Strauss Group LTD.

Annual Repot

as at December 31, 2020

Board of Directors	Ofra Strauss, Chairperson Adi Strauss Ronit Haimovitch Gil Midyan Meir Shani David Mosevics Galia Maor Dalia Narkys Dorit Salinger Dalia Lev Joshua (Shuki) Shemer Tzipi Ozer-Armon
President & CEO	Giora Bardea
EVP, CLO & Company Secretary	Michael Avner
Auditor	Somekh Chaikin KPMG
Registered office	Hasivim St. 49 P.O.B 194 Petach Tikva 4959504, Israel

Strauss Group LTD.

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Strauss Group LTD.

Introduction

Company Profile

Strauss Group is an international food and beverage company whose home base is in Israel. Since 1933, Strauss has worked to improve people's lives, all over the world. Today, Strauss is among the largest public companies listed on the Tel Aviv Stock Exchange, with over 8.3 billion shekels in global annual revenue according to non-GAAP financial measures. Strauss employs approximately 16,550 people worldwide, is active in more than 20 countries, and operates 25 manufacturing sites. Strauss is committed to its sustainability program in relation to consumers, the community, employees, suppliers and the environment.

The Group's areas of activity

Strauss Israel

The second-largest food and beverage group in Israel in terms of sales volumes (according to StoreNext). Strauss Israel encompasses 10 business segments; operates 12 sites, which include manufacturing sites and logistics centers; and has more than 4,500 employees.

Strauss Coffee

One of the five largest coffee companies in the world in terms of market share (according to Euromonitor). Strauss Coffee is active in Israel, Brazil, Russia, Ukraine, Poland, Romania and Serbia.

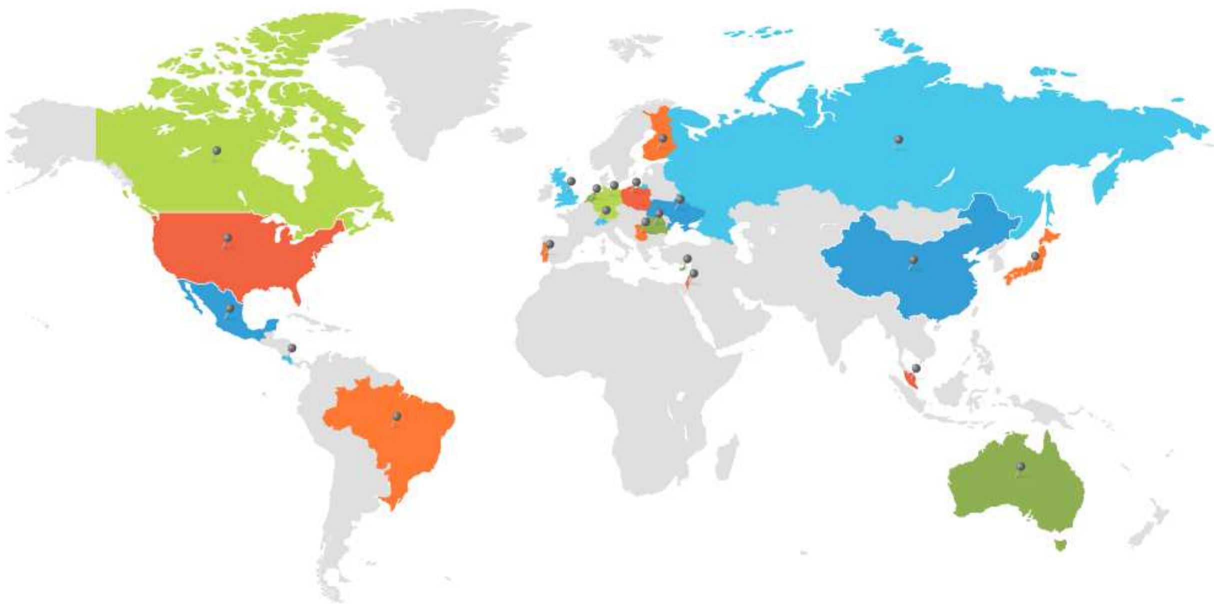
Strauss Water

A leading international company specializing in high-quality purified drinking water solutions. Strauss Water's primary markets are Israel, the UK and China.

International Dips and Spreads

The segment includes three international brands (Sabra, Obela and Florentin) in a joint venture with PepsiCo, which lead the development and growth of the category. The company is active in North America, Australia, Mexico, Germany, New Zealand and other countries.

Global presence



Strauss Israel	Strauss Coffee	Strauss Water	International Dips and Spreads
Israel	Israel	Israel	US
	Holland	China	Holland
	Brazil	UK	Australia
	Romania		Mexico
	Switzerland		Canada
	Poland		
	Serbia		
	Germany		
	Ukraine		
	Russia		

Collaborations and innovation

Strauss is a party to collaborations with several leading multinational corporations such as Danone, PepsiCo, Haier and Virgin.

In 2015 the Group launched the technology incubator, "The Kitchen", as part of the Israel Innovation Authority's Technological Incubator Program. The incubator's goal is to boost Israeli food tech by investing in early-stage technological ventures, which offer solutions to the global food industry.

Since its establishment, the incubator has invested in 18 companies, some of which have completed product development, commenced initial sales and raised further investments. The Company participated in several of the funding rounds at amounts that are immaterial to the Company.

Summary of 2020 Financial Performance

All financial data in this section are based on the Company's non-GAAP financial reports:

NIS **8,350** million
Net sales

4.6%
Organic growth
(excluding forex effect)

38.7%
Gross profit margin

NIS **924** million
Operating profit

5.4%
Organic change in operating profit

11.1%
Operating profit margin

NIS **1,277** million
EBITDA

6.0%
Organic change in EBITDA (excluding forex effect)

NIS **844** million
Operating cash flow

NIS **551** million
Net income attributable to shareholders

0.7%
Growth in net income attributable to shareholders

NIS **535** million
Free cash flow

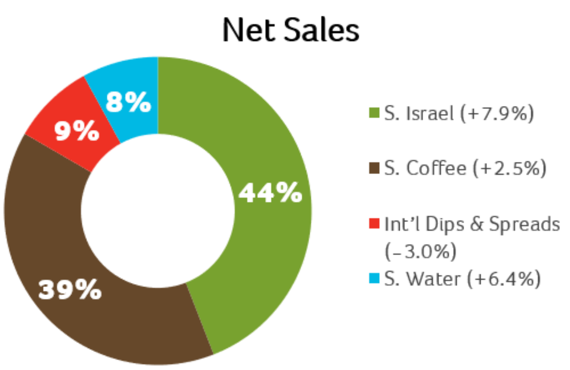
NIS **4.75**
Earnings per share

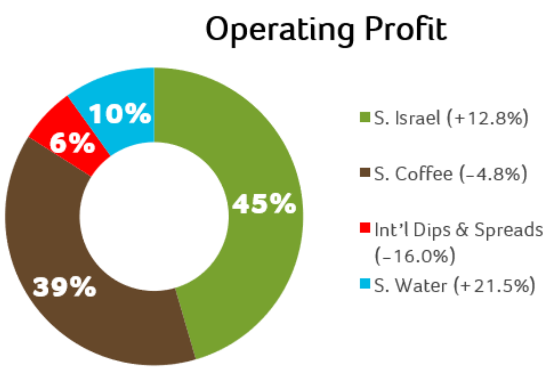
0.5%
Earnings per share growth

NIS **2.16**
Dividend per share

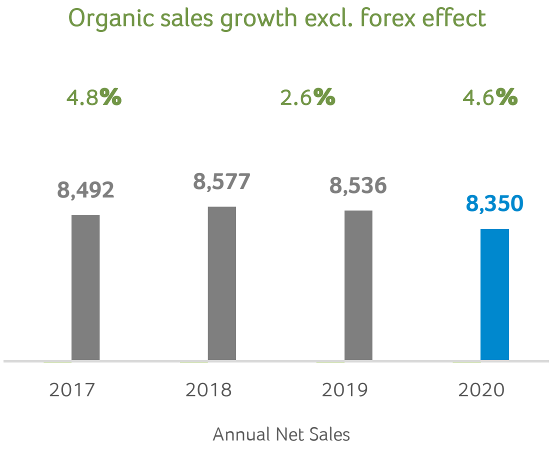
Selected financial data for 2020 and Q4, 2020

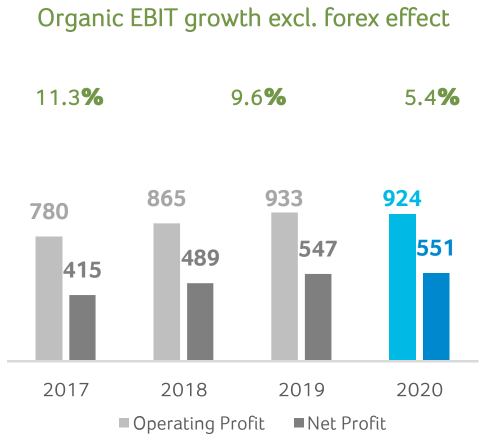
	12M/ 2020	12M/ 2019	% change	Q4 2020	Q4 2019	% change
Sales	8,350	8,536	(2.2%)	2,070	2,114	(2.1%)
Organic growth excluding forex effect	4.6%	2.6%		4.8%	2.7%	
Gross profit – non-GAAP	3,228	3,379	(4.5%)	783	825	(5.2%)
% of sales	38.7%	39.6%		37.8%	39.0%	
Total operating expenses	2,352	2,474	(4.9%)	618	650	(5.0%)
Equity profits	48	28	71.5%	18	6	186.2%
Operating profit – non-GAAP	924	933	(1.0%)	183	181	1.1%
% of sales	11.1%	10.9%		8.8%	8.6%	
Net financing expenses	(146)	(128)	14.2%	(57)	(21)	174.4%
Income before tax – non-GAAP	778	805	(3.4%)	126	160	(21.7%)
Income tax	(161)	(201)	(19.9%)	(26)	(43)	(40.0%)
Income for the period – non-GAAP	617	604	2.1%	100	117	(14.7%)
Income attributable to shareholders	551	547	0.7%	87	101	(14.1%)
% of sales	6.6%	6.4%		4.2%	4.8%	
Income attributable to non-controlling interests	66	57	15.3%	13	16	(19.1%)
EPS (NIS)	4.75	4.73	0.5%	0.74	0.87	(14.3%)





* Organic percentage change excluding effect of exchange differences on translation into shekels.





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

Sustainability, CSR, Corporate Social Investment and Contributions

Strauss Group understands its meaningful role in promoting a healthy lifestyle and creating value and trust in the Company, and we are committed to success in this assignment. Even in unsettling times, it is our duty to continue to increase our investment in the scientific aspects of food to enable us to deliver food solutions that are better for people and kinder to the environment.

An appetite **for good food**

Through our products, we work to provide a broader variety of food choices for people based on their desires and to meet special dietary needs, and to promote a balanced lifestyle through a broad variety of educational programs for diverse populations, regular supply and innovation.

Involved in our **communities**

We work to socially and economically empower the communities with and within which we work. That is why we have chosen to invest in the communities around us, in Israel and across the globe. Through partnerships, contributions and community development programs, we aspire to create a long-term impact that generates a long-lasting positive change.

Committed to our **employees and suppliers**

As a global food and beverage company, fair and responsible business practices are our way, and our aspiration is that our employees will choose us anew, each and every day. To achieve this, we drive a variety of initiatives to empower our people, emphasizing gender equality and providing opportunities and tools to diverse population groups.

Committed to our **planet**

At Strauss Group, we are committed to protecting the environment. Consequently, as part of our long-term strategy, we devise plans and build infrastructure to consistently mitigate our environmental impact, reduce air pollution and our ecological footprint, save energy and water, manage waste and treat wastewater properly.

Key Sustainability Data

An appetite for better food

6

Startups joined our FoodTech incubator, The Kitchen Hub.

282

Products accommodate at least one of the following dietary restrictions/beliefs: gluten-free, lactose-free, sugar-free, preservative-free, vegan.

142

In 2020, we removed **142** tons of sugar from our products.

7.4

In 2020, we removed **7.4** tons of salt from our salty snack products.
Since 2016, we have reduced the salt content of our leading snack products by **28%**.

786

Gluten-free products are marketed by Strauss Israel.

Key Sustainability Data

Our people

45.4%

Of management positions in 2020 were filled by women.

3,220

New employees joined Strauss Group, of whom **40%** are women.

12%

Drop in workplace injuries (compared to last year).

25%

Of Strauss Israel's employees are members of Arab society.

58%

Of the members of our Board of Directors are women.

Key Sustainability Data

Community engagement

14,170

We expanded our "More than a Cup" venture in collaboration with women coffee growers around the world to include **10** active partnerships in **8** countries, which encompass **14,170** women coffee growers.

80,000

Following the COVID-19 crisis, over **80,000** food parcels were donated in Israel.

NIS 25.3 million

In 2020, Strauss Group donated a total of **NIS 25.3 million** in products, financial contributions and value of volunteer hours.

Congo

We launched a new partnership with **500** households in **Congo,** as part of the "More than a Cup" venture[1].

1,000

We reached a record of **1,000** participants in the **Florada** project in Brazil, which supports women coffee growers and their families to improve productivity and quality. The project is now in its second year.

100

Strauss Water developed and donated **100 UV-based** sanitizing machines to hospitals to disinfect medical equipment.

[1] For information on the "More than a Cup" venture, see section 24 in the Board of Directors' Report.

Key Sustainability Data

Environmental responsibility

90%

Of all solid waste is recycled or reused.

7%

A drop of **7%** in water consumption per 1 ton of product compared to 2016.

17%

A drop of **17%** in greenhouse gas emissions per ton compared to 2016.

44%

The Sabra production plant in the US is LEED certified, and in 2020 lowered its energy consumption by **44%**.

92%

Of cowsheds working with Yotvata fully implemented the "Sustainable Cowshed" program[2].

78%

Of all packaging in Strauss Israel is recyclable.

[2] For information on the "Sustainable Cowshed" program, see section 24 in the Board of Directors' Report.

Definitions

In all of the following chapters, the following terms will have meanings indicated below:

“Strauss” / the “Company" / the “Corporation”	Strauss Group Ltd.
“Strauss Group” / the “Group”	Strauss Group Ltd. and companies controlled by it, including joint control.
“Strauss Holdings”	Strauss Holdings Ltd.
“Controlling shareholders”	For information, see section 1.1 in the Description of the Company’s Business report.
“Strauss Coffee”	Strauss Coffee B.V.
“São Miguel”	São Miguel Holding e Investimentos S.A.
“Três Corações (JV)”	A joint venture in Brazil, held by the Group (50%) and by a local holding company, São Miguel Holding e Investimentos S.A. (50%)
“Sabra”	Sabra Dipping Company LLC.
“Obela”	PepsiCo-Strauss Fresh Dips & Spreads International GmbH.
“Florentin”	Florentin B.V., a wholly-owned subsidiary of Obela.
“Danone”	Compagnie Gervais Danone S.A. of France.
“PepsiCo” / “PepsiCo, Inc.”	The North American multinational food, snack and beverage corporation.
“PepsiCo Europe”	PepsiCo Investments (Europe) I B.V., a PepsiCo subsidiary
“PRB”	PRB Luxembourg, a PepsiCo subsidiary
“Haier”	Haier Group Corporation of China.
“VSW”	A joint venture, Virgin Strauss Water UK Ltd.
“VEL”	Virgin Enterprises Ltd.
“HSW”	Qingdao HSW Water Appliance Co. Ltd.

