)	(26,889)
Investments in intangible assets	(2,901)	(6,502)	(1,437)	(3,517)
Long term loans to related parties	-	6,237	-	(88)
Net cash flows used in investing activities	**(300,782)**	**(113,184)**	**(210,546)**	**(29,441)**
Cash flows from financing activities				
Proceeds from loans	921,186	399,559	294,217	102,127
Repayment of loans	(573,829)	(319,958)	(98,141)	(47,911)
Payment of lease liabilities	(12,630)	(12,647)	(4,361)	(4,202)
Interest on equity paid	(24,119)	-	(24,119)	-
Dividend paid	-	(59,782)	-	(59,782)
Net cash flows provided (used) by financing activities	**310,608**	**7,172**	**167,596**	**(9,768)**
Net increase (decrease) in cash and cash equivalents	**(60,345)**	**(22,400)**	**(100,472)**	**41,412**
Net increase (decrease) in cash and cash equivalents				
Cash and cash equivalents as at beginning of period	538,045	221,467	578,172	157,655
Cash and cash equivalents as at end of period	477,700	199,067	477,700	199,067
	(60,345)	**(22,400)**	**(100,472)**	**41,412**

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

1 General information

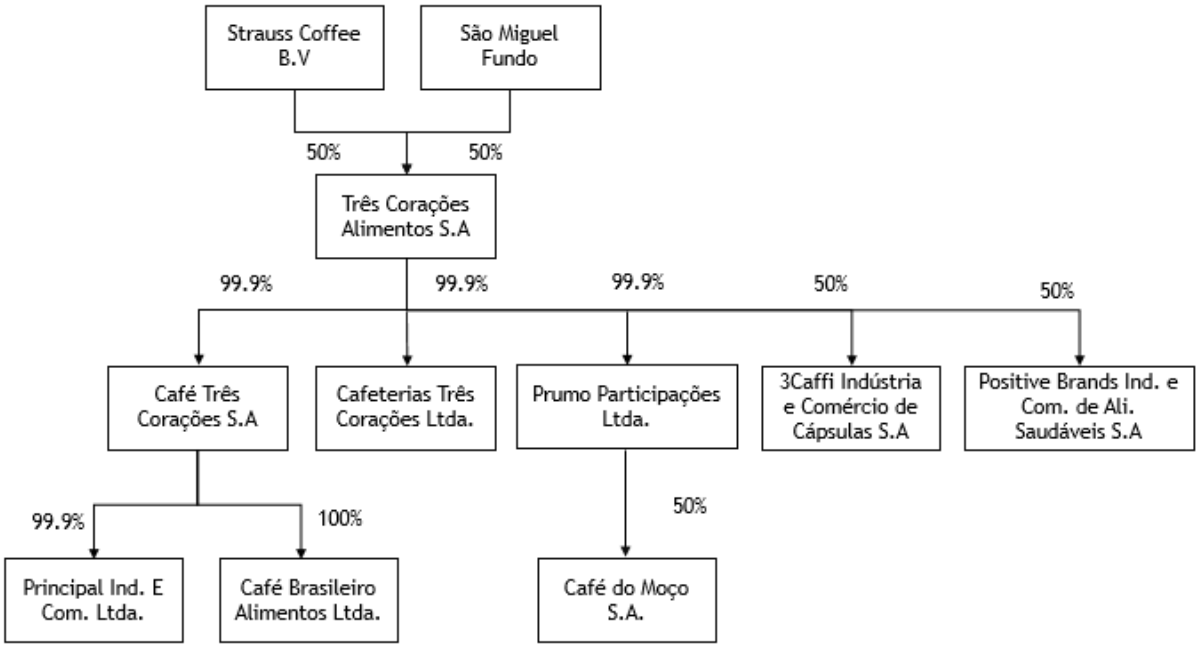
Três Corações Alimentos S.A. (the "Company") together with its controlled entities (the "Group") are an industrial and commercial group of companies, which operate in Brazil, in producing and selling branded coffee products, multi-beverage single portion capsules and machines, powdered juices, chocolate 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. 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 and the recently acquired Café Brasileiro Alimentos Ltda. (see Note 3.2). 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 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, A Tal da Castanha, Jungle and the recently acquired Café Brasileiro, Café 3 Fazendas, Café Bandeira, Café Premiado, .br, .br Gold and Coolate. 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, Amazonas and, due to Café Brasileiro Alimentos Ltda. acquisition, there are now two additional industrial facilities in the states of São Paulo and Mato Grosso. 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 September 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. Additionally, due to the high exchanges rates of foreign currency, suppliers are frequently preferring to export their products rather than selling them on the domestic market, causing prices to rise in the domestic market due to low supply versus high demand. Additionally, some suppliers, during pandemic period reduced their stocks due to market uncertainties and now are having difficulties getting back to the previous inventory levels because consumption is increasing. There have been shortages in the domestic market, also causing price increases. Due to these reasons, 3corações has been increasing its inventory levels whenever good acquisition opportunities appear, both to dilute average cost and to avoid shortages.