The "Stock Exchange" / "TASE"	The Tel Aviv Stock Exchange Ltd.
The "Financial Statements"	The financial statements of the Company, as defined in section 5 below.
The "Non-GAAP Reports" / "Non-GAAP Management Reports"	The Company's non-GAAP reports, as defined in section 5 below.
The "Milk Law"	The Milk Sector Planning Law, 2011.
The "Packaging Law"	The Packaging Treatment Regulation Law, 2011.
The "Food Law"	The Promotion of Competition in the Food Sector Law, 2014.
"StoreNext"	StoreNext is engaged in the measurement of the fast-moving consumer goods (FMCG) segment in the barcoded retail market (which includes the large food chains, private barcoded minimarkets and independent retail chains).
"Nielsen"	The American information, data and market measurement firm, which, to the best of the Company's knowledge, is active in 110 countries, including Israel.
"Euromonitor"	Euromonitor International is a provider of strategic market research, creating data and analysis on products and services around the world.
"ICE"	Intercontinental Exchange, Inc. (ICE) is a provider of commodity data, which generates and provides analyses of commodities. https://www.theice.com/index

Strauss Group LTD.

Description of the Corporation's Business

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Introduction

This chapter presents a review of the description of Strauss Group's businesses.

Strauss is an Israeli-based international food and beverage company. The Company was founded by Dr. Richard and Hilde Strauss, who immigrated to Israel filled with ideals in the 1930s and opened a small dairy. Their son, Michael Strauss, was subsequently to turn the dairy into a leading international food company that maintains partnerships with world-leading food corporations.

Strauss is also a brand that represents a passion for food, a brand that aspires to provide people with food that is better, healthy and enjoyable and is tailored to people's diverse needs.

Our corporate brand is a brand under which numerous operating segments converge – it provides a response to world food trends of health and wellness coupled with fun and indulgence, and alongside the products, technologies and innovation, the brand operates on the basis of values and social responsibility through the way that the Company and brand work.

Our vision at Strauss is to create wonders out of basics. The combination between Strauss's unique vision and our ability to take the most basic of raw materials and turn them into wonders is etched in our spirit, both as a business concept and in the development of our products. This vision is what drives us to enrich the quality of people's lives all over the world by developing businesses, special products and surprising, innovative solutions. Strauss manages and develops its business with the aim of offering a broad variety of top-quality food and beverage brands, which are sold through a variety of sales channels and cater to the entire public.

Strauss Group hereby respectfully submits the Report on the Description of the Company's Business as at December 31, 2020, which presents a review of the Group and describes the development of its businesses in 2020 through to the date of publication of the report.

The information in the report is correct on the reporting date. However, in certain cases the report contains details pertaining to events that occurred after the reporting date, through to the date of its publication, and in these cases, the Company notes that this information is correct on the relevant date.

This chapter should be read together with the other parts of the report, including the notes to the financial statements.

Description of the General Development of the Group's Business

1. The Group's Activities and Description of the Development of its Businesses

1.1 The Group's activities

Strauss Group is a group of industrial and commercial companies that operate in Israel and abroad, primarily engaged 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, purification and carbonation of products for home and office use.

The Group is active in some 20 countries worldwide with a strong home base in Israel, and focuses on branded products with high added value to the consumer. According to StoreNext[1], as at December 31, 2020, the Company is the second-largest food and beverage group in Israel based on total sales; in 2020, the Group held 12% of the total food and beverage market in Israel (in value terms) (it is noted that the food and beverage market does not include the business of Strauss Water). According to Europmonitor[2], the subsidiary Strauss Coffee B.V. is among the ten leading companies in the world coffee industry in terms of market share.

The Group is active in Israel in the development, production, marketing and sale of a variety of food and beverage products. In Brazil[3], Russia and in Central and Eastern Europe, the Group develops, produces, markets and sells a variety of coffee products. In the United States, Canada, Australia, New Zealand, Mexico and Western Europe, the Group is active in the development, manufacture, marketing and sale of chilled dips and spreads. In Israel, the United Kingdom and China, the Group is active in the marketing, sale and servicing of filtration, purification and carbonation products for drinking water. The water purification and filtration activity in China is via a material investment (49%) in an associate[4].

The Group collaborates with four multinational corporations, as follows: the French concern Danone (Compagnie Gervais Danone S.A.); the American corporation PepsiCo, Inc.; Haier Group of China; and Virgin Group of the UK. The Group also has three local partners: the Lima family of Brazil, and the kibbutzim Yotvata and Yad Mordechai in Israel.

Strauss Holdings Ltd. ("Strauss Holdings") is the direct controlling shareholder of the Company (approximately 57.2% of the equity and voting rights in the Company). The controlling shareholder of

[1] StoreNext data are current according to a report published on January 6, 2021.

[2] Euromonitor data are current according to a report published on February 3, 20201.

[3] Through Três Corações (JV) – 50% of Três Corações (JV) are held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**").

[4] Through HSW.

Strauss Holdings is Michael Strauss's Assets Ltd. ("Michael's Assets") (approximately 75.64% of the equity and voting rights in Strauss Holdings).

The Company was informed that a probate order has been issued with respect to the estate of Mr. Michael Strauss OBM, which includes holdings in the shares of Michael's Assets (the "Shares in the Estate Account"), and that as a result of the expected distribution of the Shares in the Estate Account, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss ("Michael's Children") will jointly hold shares of Michael's Assets (jointly, approximately 94.6% of the equity and voting rights in Michael's Assets), granting them control of Michael's Assets and, indirectly, control of the Company. Michael's Children are in agreement concerning cooperation in Michael's Assets, according to which they will vote as one in the general meeting of Michael's Assets.

In light of the foregoing, after the distribution of the estate, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss are the controlling shareholders of the Company.

There is no arrangement for the demarcation of activities between the Company and the controlling shareholders; however, according to the agreement for the use of the Strauss brand, for as long as a member of the Strauss family directly or indirectly holds shares of the Company or serves as an officer of the Company or a subsidiary, that family member will refrain from competing with the Company. For further information, see section 21.1 below. To the best of the Company's knowledge, the controlling shareholders of the Company have no other business in the Group's area of activity.

1.2 Development of the Group's businesses

The Company was incorporated and registered in Israel in 1933, and in 1973 became a public company whose shares are listed for trade on the Tel Aviv Stock Exchange Ltd. (TASE).

The Group began operating in 1934 with the production of chocolate bars and assorted sweet snack bars. In the mid-1950s, the Group began to manufacture instant coffee in Israel. In subsequent years, the Group expanded its snacks and coffee businesses by building new plants and acquiring companies active in these categories. In 1990, the Group began collaborating with PepsiCo in salty snack food.

In the early 1990s, the Group launched its international coffee business in Europe, principally in the roast and ground (R&G) coffee market. The Group expanded its global operations through the acquisition of companies active in the business, as well as through the establishment of new businesses. In early 2000, the Group began operating in South America following the acquisition of a coffee company in Brazil - Três Corações (JV).

In 2004 the Group initiated operations in dairy products and salads following the acquisition of the Strauss family's dairy business, which was founded in the 1930s by Hilde and Dr. Richard Strauss, who opened a family dairy in Nahariya. In 1969, the dairy became active in yogurt and dairy desserts, and in 1996, the French concern Danone acquired 20% of the dairy's shares.

In 2005, the Group significantly expanded the international coffee operation through a series of acquisitions in Poland and Serbia and the engagement in Três Corações (JV) in Brazil. The expansion of the international coffee operation continued in the following years through the acquisition of additional companies and brands in Brazil, Russia and Romania; in recent years, most of the acquisitions were made in Brazil through Três Corações (JV). In 2017 Strauss acquired a coffee production site in Germany (which it had leased since 2012), which manufactures freeze-dried coffee and mostly services the business in Russia and CIS countries. In March 2017 the coffee company acquired the non-controlling interest (25.1%) in the international coffee operation from the private equity firm TPG Capital.

In 2005, the Group began operating in the US in the chilled dips and spreads market and converged its products under the Sabra brand. In early 2008, the Group entered into a partnership agreement with PepsiCo to jointly operate in the US and Canada through Sabra. In October 2011, an additional partnership agreement was signed with PepsiCo for the establishment of a global joint venture in dips and spreads under the Obela brand, which began operating in Mexico and Australia. In 2016, the joint venture acquired a Dutch company (Florentin), which is active in the dips and spreads business in Western Europe, particularly in Holland, Germany and France. Additionally, in 2017 Obela launched operations also in New Zealand.

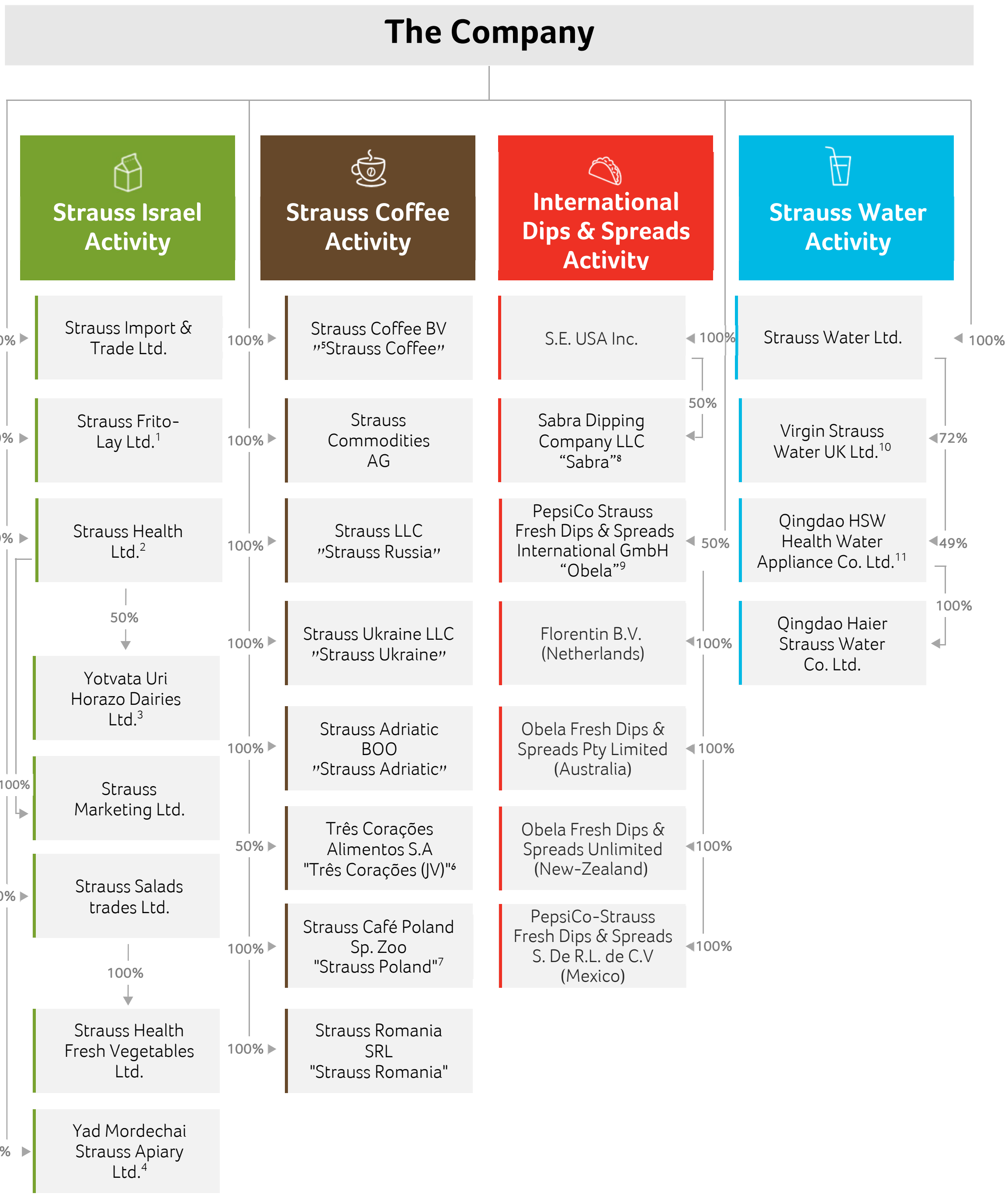
In 2009, the Company acquired Tana Industries Ltd. (today, Strauss Water) which operates under the Tami 4 brand, and initiated operations in the water filtration segment in Israel. In 2010, the Group, together with Haier Group, formed a joint venture in the water business in China, and on the date of the report, Strauss Water holds 49% of the rights in the joint venture. In 2011, the Group, together with Virgin Group, formed a joint venture in the water business in the UK.

In 2015 the Group launched the technology incubator, The Kitchen (as part of the Israel Innovation Authority's Technological Incubator Program), in which the Company invests in early-stage FoodTech startups that offer solutions for the global food industry ("the Incubator").

In 2019, the Incubator and the activity of Alpha Strauss converged under the Company's innovation arm. For further information, see section 15 below.

The following chart presents the structure of the Company's holdings in major companies on or about the date of the Periodic Report:

THE HOLDING STRUCTURE DIAGRAM



Notes to the Company's holding structure chart diagram.

Where a 100% holding is noted, the holding is direct or indirect through wholly-owned subsidiaries.

[1] 50% of the shares of Strauss Frito-Lay are held (indirectly) by the American corporation, PepsiCo. For a description of the agreements with PepsiCo, see section 8.3.14 below.

[2] 20% of the shares of Strauss Health are held by the French corporation, Danone. For a description of the agreements with Danone, see section 8.2.14.1 below.

[3] 50% of the shares of Yotvata are held by Kibbutz Yotvata. For a description of the agreements with Yotvata, see section 8.2.14.2 below.

[4] 49% of the shares of Strauss Yad Mordechai are held by Kibbutz Yad Mordechai.

[5] 25.1% of the shares of Strauss Coffee are dormant shares.

[6] 50% of the shares of Três Corações (JV) are held by São Miguel Group. For a description of the joint venture (50/50) with São Miguel Group, see section 9.3.14 below. To clarify, the Group's operations in Brazil described in this report refer to the Company's activity through Três Corações (JV), the Company's joint venture in Brazil, which includes production, marketing and sale of coffee and other products, including the export of green coffee. For further information, see section 9 below.

[7] Strauss Poland was acquired over 20 years ago. After the acquisition date it transpired that the Company did not hold a state permit, which was formerly required for the transfer of the shares in the acquisition. Today, this permit is no longer required in similar transactions. In the opinion of Strauss Poland's legal counsel, although in this situation the Company is liable to be exposed to legal action regarding the legal invalidity of the ownership of the acquired shares, according to the legal opinion the risk that claims will be brought on this issue by state authorities in Poland or by third parties, including the historic shareholders, is remote, particularly considering the time that has elapsed since the shares were transferred, and the fact that no suits have been filed against the Company during this considerable period. Additionally, pursuant to the aforementioned professional opinion, insofar as a lawsuit should be filed, the Company has legal arguments in its defense such as abuse of right and a basis for a monetary refund of the full market value of the shares of the investee company, including the value that accrued since the historic acquisition date.

[8] 50% of the shares of Sabra are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see section 10.13.1 below.

[9] 50% of the shares of Obela are held by the American PepsiCo corporation. For a description of the joint venture with PepsiCo, see section 10.13.2 below.

[10] Approximately 28% of the shares of Virgin Strauss Water UK Ltd. are held by Virgin. See section 11.14 below.

[11] 49% of the shares of Qingdao HSW Health Water Appliances Co. Ltd. are held by Strauss Water and 51% of the shares are held by Haier Group of China. See section 11.15 below.

2. Operating Segments

The Group is engaged in six key areas of activity that are reported as segments, as described in Note 27 to the Financial Statements of the Company as at December 31, 2020. Four of the areas of activity are concentrated under two key frameworks: the Israel Operation and the Coffee Operation, as described below:

The Israel Operation – in this framework the Group develops, manufactures, sells, markets and distributes a broad range of branded food and beverage products in Israel. In line with the Group's focus on consumer preferences, the Group's products in Israel respond to two leading consumption trends, "Health & Wellness" and "Fun & Indulgence". Accordingly, the Company's activities in this framework are divided into the two following operating segments:

a. **The Health & Wellness segment**: In this segment, the Company manufactures and markets yogurts, dairy desserts, dairy-free tahini desserts, soft cheeses, flavored milk beverages, chilled salads (hummus, tahini, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and fruit preserves. Additionally, the Company sells and distributes other product categories besides the Company's product portfolio, such as natural juices manufactured by Ganir, Zhug Zehavi, HaNasich Tahini, Arla butter spreads, Halav HaAretz sheep's milk yogurt and plant-based probiotic desserts made by Yofix Probiotics Ltd. In 2020 the Company began to distribute Alpro products.

b. **The Fun & Indulgence segment**: In this segment, the Company manufactures and markets, among others, sweet snack bars, chocolate tablets, sweet spreads, candies, chewing gum, cakes and cookies, biscuits, wafers and salty snacks, which are sold and distributed by the Company.

The Coffee Operation – the Group mainly develops, manufactures, sells, markets and distributes a range of branded coffee products. The Group's activity in this framework is divided into two segments, Israel Coffee and International Coffee:

c. **The Israel Coffee segment**: In this segment, the Group develops, manufactures, sells, markets and distributes a range of coffee products in Israel under its brands, as well as chocolate powders and other drink powders in Israel; sells coffee beans and bean-to-cup coffee machines direct-to-consumer (D2C) online and under a subscription plan; and is engaged in the retail sale of coffee products at points of sale in Israel. This segment also includes Strauss Coffee's headquarters (except for identified costs of Strauss Coffee's various subsidiaries, which are allocated to each subsidiary).

d. **The International Coffee segment:** In this segment the Group develops, manufactures and markets a range of coffee products and drink powders in Brazil (through Três Corações (JV)[5]), Russia and Eastern European countries, and also markets and distributes coffee machines in Brazil (through Três Corações (JV)). Additionally, as part of its activity in Brazil (through Três Corações (JV)), the Group

[5]Through Três Corações (JV) – 50% of Três Corações (JV) are held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**").

purchases and processes green coffee, corn products, cashew-based dairy substitutes and juice powders.

In addition to the above, the Group has two additional operating segments – International Dips & Spreads and Strauss Water:

e. **The International Dips & Spreads segment -** the Group manufactures, markets and sells chilled dips and spreads through joint ventures with the international PepsiCo corporation in the US and Canada (through Sabra, under the "Sabra" brand); in Mexico, Australia and New Zealand (through Obela, under the "Obela" brand); and throughout Western Europe, mainly Holland and Germany (through Florentin, under the "Obela" and "Florentin" brands).

f. **The Strauss Water segment –** in this area the Group develops, manufactures, sells, markets and distributes filtration, purification and carbonation systems for drinking water in Israel and the in the UK. In addition, Strauss Water has a material investment (49%) in an associate that is a joint venture established by Strauss Water with the Haier Group, which is active mainly in China in the purification and filtration of drinking water at the point of use (POU systems) as well as systems that treat the water at the point of entry to the home (POE systems).

In addition to the segments described above, the Group has various other activities that are immaterial to its business, which do not meet the quantitative threshold for disclosure in the financial statements as reportable segments or as aggregation criteria for separate presentation as reportable segments. These operations are included in the Company's Financial Statements as at December 31, 2020 as the "Other Operations" segment and include the activity of the Incubator, which operates as part of the Group's innovation arm; for further information, see section 15 below; and Group Headquarters activities.

3. Investments in the Company's Equity and Transactions in its Shares

To the best of the Company's knowledge, in 2019, 2020 and through to the date of publication of this report, there were no off-exchange transactions in the Company's shares.

4. Dividend Distribution

Decisions regarding the payment of dividends are made by the Company's Board of Directors. The frequency and amount of distributions are based on the Group's business results and according to its needs.

For information on the distribution of cash dividends by the Company in 2019 and 2020, see Note 26.2 to the Financial Statements of the Company as at December 31, 2020 and also section 2.3 in the Report of the Board of Directors of the Company as at December 31, 2020.

For information on approval of the distribution of a dividend by the Board of Directors on March 21, 2021, see Note 38 to the Financial Statements of the Company as at December 31, 2020 and also section 2.3 in the Report of the Board of Directors of the Company as at December 31, 2020.

The balance of retained earnings on the date of the statement of financial positions is NIS 3,111.

For information on dividends per share distributed by the Company in the years 2010-2020 and for information on the sums distributed by the Company in said period, see section 2.3 in the Report of the Board of Directors of the Company as at December 31, 2020.

For information on the Company's undertakings to external sources of finance to comply with financial covenants, which may influence the Company's ability to distribute dividends in the future, see section 17.2 below.

According to the terms and conditions of the Series E Debentures, the Company has undertaken not to effect a distribution, as this term is defined in the Companies Law, if, on the date of the resolution regarding a distribution or as a result of the distribution, one or more of the following occurs: (1) Grounds are established for immediate repayment; (2) The Company's equity in its consolidated financial statements, excluding a reduction in equity arising as a result of an acquisition of non-controlling interests after the date of issue of the Series E Debentures, is less than NIS 700 million. The Company's satisfaction of this condition will be computed as described in Note 20.6 in the Financial Statements of the Company as at December 31, 2020. For further information, see section 17.2 below.

According to the terms and conditions of the Series F Debentures, the Company has undertaken not to effect a distribution, as this term is defined in the Companies Law, if, on the date of the resolution regarding a distribution or as a result of the distribution, one or more of the following occurs: (1) Grounds are established for immediate repayment; (2) The Company's equity in its consolidated financial statements, excluding a reduction in equity arising as a result of an acquisition of non-controlling interests after the date of issue of the Series F Debentures, is less than NIS 800 million. The Company's satisfaction of this condition will be computed as described in Note 20.6 to the Financial Statements of the Company as at December 31, 2020. For further information, see section 17.2 below.

Other Information

5. Financial Information on the Company's Operating Segments

5.1 Method of consolidating the operations of the subsidiaries in the management (non-GAAP) reports

The Group includes a number of jointly controlled companies in which the Company (directly or through subsidiaries) holds a 50% stake:

- Três Corações (JV) (3C) (the coffee business in Brazil);
- Sabra Dipping Company (the dips and spreads business in the US and Canada);
- Strauss Frito-Lay Ltd. (the salty snacks business in Israel);
- PepsiCo Strauss Fresh Dips & Spreads International (the dips and spreads business under the Obela brand in Australia, New Zealand, Mexico and in Western Europe, where activity is also carried out under the Florentin brand).

According to generally accepted accounting principles, the financial statements of the Company (the statements of income and statements pertaining to financial position, comprehensive income, changes in shareholders' equity and cash flows) of businesses which are jointly controlled by the companies in the Group (together with other partners) are presented in a separate row ("Profit of equity-accounted investees", and in other reports in the relevant section) (hereinafter: the "Financial Statements"). Notwithstanding the foregoing and in light of the reports to Group Management and the method in which Group Management measures the results of the subsidiaries and jointly owned companies, the Group maintains management (non-GAAP) reports in which it presents the activity segments by presenting the Group's relative share of the income and expenses of the jointly controlled companies (50%) as well as other adjustments, as described in section 15 in the Report of the Board of Directors of the Company as at December 31, 2020 (hereinafter: the "Management (Non-GAAP) Reports", the "Management Reports" or the "Non-GAAP Reports"). Presentation of the data in this manner is different to the manner of their presentation in the audited Financial Statements of the Company.

The chapter Description of the Company's Business in the Periodic Report is presented according to the Company's operating segments, and all data presented in this chapter are in accordance with the Company's Management Reports, unless expressly indicated otherwise.

For information on the Company's Management Reports, see section 15 in the Report of the Board of Directors of the Company as at December 31, 2020.

It is clarified that the amounts of income, expenses, assets (including inventory, fixed assets and other assets) and liabilities of the various activities that are directly attributable to those segments – were attributed accordingly. Mixed operations were attributed to a single operating segment, according to the main activity carried out therein. Expenses and assets (including trade receivables) which cannot be directly attributed – were allocated according to the economic models implemented by the Group as at the date of the Periodic Report.

Following are the Company's financial data (consolidated, according to the Management Reports), presented according to activity segments. For further information, see Note 27 to the Financial Statements of the Company as at December 31, 2020.

5.2 Financial data for 2020

2020 (based on the Management Reports)												
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Water	Other	Adjustments for Consolidation (2)	Consolidated
Income	From external entities	2,537	1,144	3,681	712	2,567	3,279	722	668	-	-	8,350
	From other operating segments	6	9	15	2	2	4	-	-	-	(19)	-
	Total	**2,543**	**1,153**	**3,696**	**714**	**2,569**	**3,283**	**722**	**668**	-	**(19)**	**8,350**
Total attributable costs	Costs not constituting income in another segment: Fixed	671	335	1,006	117	794	911	222	166	(11)	17	2,311
	Variable (1)	1,599	703	2,262	437	1,579	2,016	444	410	-	-	5,132
	Costs that constitute income in other segments	6	4	10	2	-	2	-	1	6	(19)	-
	Total	**2,236**	**1,042**	**3,278**	**556**	**2,373**	**2,929**	**666**	**577**	**(5)**	**(2)**	**7,443**
Income from ordinary operations: Attributable to majority interest Attributable to minority interests		214 93	111 -	325 93	158 -	196 -	354 -	56 -	92 (1)	5 -	(17) -	815 92
Total assets		**1,153**	**1,444**	**2,597**	**592**	**2,157**	**2,749**	**644**	**978**	**315**	**-**	**7,283**
Total liabilities		**571**	**583**	**1,154**	**630**	**822**	**1,452**	**218**	**503**	**1,523**	**-**	**4,850**

According to the Management Reports.
Figures are in NIS millions.

(1) Variable costs are costs that are directly and immediately affected by the volume of business activity, as opposed to a fixed cost, which does not change in the short term, and is therefore is not directly and immediately affected by the volume of business activity. For example, a variable cost includes the cost of materials and regular operation of the plant, as opposed to the cost of buildings and machinery, which is a fixed cost.
The Company's main variable costs are consumption of materials, most of the production and energy costs, and part of the wage costs. The Company's flexibility in changing the volume of these costs is closely related to its ability to control its manufacturing activities. The Company can decide to discontinue the operation of production lines, thus creating a decisive impact on the volume of these variable costs. A mechanism is in place between Group headquarters and the Group's subsidiaries and associates for the allocation of joint costs, adjusted so that each company bears its relative share of the joint expenses.

(2) The adjustment of revenues and costs to consolidated data arises from inter-segmental sales of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

5.3 Financial data for 2019

2019 (based on the Management Reports)												
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Water	Other	Adjustments for Consolidation (2)	Consolidated
Income	From external entities	2,277	1,134	3,411	754	2,972	3,726	711	628	-	-	8,536
	From other operating segments	11	7	18	2	2	4	-	-	-	(22)	-
	Total	2,288	1,141	3,429	756	2,974	3,730	771	628	-	(22)	8,536
Total attributable costs	Costs not constituting income in another segment: Fixed	632	320	952	*147	867	*1,014	227	166	*-	7	*2,366
	Variable (1)	1,399	697	2,096	463	1,826	2,289	473	386	-	-	5,244
	Costs that constitute income in other segments	6	5	11	*3	-	*3	-	1	*7	(22)	*-
	Total	2,037	1,022	3,059	613	2,693	3,306	700	553	7	(15)	7,610
Income from ordinary operations: Attributable to majority interest		172	119	291	143	281	424	71	*76	(7)	(7)	*848
Attributable to minority interests		79	-	79	-	-	-	-	*(1)	-	-	*78
Total assets		1,071	1,488	2,559	620	2,354	2,974	689	862	325	-	7,409
Total liabilities		583	624	1,207	703	771	1,474	216	447	1,635	-	4,979

According to the Management Reports. Figures are in NIS millions.

* Restated.

(1) Variable costs are costs that are directly and immediately affected by the volume of business activity, as opposed to a fixed cost, which does not change in the short term, and is therefore is not directly and immediately affected by the volume of business activity. For example, a variable cost includes the cost of materials and regular operation of the plant, as opposed to the cost of buildings and machinery, which is a fixed cost.

The Company's main variable costs are consumption of materials, most of the production and energy costs, and part of the wage costs. The Company's flexibility in changing the volume of these costs is closely related to its ability to control its manufacturing activities. The Company can decide to discontinue the operation of production lines, thus creating a decisive impact on the volume of these variable costs. A mechanism is in place between Group headquarters and the Group's subsidiaries and associates for the allocation of joint costs, adjusted so that each company bears its relative share of the joint expenses.

(2) The adjustment of revenues and costs to consolidated data arises from inter-segmental sales of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

For an explanation of developments occurring in the past year, see the Report of the Board of Directors of the Company as at December 31, 2020.