(ii) Potential credit losses from customers exist especially in the Away From Home (AFH) and Electro segments, which represent, however, only 3.43% of total trade receivables as at 30 September 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 September 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 (other than delivery) in July.

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 in all cases to comply with complex safety and distancing protocols.

In September, more departments have returned from home office work to the physical facilities of the Company, such as the Financial and Human Resources areas. The consumer market is reacting well to the gradual opening, where restaurants, bars, cafeterias and hotels are gradually resuming their activities following protocols determined by the local Governments, such as distancing rules, increased space between tables, electronic menus and entering customer temperature measurement.

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

The Group has reviewed its exposure to other business risks possibly arising from Covid-19 and has not identified any additional risks that could impact significantly the financial performance or position of the Group as at 30 September 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 November 13, 2020.

2.2 Significant accounting policies

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

3 Material events during the reported period

3.1 Positive Brands joint venture

As of February 4, 2020, the Company entered into a new joint arrangement with third parties to share the control of Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A. ("Positive Brands"), a non-listed company based in Fortaleza-CE, with manufacturing 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.

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. These costs have been included in 'other income (expenses), net'.

3.2 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"). Closing of the transaction was conditional upon approval by the Brazilian antitrust commission (CADE) which occurred 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.

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 sold under the brands of Café Brasileiro, Café 3 Fazendas, Café Bandeira, Café Premiado,.br and .br Gold and Coolate. The roasted and ground coffee products are manufactured at two sites in the city of Cuiabá, State of Mato Grosso and in the city of Araçariguama, State of São Paulo.

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 purpose of maximum realization of potential synergies between the companies.

After the acquisition, the Group changed the corporate name of the company to Café Brasileiro Alimentos Ltda.

In the three months to 30 September 2020, Café Brasileiro Alimentos Ltda contributed net revenue of R$ 31,873 and loss of R$1,772 to the Group's results. If the acquisition had occurred on 1 January 2020, management estimates that consolidated net revenue would have been R$ 172,021, and consolidated loss for the period would have been R$ 11,186. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2020.

The Group incurred acquisition-related costs of R$732 with legal fees and due diligence work. These costs have been included in 'other income (expenses), net'.

According to the quota purchase and sale agreement ("QPA"), the purchase price was R$ 213,754 (the original negotiated value of R$ 210,000, plus 1.79% interest) and the purchase price shall be subject to two price adjustments as indicated below:

• Preliminary purchase price adjustment: Initial amount paid, considering the original amount, interest, preliminary working capital adjustments (based on the variation between September 2019 and June 2020) and deductions, as determined in the QPA. As of 31 July 2020 the Group paid the preliminary purchase price to the sellers as demonstrated in the table below:

Original purchase price	210,000
Interest	3,754
Purchase price	**213,754**
Initial working capital - Sep.2019	(75,557)
Preliminary working capital - Jun.2020	80,998
Preliminary working capital adjustments	**5,441**
Cost of sales representatives terminations	(500)
Araçariguama environmental license cost	(1,645)
Total deductions	**(2,145)**
	217,050