5.4 Financial data for 2018

2018 (based on the Management Reports)													
		Health & Wellness	Fun & Indulgence	Total Israel	Israel Coffee	International Coffee	Total Coffee	International Dips & Spreads	Water	Other	Adjustments for Consolidation (2)	Consolidated
Income	From external entities	2,177	1,099	3,276	737	3,214	3,951	759	591	-	-	8,577
	From other operating segments	7	10	17	2	2	4	-	-	-	(21)	-
	Total	**2,184**	**1,109**	**3,293**	**739**	**3,216**	**3,955**	**759**	**591**	**-**	**(21)**	**8,577**
Total attributable costs	Costs not constituting income in another segment: Fixed	581	299	880	154	896	1,050	234	153	4	9	2,330
	Variable (1)	1,368	691	2,059	463	2,021	2,484	476	372	-	-	5,391
	Costs that constitute income in other segments	6	5	11	3	-	3	-	1	6	(21)	-
	Total	**1,955**	**955**	**2,950**	**620**	**2,917**	**3,537**	**710**	**526**	**10**	**(12)**	**7,721**
Income from ordinary operations: Attributable to majority interest Attributable to minority interests		158 71	114 -	272 71	119 -	299 -	418 -	49 -	66 (1)	(10) -	(9) -	786 70
Total assets		**1,055**	**1,294**	**2,349**	**495**	2,275	**2,770**	**688**	**772**	**373**	**-**	**6,952**
Total liabilities		**522**	**425**	**947**	**688**	**673**	**1,361**	**227**	**383**	**1,788**	**-**	**4,706**

According to the Management Reports. Figures are in NIS millions.

(1) Variable costs are costs that are directly and immediately affected by the volume of business activity, as opposed to a fixed cost, which does not change in the short term, and is therefore is not directly and immediately affected by the volume of business activity. For example, a variable cost includes the cost of materials and regular operation of the plant, as opposed to the cost of buildings and machinery, which is a fixed cost.

The Company's main variable costs are consumption of materials, most of the production and energy costs, and part of the wage costs. The Company's flexibility in changing the volume of these costs is closely related to its ability to control its manufacturing activities. The Company can decide to discontinue the operation of production lines, thus creating a decisive impact on the volume of these variable costs. A mechanism is in place between Group headquarters and the Group's subsidiaries and associates for the allocation of joint costs, adjusted so that each company bears its relative share of the joint expenses.

(2) The adjustment of revenues and costs to consolidated data arises from inter-segmental sales of finished goods and goods in process, as well as non-recurring depreciation and amortization, revenue and expenses.

6. General Environment and Effects of External Factors on the Company's Activity

In addition to the trends and developments in the food and beverage industry and in the Group's business areas (see section 7 below), there are macroeconomic factors which had or are expected to have a material impact on the Group's activities and its business results. For further information, including the impact of the outbreak of the COVID-19 pandemic, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

Description of the Company's Business by Operating Segment

7. General – the Food and Beverage Industry

The Group operates in the food and beverage industry, which is the key industry in the "fast moving consumer goods" (FMCG) sector and among the most competitive and mature industries in Israel and globally. It is a dynamic industry that responds to the needs, demands and variety of changing tastes of the consumer public in Israel and worldwide.

The business environment is influenced by technological, socioeconomic and regulatory changes that leave their mark on the economy and society and, among other things, affect all players in the food and beverage industry, including consumers, manufacturers, retailers and potential new players.

In the shadow of COVID-19, 2020 was a peak year in terms of sales by value of food and beverages in the retail channel. Peak sales occurred mainly during the lockdowns, which were marked by restrictions on movement, but continued throughout the entire year as a result of at-home learning and working from home and a drop in away-from-home (AFH) food consumption. Certain categories distinctly benefited from this increase, including products suited for home cooking and baking, meat and meat analogues, dairy substitutes, easy-to-prepare frozen products, alcoholic beverages and others. Premium products such as coffee capsules also benefited from a positive trend, growing at a higher rate than market growth rates. Conversely, sales of products for consumption on-the-go and purchases of impulse products dropped, mainly affecting products such as chewing gum, candy, energy bars, etc.

Among the changes that were typical of the market in 2020 are the consumer trends of preferring to shop close to home and growth in the volume of sales by grocery and specialty stores, as well as flexibility in consumer behavior and desires (including the manner and location of consumption or the brand purchased), among other things as a result of regulatory constraints (limitations imposed on movement), concern, and other factors arising as a result of the pandemic. On the other hand, the sales channels that include convenience stores (at gas stations) and the institutional (AFH) market (cafés, restaurants, hotels, etc.) experienced a significant drop in business as a result of the pandemic due to the lockdowns and regulatory constraints such as the restriction imposed on movement.

Additionally, in 2020, following the crisis, acceleration was observed in trends witnessed in the past, first and foremost a significant increase in e-commerce, with online shopping being adopted for the first time by population groups that did not typically use this platform before the pandemic, and ordering out from restaurants.

Another trend that began before 2020 and continued throughout the year was accelerated growth in the brands of small suppliers, whose market share grew on account of the market share of large vendors. This can be attributed to the rise in online shopping, which led to increased exposure of small brands and also eliminated the competitive advantage of shelf space enjoyed by large suppliers. Another cause is supply chain problems experienced by large companies, mainly in the second quarter, which led to inventory shortages (particularly in the US).

Yet another trend that was typical of 2020 is a slight drop in private label sales after years of market share growth, which, in the Company's estimate, is also due to the increase in online consumption[6].

A further trend observed in 2020 is the consumer's increased awareness of his budget and his desire to cut down on expenses, including a preference for cheaper product alternatives and for economy packs at the expense of single-portion packs, and preference for products with a long shelf life. At the same time, following the drop in leisure and entertainment expenses (including travel, vacations and restaurants), there has also been a trend of growing demand for special products, with consumers looking for products that deliver added value, such as premium products, vegan products and health products.

An additional trend that continued is the consumption of products that are wholesome, natural and higher in nutritional value (products with clean labels, a small number of ingredients and low in preservatives and artificial ingredients).

For possible future effects of the spread of COVID-19 on the consumer trends described above, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

In the Company's estimate, these trends will persevere in 2021, including online grocery shopping, which, the Company believes, is expected to remain strong in 2021. The Company also estimates that the sustainability trend, which did not receive much attention during the COVID-19 crisis, will resume its place in the consumer discourse, leading to growing demand for products that are more eco-friendly. The Company also estimates that the institutional and AFH market will gradually reopen in 2021 as the pace of coping with the health crisis picks up. At the same time, it is also possible that food and beverage consumption will be negatively affected following the global economic crisis.

Entry barriers to the sector – the main entry barriers that are common to all of the Group's operating segments arise from the need to maintain a brand that is relevant; the need for technological knowhow in product development and manufacturing and extensive investments required to build production sites; as well as the need for sales and distribution infrastructure to serve customers

In 2020 there were changes in the resilience of barriers to market entry. In some categories in the sector these barriers, which formerly made it difficult for new players to enter the market, were lowered due to online marketing and selling capabilities, for example, marketing via social media and the option of production and marketing through outsourcing. Conversely, the demands made by consumers and

[6] For Israel, based on StoreNext's report of January 25, 2021; and for the US and Europe, on the IRI report of November 10, 2020. Also with respect to the US, the IRI report of February 17, 2021.

regulators of food companies have raised the entry barriers as far as food safety issues and food quality challenges are concerned.

Success factors – in the Group's operations in the food and beverage industry, there are several critical success factors that are common to all operating segments and also constitute a positive element that affects the Group's competitive position: brand power; branded products delivering an experience and added value to the end consumer; a wide variety of products and a variety in each operating segment, designed for the general population and catering to various consumption opportunities. Other factors of major importance in today's changing markets are continuous product innovation based on a deep connection with the consumer, including health issues; assurance of top quality; a broad-scale distribution system assuring high product availability at numerous points of sale; partnerships with prominent international players in the industry; social goals; care for the environment; credibility and transparency.

The information contained in this section regarding the characteristics of the food and beverage industry, including consumer trends and the Company's estimates with regard to 2021, is forward-looking information as this term is defined in the Securities Law, which is based on information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual events may differ materially from those anticipated, among other things as a result of developments in the markets in which the Company operates, including the implications of the spread of the COVID-19 pandemic on these markets.

Following is a description of the Group's businesses presenting each operating segment individually, except for matters that relate to all segments, which are described in the fourth part of this chapter.

8. The Israel Operation

At a glance		
	Market share(7)	~12%
	% of products that are leading brands(8)	~51%
	% of products with second-largest market share(9)	~26%
	We removed 142 tons of sugar from our products and 7 tons of salt from our salty snacks	

8.1 General information on the Israel Operation[7][8][9]

Following is general information on the Israel operation, which is common to the Health & Wellness and Fun & Indulgence segments.

8.1.1 Structure of the Israel Operation and changes occurring therein

The Group develops, manufactures, sells, markets and distributes a wide range of branded food and beverage products in Israel. The Company also sells food products on an immaterial scale outside Israel, mainly to the kosher market. According to StoreNext[10] data, as at December 31, 2020, the Company is the second-largest food and beverage group in Israel in terms of sales turnover.

In 2020, the Group continued to focus on improving its products through added-value innovation to the consumer, delivering a response to current and new consumer trends. In this context, the Company continued to focus on improving the nutritional value of its products (by reducing sugar, saturated fat, sodium, preservatives and artificial ingredients), in addition to providing a response to the indulgence and premium trends. The Group also enlarged the variety of products and flavors, including expansion of the range of high-protein products (by expanding the Pro brand, which provides a response to the high-protein trend). Additionally, the Group continued to target various population groups, including people who are sensitive to certain food products such as those that contain lactose and gluten, providing them with solutions by expanding the range of gluten-free and lactose-free products, as well as targeting new groups through the launch of a variety of products that provide a response to the plant-based trend (the Group began to distribute the Alpro brand, expanded the Only brand and prepared for the construction of a new manufacturing facility for the production of plant-based dairy products). The Group also

[7] See Footnote #1 above.
[8] See Footnote #1 above.
[9] See Footnote #1 above.
[10] See Footnote #1 above.

continued to launch products in packages with measured calorie content, and to improve consumption convenience by launching portion-controlled products in alignment with the snacking trend in which customers consume small portions between meals at the expense of large meals, and in response to the ready-to-eat trend to save preparation time. Furthermore, the Group continued to launch culinary products such as sauces and a variety of ready-to-eat salads and vegetables in response to the ready-to-cook trend, which gained momentum in 2020 following the COVID-19 outbreak as consumers shifted to working and studying at home, in parallel to the closure of the restaurant trade.

The COVID-19 outbreak also led to the expansion of the Group's D2C (direct-to-consumer) activities through online sales of the Group's products on an immaterial scale on the Company's websites (Let's Giftit) as well as sites that are not owned by the Company, which serve as a distribution platform, and collaboration with the Israel Coffee Division in online sales of additional products via the Internet coffee store. The Company's supply and distribution chain was operational throughout 2020 and at the date of this report is operating fully and regularly, but was affected by high production costs due to work procedures implemented by the Group in light of COVID-19.

In January 2020 the Public Health Regulations (Food) (Nutritional Labeling), 2017 took effect (hereinafter: the "Regulations"). 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.

In the Company's estimate, the impact of COVID-19, the disruption to routine and the challenges posed by the crisis led to a significant change in priorities among consumers, and consequently, in 2020 the impact of the Regulations was moderate.

In January 2021 the above Regulations entered the second stage, which is expected to affect a number of the Company's brands. For further information, see section 10 in the Report of the Board of Directors of the Company as at December 31, 2020.

In the Company's estimate, implementation of the second stage of the Regulations, similar to the first stage, will have a moderate effect on the Company's business results.

The information contained in this section, that implementation of the second stage of the Regulations will have a moderate effect on the Company's business results, is forward-looking information as this term is defined in the Securities Law, 1968, which is based on the information available to the Company on the date of the report and includes the Company's estimates on the reporting date. There can be no assurance that these estimates will, in fact, occur, among other things as a result of various developments in the state of the economy, including the impacts of the spread of COVID-19 on the markets in which the Company is active.

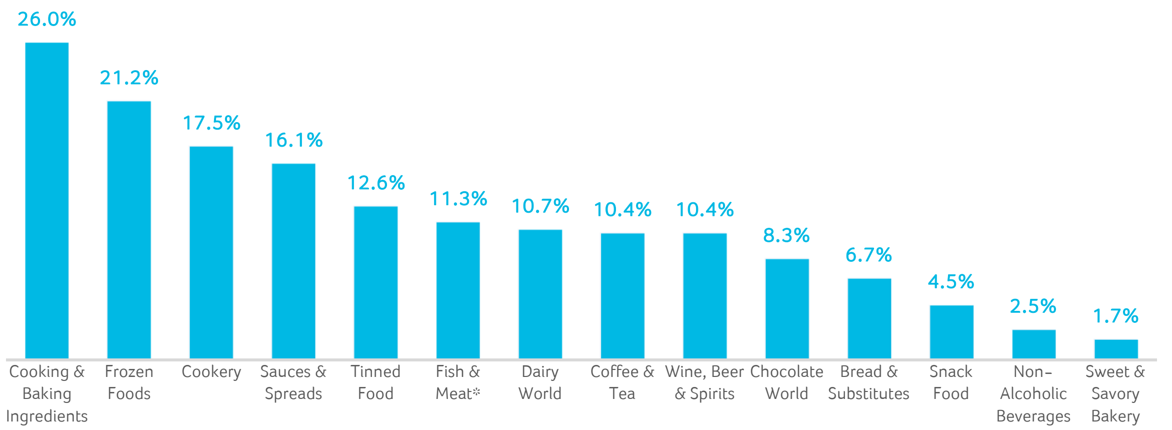
8.1.2 Changes in the scope of the activity framework and its profitability

According to StoreNext figures[11], in 2020 the food and beverage sector in the barcoded market in Israel grew at an exceptional rate of 9.3% in nominal terms as a result of the outbreak of the pandemic, the lockdowns and the drop in AFH food consumption at restaurants, hotels and offices, compared to an increase of 2.6% in 2019[12].

In 2020, the food and beverage industry in Israel is estimated at NIS 42.68 billion in nominal terms, compared to NIS 39.06 billion in 2019.

The increase in the volume of sales in 2020 is evident in all of the main food categories (according to StoreNext figures[13]):

Changes the Scope of Sales by Value in 2020 in Leading Categories in the Food and Beverage Sector



*Not including butchery and fresh fish.
2019 data were adjusted for StoreNext's updated calculations[14].

For further details, see section 21.1 (the Group's Activity in Israel) in the Report of the Board of Directors of the Company as at December 31, 2020.

8.1.3 Developments in the markets of the activity segment or changes in customer characteristics

The past few years were characterized by the continuing growth in competition in the food sector in Israel. The competition between retail chains, coupled with consumer price sensitivity, increasingly rigorous regulation and the increase in the minimum wage have eroded retailer profitability and placed downward pressure on manufacturers' profit margins. In addition, large retailers have begun to enter other businesses beside the retail trade, including the business of distributing dry goods, mainly by

[11] See Footnote #1 above.
[12] 2019 figures were adjusted for StoreNext's updated calculations.
[13] See Footnote #1 above.
[14] See Footnote #1 above.

opening cash and carry stores (wholesale stores selling to retailers and small businesses) or establishing infrastructure for distribution and sales to small retailers at attractive prices to enable them to compete directly with food manufacturers (for example, Shufersal launched a wholesale store in Be'er Yaakov in 2018 and another in Haifa in 2020. In addition, this year Shufersal acquired Amiga Food Marketing with the aim of initiating business in the institutional market).

Moreover, in recent years, a number of M&A transactions were executed among the large retail chains, which have changed the retail map, causing the market to become more centralized, including the merger of the Mega chain with Yenot Bitan in 2016, the acquisition of New Pharm by Shufersal in 2017 and the partnership between Rami Levy Shivuk Hashikma and Cofix in 2017, which enabled the former to introduce business in city centers. In 2019 the trend perpetuated and the Machsanei Hashuk chain acquired Co-Op after Co-Op had entered a stay of proceedings at the end of 2018, and the Netiv Hachessed chain acquired the Barkol chain. Further, according to publications in the media, at the end of 2019 the Yenot Bitan chain became financially distressed in light of the growing competition and erosion of margins in the Israeli retail market and began selling stores to various chains, including Freshmarket and Victory. In 2020 the trend continued, and Yenot Bitan sold over 10 stores. According to a statement by the Yenot Bitan chain, further sales of stores are expected in 2021.

This phenomenon of mergers and acquisitions of large retail chains is affecting, and is likely to continue to affect, manufacturers' margins.

In terms of sales channels, in 2020 the small private market (minimarkets, groceries and convenience stores) continued to grow stronger at the expense of the large retail chains, with 10.7% growth compared to 2019 according to StoreNext data[15].

For the distribution of sales by sales channels, see section 12.1.1 below.

Following the COVID-19 pandemic, online sales grew at an accelerated pace as a result of the change in the public's consumption habits, which expedited processes that were already underway among retailers. The Company estimates that more retailers will follow suit and use this sales channel, which will continue to grow at an accelerated pace.

The Company's estimates are forward-looking information as this term is defined in the Securities Law, which is based the Company's estimates on the reporting date, which in turn are based on past experience and on the information available to the Company. Actual results may differ materially from those anticipated, among other things as a result of changes in consumer trends, various developments in the Israeli economy, etc.

Further, according to StoreNext figures[16], in recent years the large retail chains have promoted their private label products[17].

In recent years the FMCG market experienced price increases. According to StoreNext's report[18], most of the large suppliers raised their prices in light of the rise in key raw material prices and other costs.

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[15] See Footnote #1 above.
[16] See Footnote #1 above.
[17] For further information, see section 8.1.8. below.
[18] StoreNext's report of January 24, 2021.

In the past year Group has maintained its policy in recent years of refraining from raising its prices and did not raise prices in Israel other than price increases under the Increase in Controlled Prices of Dairy Products Order, and continued to take various steps to lower retail prices by means of campaigns across a broad variety of products with the aim of maintaining a competitive price level. For details on the impacts of the above trends and on changes in revenue and profitability in the Health & Wellness and the Fun & Indulgence segments, see section 21.1 in the Report of the Board of Directors of the Company as at December 31, 2020 and also section 25 below.

8.1.4 Major consumer trends

In alignment with the consumer trends in the food and beverage market (see section 7 above), the major consumer trends in the Israeli market in 2020 are a shift to planned purchases based on a budget and less impulse buying, a rise in the consumption of basic products, coupled with an opposite rising trend in the demand for premium products, since consumers are looking for compensation in food as well. Additionally, continued growing demand was observed for products with components that are considered healthier, growing strength of the trend of food as preventive medicine that boosts the immune system, and great emphasis on hygiene and food safety. Additionally, 2020 was marked by a trend of growth in community consumption, and there are steadily growing communities that consume foods for health or nutritional reasons (for example, gluten-free, low-carb, high-protein, etc.) such as the keto and paleo diets, along with growth in the plant-based trend based on a belief in veganism, vegetarianism and population groups seeking non-meat foods, alongside nutritional beliefs.

2020 was also accompanied by a switch to shopping in neighborhood stores that are close to home, coupled with the growing strength of online shopping, mainly among the older public. In Health & Wellness, the prominent consumer trends are plant-based products, high-protein products, "better for you" products (products that contain no lactose, gluten, sugar or preservatives, contain fewer calories and less sodium), and products enriched with fiber and vitamins. Additionally, the ready-to-eat/drink/cook category is developing, where consumers seek simple and available solutions for complete meals or snacking that involve a minimum of time and effort, without compromising on taste and healthiness. In the context of its response to this trend, the Company is to launch activity in the frozen food category, focusing on ready-meal solutions. For further information, see section 23.1 below.

In Fun & Indulgence the trends are similar, since the same consumer is looking for solutions that are preferable in terms of health, as well as quick. The snacking trend is growing, accompanied by a switch to single-portion products for snacking and portion-controlled light meals, as well as when looking for an indulging treat and as a way for parents to control treats for their children. The premium trend has continued to grow and has led to the creation of the super-premium category, based on the concept that a treat must be especially indulging, particularly in 2020, when premium options away from home were limited.

The Company monitors consumption trends and adapts its products accordingly, and from time to time reviews the alignment of its strategy and activities with the trends. For the possible impact of the COVID-19 outbreak on the consumption trends described above, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

8.1.5 Restrictions, legislation, standardization and special constraints applying to the Company

For further information, see sections 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

8.1.6 Critical success factors in the Israel Operation and changes occurring therein

In addition to the critical success factors that are common to all of the Group's operating segments as described in section 7 above, there are success factors that are unique to the Israel Operation or such that are particularly significant, such as a strong and leading corporate brand and leading brands in the different products; strong product credibility among consumers, with emphasis on product quality and freshness and the consumer's trust in the Company; unique operational and logistic capabilities required in the production, distribution and storage of products requiring chilled conditions; rapid launching of innovative, experience-intensive products; product development and innovation; financial strength for substantial investments in branding; financial strength for capital investments for the purposes of growth, innovation and improvement of product quality; smart cost management in sales campaigns; the ability to adapt existing products to emerging consumption trends; the ability to develop unique products while adapting them to different population segments and their unique requirements; replacement and refreshment of products on store shelves; a large-scale distribution system allowing for quick and efficient distribution of products to points of sale with high frequency; and product availability at the point of sale.

8.1.7 Major entry barriers to the activity framework and changes occurring therein

In addition to the major entry barriers that are common to all of the Group's operating segments as described in section 7 above, kosher requirements occasionally form an entry barrier to foreign manufacturers, which are required to adapt their products to kashrut requirements in Israel. Other major entry barriers with respect to the manufacture of dairy products are the need for large investments in the necessary production infrastructure; the need for relatively sophisticated manufacturing technology and for advanced quality control systems; the need to develop capabilities for addressing the freshness issue in mass production and in distribution; and a short shelf life.

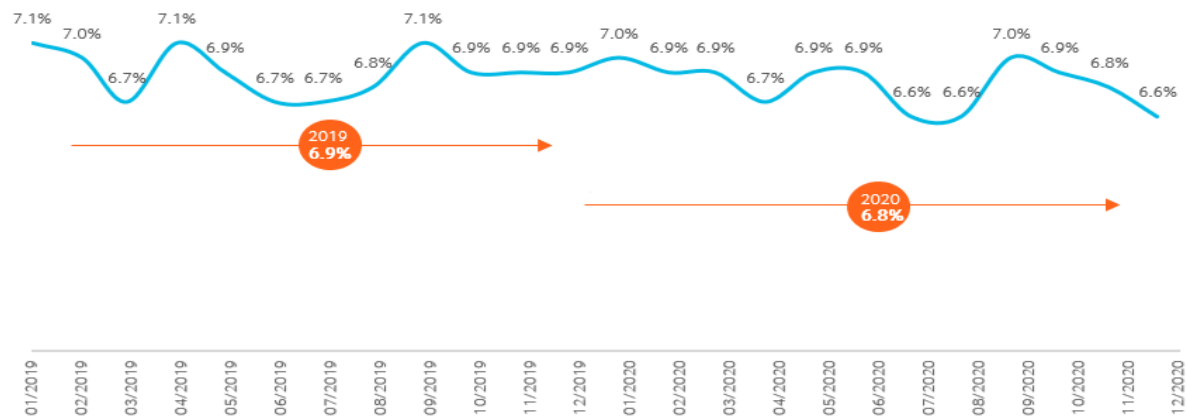
8.1.8 Competition and substitutes for the products of the activity framework

The Israeli food industry is characterized by intense competition between food manufacturers that sell similar and interchangeable products. Moreover, in recent years the large retail chains have promoted their private label products, which compete with the products of food manufacturers. This trend continued in 2020 and has contributed to increased competition. According to StoreNext[19] figures, private label sales amounted to about NIS 3.5 billion in 2020, an increase of 8.3% over 2019. For further information on the possible effects of gains in strength by private labels, see section 25.3 below.

The share of private labels in the FMCG market (fast moving consumer goods: food, beverages, home care and personal grooming) in 2020 decreased slightly and was 6.83%, compared to 6.89% in 2019, according to StoreNext[20] figures.

[19] See Footnote #1 above.
[20] See Footnote #1 above.

Private Label's Value Share of the FMCG Market



2020 data were adjusted for StoreNext's[21] updated calculations.

In addition, in the past few years, as a result of the appreciation of the Israeli shekel, imports of inexpensive rival products (mostly dry) increased, most of which are not subject to customs duties or quotas.

The Group's products have substitute products offered by competing manufacturers, including imported products and retailers' private labels.

The Group continuously contends with the competition by developing and launching innovative products; entering new categories; investing in manufacturing facilities and in the development of technological capabilities; concentrating marketing and advertising efforts; building and maintaining its brands; maintaining a comprehensive distribution network; and collaborations with international concerns (Danone and PepsiCo), enabling the Group to make use of knowhow and trademarks. Additionally, according to the data of Yifat Advertising Monitoring[22], the Group continued to be the leading advertiser in Israel[23] in 2020 in both the general market and the food and beverage market.

In the Company's estimate, negative factors that impact or could impact the Group's competitive position in Israel include the following: actions taken by retail chains, such as the growing strength of private labels; expansion of the activity of international food manufacturers in the domestic food market in Israel; increased imports of inexpensive branded and non-branded products on a one-time basis; increasing regulation to the disadvantage of large food companies; development of brands and selling and marketing capabilities by competitors.

For information on positive factors influencing the Group's competitive position, see section 7 above.

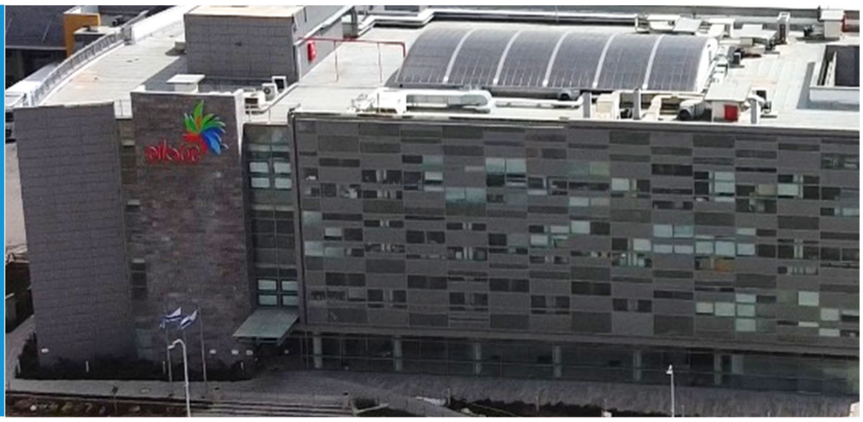
[21] See Footnote #1 above.

[22] Yifat Advertising Monitoring specializes in data collection and analysis and in monitoring campaigns broadcast on all media in Israel. Data are current according to a report published in February 2021.

[23] Strauss figures include all of the Group's brands in the Israel geography, excluding Tami4.

8.1.9 Fixed assets, real estate and facilities

Below is a description of the main facilities used for the group's operations in both sectors included in the activity of Israel:



Fixed Assets in the Israel Operation				
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**	**Liens**
Logistics center, Shoham Business Park complex	Logistics center	71 dunam (~71,000 m^2)	40,000 m^2 [1]	--

Rights in and to the site:

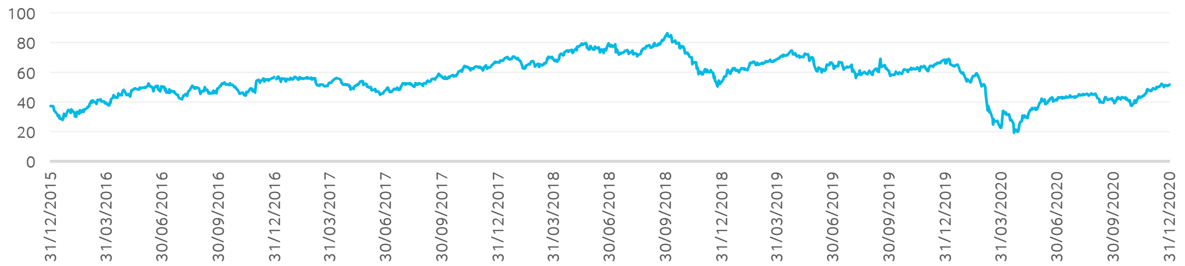
(1) Leased by the State of Israel Development Authority for 49 years commencing on December 9, 2009, with an option to extend for a further 49 years.

8.1.10 Raw materials and suppliers

a. For a description of volatility in the prices of raw materials used by the Group in Israel, see sections 8.2.11 and 8.3.11 and also section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

b. The main packaging materials used by the Group in the Israel operation are laminates and plastic sheets, polystyrene, readymade cartons and plastic cups and bottles, which are purchased from various manufacturers in Israel and overseas (mainly in Europe). Packaging material prices are influenced by global supply and demand and oil prices, since oil is a key component in the manufacture of packaging materials. In 2020 oil prices dropped and hit rock bottom in the second quarter, remaining stable until the end of the year.

The figure below presents the changes in the price of Brent oil in 2015-2020 according to Bloomberg:



US dollars per 1,000 barrels

The price of packaging materials is also affected by energy prices. For further information on energy prices, see section 4 in the Report of the Board of Directors of the Company as at December 31, 2020.

The Group contends with volatility in the prices of raw and packaging materials through efficiency enhancements in procurement, production, sales and marketing processes, the use of substitute materials, and also by hedging the prices of some of the raw materials.

Availability of raw materials purchased outside of Israel depends, among other things, on the ability to import them to Israel, on sea or air shipping schedules and on the regular activity of the ports in Israel. In 2020, due to the pandemic and restrictions on transportation, shipping prices rose. Notwithstanding the foregoing, the availability of raw materials was not impaired.

c. It is the Group's practice to purchase raw and packaging materials from a wide variety of suppliers according to its requirements, and it chooses its suppliers on the basis of the quality of the goods they offer, their availability, the supplier's credibility and stability, and the prices they offer. As a rule, it is the Group's policy to have a number of suppliers for each type of raw materials (to the extent possible). Most of the Group's agreements with its suppliers are framework agreements, usually for periods of up to 12 months (in a few cases, also for periods of more than 12 months), which include delivery dates, price, specifications, supply quantities and credit terms. Purchases are made on the basis of regular orders.