• Final purchase price adjustment: Final working capital adjustments (based on the variation between September 2019 and July 2020) in the amount of R$ 24,810 which was paid on October 6, 2020, as bellow:

Initial working capital - Sep.2019	(75,557)
Preliminary working capital adjustments – Paid on 31 July 2020	(5,441)
Final working capital - Jul.2020	105,808
Final working capital adjustments	**24,810**

The net amount paid to the sellers was as below:

Payment on 31 July 2020	217,050
Payment on 6 October 2020 (see note 8.2)	24,810
Balance of cash and cash equivalents on 31 July 2020	(32,973)
Net payment to the seller	**208,887**

The following table summarizes the acquisition date fair value of each major class of consideration transferred, including the contingent consideration that can be paid in the future only when there is the final decision of judicial processes, no matter how long this may take:

Purchase consideration	
Cash paid	217,050
Final purchase price adjustment (see note 8.2)	24,810
Contingent consideration (a)	22,512
Total consideration transferred	**264,372**

(a) The fair value of the contingent consideration on the date of acquisition based on the expectation of realization of credits that may be reimbursed to the former owners. The Group has agreed to pay to the sellers if certain active supervenience existing up to the date of closing, are deemed favorable to Café Brasileiro or the seller.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition.

	Carrying Amount	Adjustments		Fair Value
Cash and cash equivalents	32,973			32,973
Trade receivables	36,392			36,392
Inventories	42,393			42,393
Recoverable taxes	58,107			58,107
Indemnification asset	-	55,985	(a)	55,985
Other credits	1,898			1,898
Fixed assets	29,170	12,819	(b)	41,989
Intangible assets	1,735			1,735
Intangible assets: brands	-	46,000	(c)	46,000
Intangible assets: customer portfolio	-	40,300	(c)	40,300
Right-of-use assets	4,293			4,293
Trade payable	(2,151)			(2,151)
Payroll and related charges	(5,810)			(5,810)
Taxes and other institutions	(538)			(538)
Lease liabilities	(4,293)			(4,293)
Income tax payable	(226)			(226)
Others payables	(2,768)			(2,768)
Provision for legal proceedings	(2,864)	(55,985)	(d)	(58,849)
Deferred tax	-	(33,700)	(e)	(33,700)
Total identifiable net assets acquired	**188,311**	**65,419**		**253,730**

(a) Preliminary acquiror's indemnification asset recognized as a result of the obligation of sellers to reimburse any contingent amounts that may materialize unfavorably to Café Brasileiro.

(b) Preliminary estimate of the fair value of land and buildings, measured by the valuation technique: Market comparison technique and cost technique. The valuation model considers market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

(c) Preliminary estimate of the fair value of brands and customer portfolio, measured by the valuation technique: Relief-from-royalty method and multi-period excess earnings method. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

(d) Mitsui Alimentos has tax risks subject to inquiries from tax authorities. Management believes that the likelihood of an outflow of funds is probable. For this amount, a preliminary indemnification asset was also recognized.

(e) Refers to deferred income tax liability on allocation of the assets mentioned above. Deferred tax assets have not been recognized, since Group Management understands that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The fair values of the assets and liabilities disclosed above have only been determined provisionally, as the independent valuations have not yet been finalized.

Goodwill arising from the acquisition has been recognized as follows:

Consideration transferred	264,372
Fair value of identifiable net assets	(253,730)
Goodwill	**10,642**

The goodwill is attributable mainly to the Mitsui Alimentos's market position and the synergies expected to be achieved from integrating the company into the Group's existing Coffee business. The recognized goodwill has the tax treatment provided by the applicable legislation.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition requires adjustments to the above amounts or generate any additional provisions, then the accounting for the acquisition will be revised and treated in accordance with the Quota Purchase and Sale Agreement.

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 September 2020, the Group has recognized the amount of R$ 9,497 of recoverable taxes.

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.

3.4 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.