For further information on raw materials and suppliers in the Health & Wellness segment, see section 8.2.11 below, and in the Fun & Indulgence segment, see section 8.3.11 below.

8.2 The Health & Wellness Segment

8.2.1 General information

Health & Wellness products are characterized by the emphasis of nutritional and functional aspects that are important to the consumer's diet. Features emphasized in the development of healthy products include raw material composition, inclusion of functional health values, replacement of ingredients with healthier ones, reduction of fats, sugar, sodium, preservatives and calories, etc. A considerable part of Health & Wellness products are fresh products, characterized by a relatively short freshness period (usually between 5 to 45 days) and by the need for chilled storage, transportation and sale (4°C).

8.2.2 Products

Generally, the Group's major Health & Wellness products are marketed in Israel under the Group's brands, as follows:

(1) The "**Strauss**" brand, including the brands "**Milky**", "**Dany**", "**Daniela**", "**Gamadim**", "**Ski**", "**Symphony**", "**Cottage**" cottage cheese, "**Splendid**", "**Soom**", "**Limbo**" – mostly dairy desserts and soft white cheeses. For example:

(2) The "**Achla**", "**Ta'am HaTeva**", "**Delicatesse**" and "**Eat Good"** brands – fresh pasta products, ready-to-eat packaged salads, including hummus, eggplants, tahini, piquant salads, washed and packaged fresh vegetables, boutique salads, ready-to-fry or bake falafel, and ready-to-eat vegetables and legumes packed in cartons. For example:

(3) The “**Danone**” brand, including the brands “**Actimel**”, “**Activia**”, “**Danacol**” and “**Danone PRO**”. For example:

(4) The “**Yotvata**” brand – flavored milk beverages, milk, enriched milk, protein enriched milk beverages, liquid milk products (leben (cultured milk), sour cream), sweet cream, including cream sauces for quick preparation, cold coffee beverages in cups. For example:

(5) The “**Yad Mordechai**” brand - honey products, olive oil, fruit preserves, cooking sauces, balsamic vinegar, bottled lemon juice, natural maple syrup, date honey and Dijon mustard. For example:

(6) The “**Energy”** brand – cereal snack bars, rice crisps and granola. For example:

The Group also markets products manufactured by others, which are not sold under the Group's brands, such as zhug (Yemenite hot pesto) manufactured by "**Zehavi**", a line of refrigerated sauces and spreads manufactured by "**Alalechem**", natural juices manufactured by "**Ganir**", chilled yeast and margarine manufactured by "**Shimrit**", goat's milk yogurt manufactured by "**Halav Haaretz**", tofu manufactured by "**Weiler Farm**", butter spreads, cream cheeses and "boutique" cheeses manufactured by **Arla**, and non-dairy priobiotic yogurt under the "**Only**" brand, made by Yofix. In 2020, following the Group's entry into the dairy substitute category, in addition to the Soom and Only brands, the Group began distributing Alpro products in Israel, which include plant-based beverages, desserts and cream. For example:

2020 was marked by continued innovation and diversification in most Health & Wellness categories. The Company continued to focus on improving the nutritional values of its products (by reducing sugar, saturated fats, sodium, and preservatives and artificial ingredients).

The Group also continued to lead the growth trend of protein-enriched products in the dairy market by further expanding the Pro brand, which includes a variety of protein-enriched products such as Pro+, enriched with magnesium and caffeine, Pasta Pro and Hummus Pro. Additionally, the Group expanded the manufacture of products aligned with the plant-based consumption trend, which is gaining momentum in Israel and globally, under the Soom and Only brands. The Company also began to distribute Alpro products in Israel and is preparing to set up a new manufacturing facility for the production of plant-based dairy products, among others.

The outbreak of the pandemic led to the acceleration of trends such as increased at-home consumption, home cooking and baking, greater awareness of health, the importance of the immune system and hygiene, and also caused a marked increase in online shopping and a switch from AFH/OTG purchases to retail shopping for at-home consumption. The Group took action to provide a response to these trends by adapting its innovation products and the range of products it manufactures and distributes such as ready-to-cook sauces, fresh herbs, the variety of salads, dips and spreads and others. The demand for healthier products led to significant growth in yogurt products.

8.2.3 Segmentation of income and product profitability (according to the Company's Management Reports, as defined in section 5 above)

Following is information on the segmentation of the Group's income from external entities (consolidated) according to the Company's Management Reports, as defined in section 5 above, arising from groups of similar products in the Health & Wellness segment, constituting 10% or more of the total of said revenues, in the years 2020, 2019 and 2018:

Segmentation of the Group's Income from External Entities (Consolidated)						
Group of Similar Products	Income			Percentage of Group's Total Income		
	2020	2019	2018	2020	2019	2018
Dairy products[(1)]	1,800	1,640	1,517	21.5%	19.2%	17.7%

In NIS millions
(1) Mainly including yogurt, dairy desserts, soft white cheeses, enriched milk and flavored milk beverages.

8.2.4 Competition

The main competitors in dairy products are Tnuva and Tara (of the Central Bottling Company). Other competitors include Gad, Zuriel and Jacobs Dairy Farm, mainly in cheeses. There are also importers who mainly import hard cheeses, butter and yogurt such as Willi-Food (under the Euro brand), Neto and Seyman. The large retailers also import hard cheeses and butter and are granted customs-exempt quotas by the Ministry of Economy for this purpose. There are additional competitors in every product group in the segment.

The past few years have been characterized by the intensification of the competition in Israel's food sector, including continued growth in imports (see section 8.3.4 below). The economic crisis in the wake of the COVID-19 outbreak also contributed to harshening competition as a result of the back-to-basics trend, with consumers looking for value for money and shopping according to a defined budget.

2020 was marked by aggressive competition in the dessert and yogurt market, with which the Company contended through intensive innovation, creating added and distinct value for its products and by strengthening its existing brands.

The following table presents information on the market shares of the Group and its major competitor in each group of similar products in the years 2020 and 2019 with respect to the Group's main Health & Wellness products, according to weighted data based on StoreNext figures[24] for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

[24] See Footnote #1 above.

Weighted Market Share				
	2020		2019(1)	
	The Group	Major Competitor	The Group	Major Competitor
Yogurts(2)	48.8%	32.5%	46.9%	34.3%
Cheeses(3)	25.0%	57.8%	24.9%	58.4%
Dairy desserts(4)	70.4%	18.2%	68.8%	20.1%
Milk beverages	72.4%	17.4%	69.8%	20.6%
Fresh drinking milk(5)	15.0%	60.1%	13.5%	60.5%
Packaged salads(6)	43.5%	31.0%	39.3%	31.0%
Washed and packaged vegetables	40.5%	32.1%	44.2%	31.1%
Honey	57.3%	19.2%	55.2%	21.0%
Olive oil	17.7%	19.7%	19.8%	19.3%

(In percent – value)
(1) The figures for 2019 were adjusted for StoreNext's updated calculations[25].
(2) Including probiotic beverages.
(3) Including cottage cheese, cream cheeses and soft cheeses.
(4) Including cheese desserts for toddlers – Gamadim, Daniela, etc.
(5) Including fresh and enriched milk.
(6) Including the Achla brand products.

The drop in the market share of olive oil is the result of increased competition in this product group. The drop in the market share of washed and packaged vegetables is the result of decreased activity during relocation to the new manufacturing facility in Bror Hayil.

[25] See Footnote #1 above.

8.2.5 Seasonality

Following are data for the years 2020 and 2019 with respect to the Group's income in the Health & Wellness segment, by quarter, according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the Health & Wellness Segment				
	2020		2019	
	Income(1)	% of Total Segment Income	Income(1)	% of Total Segment Income
Q1	617	24.3%	538	23.6%
Q2	618	24.4%	561	24.7%
Q3	676	26.6%	613	26.9%
Q4	626	24.7%	565	24.8%
Total	**2,539**	**100%**	**2,277**	**100%**

(1) In NIS millions.

There is no distinct trend of seasonality in Health & Wellness products; however, the volume of income is generally (relatively) higher in the third quarter of the year, when the hot summer months fall and consumption of dairy products increases. This trend was also maintained in 2020.

8.2.6 Production capacity

The production capacity of the Group's plants in the Health & Wellness segment is measured in quantities of product per year. The production lines in the Group's sites in the Health & Wellness segment are automatic, and most of them are operated in three shifts a day.

In 2020, and particularly in the lockdown months, the plants operated in 12-hour two shifts per day in order to maintain work "bubbles" and ensure continuous production.

It is noted that the Group's plants in this segment are not alternate, and that also most of the production lines themselves are not alternate. The maximum potential yearly production capacity of the Group's manufacturing sites in the Health & Wellness segment, operating in three shifts, in tons of product per year in 2020 and 2019 was approximately 344 thousand tons and 359 thousand tons, respectively. The actual average capacity utilization rate in 2020 and 2019 was approximately 57% and 51%, respectively. The increase in the capacity utilization rate is the result of very high demand at certain points in time during the year, particularly during the first and second lockdowns. It is noted that a number of production lines in the activity segment are liable, at certain points in time and during holiday periods, to reach their maximum production capacity. In addition, as necessary, the Group manufactures some of its products through outsourcing, which affords it operational flexibility. It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. Additionally, the Group is preparing to set up a manufacturing facility, among other things for the purpose of producing plant-based milk.

8.2.7 Fixed assets, real estate and facilities

Following is a description of the main manufacturing sites, distribution and cross-docking center serving the Group in the Health & Wellness segment

8.2.7.1 Plants

Plants in the Health & Wellness Segment				
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**	**Liens**
Dairy in the Bar-Lev industrial park	Production of dairy products	65,000 m² (1)	21,000 m²	---
Dairy in Kibbutz Yotvata	Production of milk beverages and enriched milk	26,000 m² (2)	6,100 m²	---
Carmiel	Production of salads	18,000 m² (3)	9,000 m²	
Sde Nitzan(*)	Cutting, mixing and packaging of fresh chilled vegetables	2,800 m² (4)	2,560 m²	---
Bror Hayil(*)	Cutting, mixing and packaging of fresh chilled vegetables	12,590 m² (5)	4,300 m²	---
Yad Mordechai Apiary	Honey products, olive oil, fruit preserves, cooking sauces, bottled lemon juice and natural maple syrup	15,600 m² (6)	6,000 m²	---

* In the third quarter of 2020 the Company initiated operations in the new plant in Bror Hayil, which serves for cutting, mixing and packaging fresh chilled vegetables. The plant has replaced the Company's operation at the plant in Sde Nitzan, where the contract ended in December 2020.

Rights in and to the site:

(1) Leased from the Israel Land Authority under two contracts. The lease period is 49 years commencing in June 1997, with an additional lease period of 49 years.

(2) A sublease from Kibbutz Yotvata. Part of the area of the dairy has been leased until 2026 (under a 1977 lease agreement) and another part until 2046. The sublease has not yet been approved by the Israel Land Authority (ILA). It is estimated that there is no impediment against the receipt of said approval, although the receipt thereof is likely to involve payment of capitalization fees to ILA. The Company's estimate regarding obtaining ILA approval is forward-looking information based on ILA policy and may not be realized in a case of policy change.

(3) Ownership.

(4) The lease from Sde Nitzan ended in December 2020, subject to 9 months' advance notice of shortening the lease. On the date of this report, a decision on the possibility of making continued use of the Sde Nitzan site after the activity has been transferred to Bror Hayil has not yet been made.

(5) A sublease ending on May 30, 2031, with an option to extend the lease for two further periods: 6 years followed by 5 years and 6 months, subject to extension of the third party's lease agreement with ILA.

(6) Leased from Kibbutz Yad Mordechai until December 31, 2023.

8.2.7.2 Distribution, logistics and cross-docking centers

Distribution, Logistics and Cross-Docking Centers in the Health & Wellness Segment				
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**	**Liens**
Logistics center in Haifa Bay	Chilled distribution in northern Israel	8,865 m^2 (the Group holds 60% of this area)(1)	5,300 m^2 (the Group holds 60% of this area)	---
Cross-docking site in Beersheba	Chilled storage site for chilled distribution in the northern Negev and Lachish region	4,920 m^2 (the Group holds 50% of this area)(2)	2,000 m^2 (the Group holds 50% of this area)	---
Logistics center in Kfar Masarik	Chilled storage site for chilled distribution in the northern region and to offices	18,000 m^2 (3)	7,800 m^2	---

For information about the Group's logistics center in Shoham, see section 8.1.9 above.
For information on Company policy for depreciating machinery and equipment in its various manufacturing plants, see Note 3.4.5 to the Financial Statements of the Company as at December 31, 2020.
Rights in and to the site:
(1) Leased from a third party; lease ends on March 31, 2023. About 40% of the site is leased to Unilever from November 1, 2018 until March 31, 2023.
(2) Leased from ILA under a capitalized lease contract for a 49-year period ending in 2029. About 50% of the site is leased to Unilever until December 31, 2022.
(3) Subleased from a third party for a 15-year period to commence on delivery of possession after the lessor has completed construction (completion is planned for 2023) as defined in the lease agreement, with two option periods, the first for 5 years and the second for 4 years and 11 months.

8.2.8 Research and development

For a description of R&D carried out in the Group, see section 15 below. Dairy products are developed, inter alia, using Danone's comprehensive knowhow.

8.2.9 Intangible assets

8.2.9.1 Licenses and franchises

Strauss Health has a licensing agreement with Danone for the use of knowhow and trademarks. For information on the licensing agreement and the payments paid in respect thereof, see section 8.2.14.1 below.

8.2.9.2 Trademarks

Given the Group's focus on branded products, the importance of registering trademarks on its brand names is great. Trademarks are registered in the Group's name in Israel on most of the brand names serving it in the Health & Wellness segment, except for trademarks that are registered in Danone's name, which are used by the Group under the licensing agreement with Danone as described in section 8.2.14.1 below.

The Group also uses the trademark "Strauss", registered in the name of Strauss Holdings. For information on the right granted by Strauss Holdings to the Company to use the name Strauss, see the description of the agreement between the Company and Strauss Holdings in section 21.1 below.

The registration of trademarks in Israel is valid for limited periods prescribed in the legislation and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic life of its major trademarks is indefinite. For further information, see Note 15.2 to the Consolidated Financial Statements of the Company as at December 31, 2020.

For an itemization of costs and changes in intangible assets in the years 2019 and 2020, see Note 15.1 to the Financial Statements of the Company as at December 31, 2020.

8.2.10 Human capital

For a description of the Group's organizational structure and information on employment agreements, see section 16 below.

Following is information on the number of employees in the Group in the Health & Wellness segment:

Number of Employees in the Health & Wellness Segment		
	December 31, 2020	**December 31, 2019**
Administration	99	101
Sales and distribution	64	65
Logistics	308	304
Operations	613	598
Total	**1,084**	**1,068**

Including 55 and 52 employment agency workers, as at December 31, 2020 and 2019, respectively.

8.2.11 Raw materials and suppliers

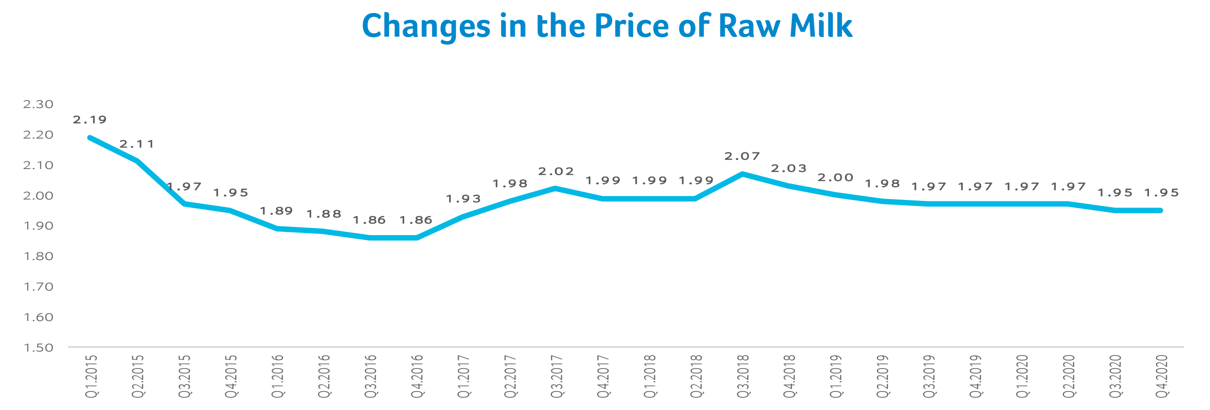
The major raw material used by the Group in the segment (in addition to packaging materials, as described in section 8.1.10 above) is raw milk, the cost of which accounts for more than 20% of total purchases of the raw and packaging materials in the segment. In addition, the Group primarily uses milk powders and proteins, additives, stabilizers, essences, sugar, lactic acids, tahini, hummus, vegetables, olive oil and honey.

Raw milk is purchased from various dairy farmers in the Western Galilee, Jezreel Valley, Golan Heights, Coastal Plain, Zevulun region, Arava Plain, the northern Negev and Ramat HaNegev. Under the Milk Sector Planning Law, 2011, the Group is obliged to accept the entire quota of milk produced by the dairy farm from which it purchases milk. Most of the quantity purchased is used to manufacture products, and the surplus (particularly in the winter) is dri ed as milk powder, butter and milk fat and used by the Company (mainly in the summer) or sold to a third party at market prices.

It is noted that the group also purchases raw milk from Kibbutz Yotvata (which also holds Yotvata shares). The total quantity of milk supplied by Kibbutz Yotvata to the Group accounted for less than 5% of total milk purchases in 2020. The Group is not dependent on this supply.

For information on the arrangements with respect to determining raw milk prices, see section 8.2.13.3 below.

The figure below presents the changes occurring in the price of raw milk in the years 2015-2020 (the numbers on the vertical axis represent the cost price ("target" price) in NIS per 1 liter, and the numbers on the horizontal axis represent time:



Price in NIS per 1 liter

The average price of raw milk in 2020 was lower than the average price in 2019 by 2.1 agorot. The price of raw milk dropped by 2.1 agorot in 2020 and is 1.95.

The price of butter is derived from the price of raw milk, and in 2020 its price dropped by 1.0%. The price of milk powder dropped by 1.5%.

For the price trends of sugar and cocoa, see the information on the Fun & Indulgence segment in section 8.3.11 below.

Some of the Group's products in this segment are manufactured by external suppliers with which the Company contracted in manufacturing agreements. The Company estimates that at present, it is not dependent on any of the external suppliers.

8.2.12 Working capital

Following is the composition of working capital in the Health & Wellness segment in 2020, according to the Company's Management Reports as defined in section 5 above:

Working Capital in the Health & Wellness Segment	
	Amount Included in the Management Reports
Operating current assets (1)	440
Operating current liabilities (2)	376
Excess of current assets over current liabilities	64

(1) Including net trade receivables, inventory, income receivable and prepaid expenses.
(2) Including net trade payables, income received in advance and accrued expenses.
(3) In NIS millions.

8.2.13 Restrictions and oversight in the segment

8.2.13.1 Declaration as a monopoly in dairy desserts

By virtue of the 1998 declaration under the Economic Competition Law, Strauss Holdings (including any other corporation that manufactures or markets dairy desserts which is controlled by Strauss Holdings, controls Strauss Holdings or is controlled by its controlling shareholders) was declared a monopoly in dairy desserts. The declaration defined "dairy desserts" as "an unfermented milk product, sweetened with sugar or alternative sweetening agents and containing, in addition to the dairy ingredients, typical flavoring ingredients (chocolate, vanilla, chocolate powder, etc.) and meant to be eaten with a spoon". For further information, see section 9 in the Report of the Board of Directors of the Company as at December 31, 2020 and section 25.4 below.

On December 31, 2014, the Company received a letter from the Competition Commissioner regarding a hearing prior to declaring the Company a monopoly in the following markets: (1) creamy texture cheese; (2) dairy products in cups for toddlers; (3) flavored milk products; and (4) yogurt drinks. On July 30, 2015, the Company submitted its response to the Competition Commissioner, and as at the date of this report, a date for a hearing has not been set.

8.2.13.2 Arrangements relating to raw milk

The dairy industry in Israel is structured in all aspects, including production according to prescribed quotas for milk producers (cowsheds), government involvement in the regulation of quantities of raw materials and definition of the target price (the price paid by dairies to the dairy farmers for raw milk). All of the foregoing are regulated in the Milk Sector Planning Law, 2011 (hereinafter: the "Milk Law"), and the Milk Council is the party responsible for planning and oversight policy and its implementation.

According to the Milk Law, definition of policy in the industry, including definition of the total volume of raw milk produced, definition of raw milk quotas for farmers, regulation of the production and marketing of raw milk and regulation of the quantities of raw milk in the sector, will be performed by the government through the Ministers of Agriculture and/or Finance, as the case may be, by enacting regulations; whereas the policy will be implemented and executed by the Milk Council – a public benefit company whose members include representatives of the parties in the milk sector, including the government, the farmers' organizations and the dairies.

Before the Milk Law was enacted, determination of the target price and the dairies' obligation to purchase the raw milk at a price that is no lower than the target price were not regulated in the legislation and were based on voluntary agreements between the parties in the sector. The Milk Law and the regulations promulgated thereunder determine that for an eight-year transition period commencing on the day the Milk Law entered into force, the target price will be determined according to the last target price that was determined prior to the law taking effect and revised from time to time according to the accepted updating procedure in place prior to the enactment of the law. At the end of said eight years, the target price will be determined in an order issued by the Ministers of Finance and Agriculture in accordance with the Supervision of Prices of Goods and Services Law, 1996.

Following the enactment of the law, the Milk Sector Planning Regulations (Mechanism for Updating Minimum Prices per Liter Milk) 2012, were enacted in April 2012, in which the method of calculation, announcement and revision of the target price were established. These regulations introduced certain changes in the method of calculating the target price; however, in the Company's opinion, they do not materially affect the calculation of the target price.

In January 2021 the Ministries of Finance and Agriculture signed a sectoral agreement that regulates local production policy and policy applying to the import of dairy products for the coming years. Planning of the milk sector and the target price mechanism are expected to be extended through the advancement of government bills.

The agreement asserts that the target price mechanism, which prescribes the price paid by the dairies to the dairy farmers per 1 liter of milk, will remain unchanged in the next three years, following which the Ministers of Agriculture and Finance will be given the opportunity to decide whether to extend the mechanism for a further two years, until 2026.

As at the date of this report, the Company estimates that the Milk Law or the Regulations promulgated thereunder have no material effect on its operations; however, it is impossible to assess the extent of the law's impact (and the impact of the Regulations and orders which are still to be issued thereunder) on the Group's operations in the future.

The information in this section that the Company is unaware of any significant effect of the Milk Law or the Milk Regulations on its operations is forward-looking information as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of various regulatory developments and various developments in the Israeli economy, etc.

8.2.13.3 Price control

In May 2019 the Minister of Finance signed the order to raise the prices of dairy products by 3.4%. For further information, see section 10 in the Report of the Board of Directors of the Company as at December 31, 2020.

8.2.14 Material agreements

8.2.14.1 Agreements with Danone

Investment and shareholders' agreement: On December 13, 1996 Strauss Health and Strauss Holdings contracted with the French concern, Groupe Danone, in an agreement for the allotment of 20% of Strauss Health's issued share capital.

In this agreement (which was amended in January 2017), limitations were imposed on the transfer of shares, including a right of first refusal in the event of the acquisition of shares by a third party (not including a related party of the shareholders, as defined in the agreement, provided that the transferee will agree to be bound by the terms and conditions and obligations applying to the transferor) and a tagalong right to a sale of shares as a result of which a third party will hold more than 50% of Strauss Health's issued share capital, under the terms and conditions set forth in the agreement.

In addition, each shareholder holding 10% of Strauss Health's issued share capital is entitled to appoint a director of Strauss Health. For as long as Danone holds 20% of Strauss Health's issued share capital, it will be entitled to appoint 20% of the directors, rounded upward.

The agreement determines a list of actions that will not be executed if opposed by all directors appointed by Danone, which include transactions between Strauss Health and other companies controlled by Strauss Group or with an interested party in Strauss Group, unless they are executed under market conditions or were in effect at the time the purchase agreement was signed, other than in a case where Danone is willing to accept compensation for the difference between the value according to market conditions and the actual value of the transaction; payment of a dividend of less than 25% of the net annual profit (after retaining the reserves required by Strauss Health, as determined in the agreement); a public offering or alteration of the share capital diluting Danone's holding; establishment of subsidiaries by Strauss Health which are not directly or indirectly wholly-owned by Strauss Health and which are active in products that are not dairy products, and if a shareholder therein is a competitor of Danone; a material change in Strauss Health's business or investments in a field that is not the dairy business, as a result of which the turnover in such other business exceeds the percentage of Strauss Health's turnover stated in the agreement; and distribution by Strauss Health or its subsidiaries of products manufactured by Strauss Holdings or by any company controlled by it or by its shareholders, if total annual sales of said products exceed the percentage of Strauss Health's consolidated annual turnover stated in the agreement.

The agreement also determines that the export of products by Strauss Health must be coordinated with Danone, and in any event Strauss Health will be prohibited from exporting products bearing Danone's trademarks without Danone's prior approval.

By virtue of the agreement (and after the Company assumed Strauss Holdings' obligations pursuant to the agreement as part of the merger transaction), the Company is subject to the obligation that it and any of its subsidiaries or shareholders shall not sell, manufacture or import chilled baby food or chilled dairy products in or to Israel (including the Golan Heights, the Gaza Strip and the West Bank) other than through Strauss Health, except for products in which milk is not the main ingredient, such as salads with yogurt, pasta with cheese and cheese pastries; ice cream, frozen yogurt and other products sold at temperatures below 0ºC; long-life milk and long-life milk products; and dairy confectionery and chocolate. Additionally, the Company and Danone have undertaken not to make use of any knowhow purchased by them or obtained from Strauss Health, without Strauss Health's advance written consent.

The agreement prescribes provisions relating to collaboration between the shareholders with respect to activity in other countries neighboring on Israel. The agreement will remain in effect, unless the causes for cancellation specified in the agreement are fulfilled.

Licensing agreement: In early 2017 Strauss Health contracted in a licensing agreement with Danone for the use of Danone's knowhow and trademarks (which replaced an earlier agreement) relating to all Danone's present and future fresh, frozen and refrigerated dairy products, including cheeses and cheese products, dessert products, yogurt, fermented milk products and all dairy products for infants over one year old, at present and in the future, not including infant formula and dedicated infant products (hereinafter in this section: the "Products").

The license granted to Strauss Health is an exclusive, non-transferable license that does not include the right to award sub-licenses, for the use of knowhow in manufacturing the Products and for the sale of the Products under the trademarks set forth in the licensing agreement in the territory of Israel, the Gaza Strip and the West Bank only (hereinafter in this section: the “Territory”). According to the agreement, Strauss Health is prohibited from exporting the Products bearing Danone’s trademarks from the Territory without Danone’s advance consent.

Use of trademarks other than Danone on the Products requires Danone’s advance approval (other than with respect to the “Strauss” trademark). Strauss Health further undertook to use the trademarks on every live thermophilic fermented milk product and on every new product globally marketed on the date of the licensing agreement or in the future by Danone under one trademark.

It is noted that the licensing agreement does not prevent Danone from making use of the trademarks in the Territory for other products, except for those under the licensing agreement and other chilled products.

Strauss Health has undertaken that the Products bearing the trademarks will satisfy the quality requirements specified in the Agreement and the quality requirements in place in the Territory. Strauss Health is also obliged, inter alia, to inform Danone of any material proceeding by a government or regulatory authority and also of any official inspection or inquiry relating to the quality or safety of any of the Products, in which context Danone will provide assistance and advice if necessary.

Danone has undertaken to provide Strauss Health with any and all technical and marketing information and assistance that may be required, as set forth in the licensing agreement. It is further determined that Danone will transfer to Strauss Health information regarding marketing strategy for the Products bearing the trademarks.

The licensing agreement is for a term of 10 years, after which it will be automatically renewed for further periods of 5 years each; before each renewal, the parties will discuss the need for making alterations to the agreement, and in the absence of agreement on the alterations, the agreement will be renewed in its original form. Additionally, it is asserted that unless otherwise agreed by and between the parties, the licensing agreement will not be cancelled other than in the following cases: in cases of bankruptcy, appointment of a liquidator, a trustee in a bankruptcy, receiver, etc.; in a case where Strauss or any other company in Strauss Group transfers shares in Strauss Health without Danone’s advance written consent such that the Group’s total holdings in Strauss Health fall below 51% of the share capital in a manner that a material part or all of the abovementioned shares have been sold to one or more of the ten largest dairy product manufacturers in the world, Danone will have the right to immediately revoke the agreement; and in a case where Strauss Health fails to act in accordance with the provisions of the licensing agreement in the matters set forth below, Danone will be entitled to announce the cancellation of the licensing agreement, such cancellation taking effect within a period of 3 or 12 months, according to the nature of the breach: breach of Strauss Health’s undertakings not to assign its rights under the license or grant sub-licenses; breach of its undertakings relating to the territorial limitations in the license; breach of its undertaking to comply with Danone’s instructions relating to the use of the trademarks specified in the licensing agreement in a manner that is liable to materially harm Danone’s interests; and breach of its undertaking to discontinue sales of the Products under the aforesaid brand names if Danone has so requested.

The agreement also includes provisions that will apply to the parties if the licensing agreement is revoked in the cases set forth above, including, inter alia, that Strauss Health will not be entitled to any compensation if the licensing agreement is cancelled by Danone pursuant to its provisions.

It is further determined that in the event that the licensing agreement is revoked on certain grounds, Danone will not be involved in manufacturing and marketing activities for the Products in the Territory under the trademarks that were in use prior to cancellation until two years have elapsed from the date the notice of cancellation was sent.