3.5 Tax Incentive for technological innovation

The Federal Law nº 11.196/05, known as "Lei do Bem", offers tax incentives to legal entities that carry out research, development and technological innovation.

According to the Law, technological innovation is a conception of a new product or manufacturing process, as well as an addition of new features or characteristics to an existing product or process, that brings incremental improvements and effective gains in quality or productivity, resulting in greater competitiveness in the market.

The legal entities are allowed to deduct (additionally) from the calculation of the IRPJ (income tax) and CSLL (social contribution) a percentage of the expenditures incurred with technological research and development of technological innovation, classifiable as operating expenses.

In August 2020, the Group calculated the corresponding tax benefits for Três Corações Alimentos S.A. and Café Três Corações S.A., related to the fiscal years of 2017, 2018 and 2019, in the total amount of R$ 11,956.

4 Net debt

	30 September 2020	31 December 2019
Short term loans	787,691	660,798
Long term loans	403,871	47,306
Cash and cash equivalents	(459,546)	(538,045)
Net debt	**732,016**	**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.

In July, there was a new loan agreement for acquisition of green coffee with Citibank in the total amount of R$ 79,800 with 2.65% interest per year (fixed interest) and maturity of 531 days.

Part of the short term debt is represented by foreign currency loans for acquisition of inventories (ACC), that are related to 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 in 2021, with the execution of future green coffee sales agreements. In the third quarter the Group entered in some additional loans for acquisition of inventories (ACC) in the total amount of R$ 206,020.

In April and May there was the repayment 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 loan and borrowing 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 September 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).

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 September 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Short term loans	787,691	748,167	660,798	642,865
Long term loans	403,871	427,774	47,306	50,730

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

6.2 Fair value hierarchy

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

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

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

  The fair value of assets and liabilities that are not quoted in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques.

  These valuation techniques maximize the use of observable market data when it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs are not based on observable market data, the asset or liability is considered as valued from Level 3 source of information.

  Specific valuation techniques that might be used to value financial instruments in general include:

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

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

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

- **Level 3**: inputs for valuing a financial instrument that is not based on observable market data (that is, unobservable inputs).

  As of 30 September 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 September 2020
Geographical markets			
Domestic	2,906,530	211	2,906,741
Foreign	274,406	-	274,406
	3,180,936	**211**	**3,181,147**

	Products	Services	30 September 2019
Geographical markets			
Domestic	2,797,053	129	2,797,182
Foreign	155,061	-	155,061
	2,952,114	**129**	**2,952,243**

7.2 Revenue reconciliation

	Nine month periods ended September 30		Three month periods ended September 30	
	2020	**2019**	**2020**	**2019**
Gross revenue:				
Products – domestic	3,641,827	3,515,841	1,304,363	1,287,724
Products – foreign	274,406	155,061	135,134	55,542
Services	220	142	152	39
Other	188	106	88	-
Revenue deductions:				
Taxes on sales (a)	(360,087)	(286,905)	(137,298)	(106,736)
State VAT incentives	74,895	70,898	24,590	27,048
Discounts	(361,218)	(378,441)	(117,786)	(147,954)
Other deductions	(89,084)	(124,459)	(29,797)	(42,627)
Revenue	**3,181,147**	**2,952,243**	**1,179,466**	**1,073,036**

(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 nine month period ended 30 September 2020 the amount recognized was R$ 20,491, relative to PIS only (R$ 58,611 for the nine month period ended 30 September 2019, relative to both PIS and COFINS). There was no additional recognition in the third quarter of 2020.

8 Subsequent Events

8.1 Interest on equity payment

On November 3, 2020 there was the payment to the Brazilian shareholder in the amount of R$ 28,375. The corresponding amount had been paid to the foreign shareholder on July 15, 2020.

8.2 Acquisition of Mitsui Alimentos

On October 6, 2020 the final working capital adjustments (based on the variation between September 2019 and July 2020) was paid to the sellers in the amount of R$ 24,810.

* * *

Pedro Alcântara Rego de Lima
Chief Executive Officer

Danisio Costa Lima Barbosa
Chief Financial Officer

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