In consideration for the license Strauss Health makes various payments to Danone on a quarterly basis, at the rates prescribed in the licensing agreement.

The percentage of royalties in respect of the license was determined on the basis of a certain percentage of net sales (as the term is defined in the agreement) for the products determined in the licensing agreement; as well as a fixed payment for knowhow at an immaterial amount.

It is noted that the total costs paid in respect of the license, knowhow and royalties according to the agreement with Danone in the years 2020, 2019 and 2018 were approximately NIS 28 million, NIS 25 million and NIS 21 million, respectively.

Procurement services agreement: Strauss Health also contracted with Danone in a procurement services agreement, pursuant whereto, inter alia, Strauss Health will be granted access to the network of suppliers that are relevant to the manufacture of Danone's fresh dairy products. In consideration, Strauss Health will pay a yearly amount that is immaterial to the Company. The agreement is valid until December 31, 2021 and may be terminated by either party with 60 days' advance notice before the end of the calendar year preceding the calendar year in which the agreement is to expire. The agreement will terminate immediately without advance notice in the case of a change of control of Strauss Health.

To complete the picture, it is noted that Strauss Health has contracted with the Company in agreements for the receipt of services pertaining to sales and distribution, as well as general administrative services.

Alpro distribution agreement: In May 2020 Strauss Health signed an exclusive distribution agreement for Alpro products (Alpro is a member of Groupe Danone) in Israel. The distribution of Alpro products was initiated on July 1, 2020.

See also risks factors in section 25 ac-ae below.

8.2.14.2 Agreement with Yotvata

According to an agreement of November 12, 1998 for the acquisition of shares of Yotvata, the parties thereto being Kibbutz Yotvata (the "Kibbutz"), Yotvata Uri Horazo Dairies (Limited Partnership), Yotvata and Strauss Health, which was amended on August 20, 2003 and on September 25, 2017, Strauss Health acquired by way of an allotment of shares: (a) 50% of Yotvata's issued and paid-up ordinary share capital, conferring the rights generally conferred on shareholders in a limited liability company, including the right to appoint or dismiss directors. The rest of the ordinary shares remained under the Kibbutz's ownership; (b) two management shares, each conferring the right to appoint or dismiss a director in Yotvata. Three additional management shares are held by the Kibbutz; and (c) one casting share, conferring the right to appoint or dismiss one director in Yotvata who is also chairman of the board of directors or chairman of the general meeting and has a casting vote in meetings of the board of directors and in the meeting of the shareholders in the case of a tie vote.

The agreement sets forth the agreed arrangements relating to Yotvata's governance, including that the CEO of Yotvata is appointed by the board of directors of Yotvata at the recommendation of the Kibbutz. The directors representing Strauss Health have a veto right to prevent the appointment of a CEO. The chairman of the board of directors is appointed by Strauss Health. The directors representing the Kibbutz have the right to oppose the appointment of a chairman who does not possess the appropriate qualifications for the position. Yotvata's CFO is appointed by Strauss Health. The directors representing the Kibbutz have a veto right over such appointment, but they are not entitled to exercise this right other than on reasonable grounds. In addition, Strauss Health undertook to ensure alternative employment for Kibbutz members, should it decide within 25 years from January 1, 1998, without the Kibbutz's consent, to downsize the number of Kibbutz members stationed in Yotvata to below the minimum quota set forth in the agreement, or to discontinue the dairy's activity. The agreement will remain in effect unless the causes for cancellation specified in the agreement are fulfilled; however, after 25 years have elapsed since January 1, 1998, or if the question of the economic viability of maintaining the dairy's activity as a going concern in its present location should arise, the subject will be discussed and a decision made only with the agreement of a majority of the directors representing each party.

Additionally, Strauss Health was issued convertible capital notes at a nominal amount of NIS 79,108 thousand, unlinked to the CPI and interest-free, redeemable only upon the winding-up of Yotvata, but not before the year 2100. The capital notes are convertible into Yotvata shares such that each NIS 500 thousand of the capital notes may be converted into one share of NIS 1 par value. The agreement prescribes that whenever capital notes are converted into shares, additional shares shall be allotted to the Kibbutz in the same number and of the same par value, in consideration for their par value, so that the Kibbutz's relative holding of Yotvata shares will remain identical to its relative holding prior to the allotment. The share allotment and issue of the capital notes were executed against the payment of a consideration determined in the agreement at the amount of USD 32 million.

The agreement asserts that Yotvata's areas of expertise are milk beverages and premium milk, and that other than exceptions set forth in the agreement, Strauss Health will not market products in the milk beverages and premium drinking milk categories unless they are manufactured by Yotvata and the transfer prices are determined by and between the parties. It is further determined that Strauss Health will refrain from manufacturing these products unless the Kibbutz's approval for the manufacture and marketing thereof has been received. The abovementioned provisions will not apply in regard to the marketing and manufacture of certain products enumerated in the agreement.

The Kibbutz has undertaken not to use the Yotvata brand or logo in the food industry other than with the prior approval of Yotvata's board of directors, which will be entitled not to approve such use without being required to give grounds for its decision. The Kibbutz has further undertaken not to use the Yotvata brand or logo in other categories which are not in the food sector, other than with the prior approval of Yotvata's board of directors, which will be entitled not to approve such use on reasonable grounds only.

The agreement determines that for as long as the Kibbutz holds at least 20% of Yotvata's ordinary share capital, resolutions of Yotvata's board of directors or general meeting relating to certain matters (which are set forth in the agreement) will be passed by a majority of votes (of the directors or shareholders, as the case may be), on condition that the majority of votes includes the vote of at least one director appointed by the Kibbutz or the Kibbutz's representative in the meeting of the shareholders, as the case may be. In the case of a tie vote, the chairman of the board will have an additional vote. Notwithstanding the foregoing, in the case of a tie vote between the directors appointed on behalf of the Kibbutz and those appointed on behalf of Strauss Health or between the shareholders on the subjects specified in the agreement, the matter will be referred for resolution by a deciding director who shall be appointed with the consent of the parties according to the mechanism described in the agreement, and his decision will be binding upon Yotvata. To clarify, this arrangement constitutes a special arrangement in the context of the general mechanism for deciding matters in the case of a tie vote, as described above.

The Kibbutz has the right to demand the distribution of a dividend of at least 25% of Yotvata's distributable profits, and Strauss Health has undertaken that in such case, it will procure that a resolution is duly adopted for the distribution thereof or will grant a loan to the Kibbutz at the amount of the dividend whereto it is entitled until the dividend is actually distributed.

The agreement determines that Strauss Health will distribute Yotvata's products for a commission at the rates set forth in the agreement. It further determines that Strauss Health will provide Yotvata with various management services, and that the Kibbutz will provide Yotvata with management services commencing in 2003 and will also supply various services such as guarding and accounting services.

The agreement determines that the parties are not entitled to transfer all or part of their shares in Yotvata to a third party other than subject to the parties' right of refusal, which is subject, inter alia, to an undertaking not to transfer the casting share other than to the Kibbutz. The agreement further determines that where as a result of the transfer of shares held by Strauss Health its holding in Yotvata falls below 25% of Yotvata's ordinary share capital, it will be obliged to transfer the casting share to Yotvata, free of charge, and the Kibbutz will transfer one management share to the name of Strauss Health or to the name of the third party acquiring the shares from Strauss Health, and will be obliged, among other things, to grant the third party acquiring the shares and Strauss Health a non-controlling interest, as set forth in the agreement.

The agreement also determines that in a case where the Kibbutz transfers its shares to a third party, Strauss Health will undertake to the third party acquiring the shares and to the Kibbutz to grant it a non-controlling interest, as set forth in the agreement.

The agreement further asserts that any party selling all or most of its shares to a third party will deposit with Yotvata, as a loan, an amount in NIS that is equal to USD 8 million, against an unlinked, interest-free capital note, payable only after 49 years have elapsed from the date on which the loan was made to Yotvata. Where a party has sold less than 50.1% of its shares, it will transfer to Yotvata a relative portion of the abovementioned sum under the aforesaid terms and conditions. See also the risk factors in section 25 ac-ae below.

8.3 The Fun & Indulgence Segment

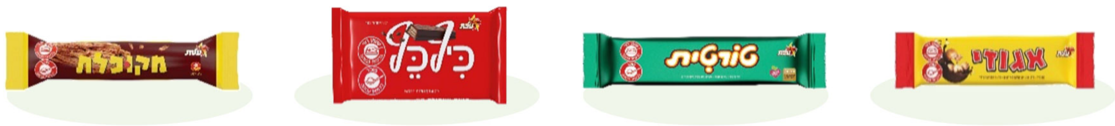
8.3.1 General information on the Fun & Indulgence segment

For general information on the Israel Operation that is common to the Health & Wellness and Fun & Indulgence segments, see section 8 above.

8.3.2 Products

The Group's major products in this segment are generally marketed in Israel under the following brands:

(1) "**Elite**" - bakery products, including biscuits, cakes, wafers, cookies and sweet snack bars under the brands "Mekupelet", "Kif Kef", "Torteet", "Taami", "Egosi", "Pesek Zman". For example:



(2) "**Para**" ("Cow") - chocolate tablets, chocolate fingers and sweet spreads. For example:

(3) "**Splendid**" - chocolate tablets, desserts and chocolate boxes. For example:

(4) "**Must**" - candies and chewing gum. For example:

(5) Salty snacks – “Tapuchips”, “Shoosh”, “Doritos”, “Sababa”, “Cheetos”. For example:




(6) Quaker oats manufactured by PepsiCo. For example:

(7) Crackers under the “Elite Crunch” brand. For example:


The Group’s Fun & Indulgence products are manufactured at its sites in Israel, except for a number of products that are purchased from other manufacturers in Israel and abroad such as candies, chewing gum, chocolate snacks, cookies and oatmeal. The Group sells, markets and distributes the products in Israel, along with immaterial exports of products for the kosher market in Western European countries and the US.

Following the COVID-19 outbreak, in 2020 Fun & Indulgence products focused on providing a response to consumer trends of home baking and family treats. In response to these trends, the Group updated its “Sweet Moment” baking site. Emphasis was also placed on upgraded “indulgence at home” categories to enhance the at-home experience through the development of a variety of new products, including Reva Le’Sheva Mousse chocolate bars, premium cookies and Splendid 90% cocoa solids chocolate, without a red high sugar content label. Correspondingly, a drop in the AFH consumption trend was observed.

The general health trend in the food and beverage sector continued in 2020 and is also evident in Fun & Indulgence products, expressed in the consumer’s desire for indulgence without compromising his health. As part of enhancing the consumption experience and developing new solutions aligned with consumption trends, in 2020 the Group maintained its focus on products that deliver special added value to the consumer, products meeting the need for a small treat, portion controlled products and assortments in bags and multipacks.

In salty snacks, the Group mainly worked on reducing salt content, expanding the offering of small packs that offer portion-controlled consumption, and the launch of baked Tapuchips as a low-fat alternative. Thanks to these actions, further to actions taken in prior years, none of the Salty Snack Division's core products were tagged with red labels as part of the product labeling reform.

Under the Quaker brand, the Group provided diverse solutions for including the products in the consumer's daily diet in response to the home baking trend.

The Group's Fun & Indulgence products are characterized by a relatively long shelf life of 3 to 18 months (apart from oatmeal in a can, which has a shelf life of about 36 months). Chocolate products are stored and transported in a temperature controlled environment (16º-18ºC), whereas the rest of the products do not require special storage and transportation conditions. Rival products in the Fun & Indulgence segment are import-intensive and include numerous rival international and domestic brands. For further information, see section 8.3.4 below.

8.3.3 Segmentation of revenues and product profitability (according to the Company's Management Reports, as defined in section 5 above)

Following is information on the segmentation of the Company's income from external entities (consolidated) according to the Company's Management Reports, as defined in section 5 above, arising from a group of similar products in the Fun & Indulgence segment, constituting 10% or more of the total of said revenues, in the years 2020, 2019 and 2018: "Confectionery and Bakery"

Segmentation of the Group's Income from External Entities (Consolidated)

Group of Similar Products	Income			Percentage of Group's Total Income		
	2020	2019	2018	2020	2019	2018
Confectionery and bakery(1)	858	857	848	10.3%	10.0%	9.9%

In NIS millions.

(1) Mainly including chocolate tablet products, sweet snack bars, chewing gum, candy, sweet spreads, biscuits, wafers, cakes, cookies, chocolate boxes and gift packs.

8.3.4 Competition

Rival products in the Fun & Indulgence segment are saturated with numerous international and domestic brands. The major competitors of the Group's products are Unilever, Osem Nestle, Diplomat, Leiman Schlussel, Frey, Sides, Ferrero Israel, Mars Israel, Wissotzky and the private label products of various retailers. In addition, the Fun & Indulgence segment has numerous other, smaller competitors, including additional private label brands. As a result of the appreciation of the shekel and the absence of customs duties and quotas on most Fun & Indulgence products, products in the category are import-intensive, and in recent years additional competitors have joined the field, some of them importing well-known international branded products such as Kinder, Mars Bars, Oreos, Milka, Lindt and Orbit, and others, products that are unknown. Accordingly, 2020 was characterized, among other things, by further escalation of the competition in chocolate products for children and adults, cookies, cakes and wafers. To deal with the competition, the Group has focused on innovation while developing and expanding its product variety and entering into new categories. In addition, in 2020 the Group continued numerous marketing activities and sales campaigns.

The following table presents information on the market shares of the Group and its major competitor in each group of similar products in the years 2020 and 2019 in reference to the major similar products groups in the Fun & Indulgence segment, according to weighted data based on StoreNext's figures[26] for the barcoded retail market (which includes the large food chains, barcoded private minimarkets and independent food chains):

Weighted Market Share				
Products	2020		2019 (1)	
	The Group	Major Competitor	The Group	Major Competitor
Chocolate - children's world(2)	9.6%	71.4%	10.1%	70.6%
Chocolate tablets	52.8%	8.7%	52.4%	8.4%
Sweet snack bars	42.9%	22.2%	41.6%	22.3%
Chewing gum	29.7%	44.9%	29.3%	46.9%
Wafers(3)	25.9%	37.7%	27.6%	32.5%
Sweet bakery products (excluding wafers)	16.6%	22.3%	16.0%	20.7%
Salty snacks	37.2%	48.4%	37.0%	48.6%

In percent – value.
(1) Data for 2019 were adjusted for the method in which Company Management analyzes the business and for StoreNext's updated calculations[27].
(2) The drop in the market share of the "Chocolate – children's world" category is mainly the result of the growing strength of a significant rival in the category.
(3) The drop in the market share of the "Wafers" category is the result of innovation and strong commercial activity by the main rival.

8.3.5 Seasonality

Following are data for the years 2020 and 2019 with respect to the Company's income in the Fun & Indulgence segment, by quarter, according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the Fun & Indulgence Segment				
	2020		2019	
	Income	% of Total Segment Income	Income	% of Total Segment Income
Q1	366	32.0%	339	29.9%
Q2	233	20.4%	242	21.4%
Q3	277	24.2%	286	25.2%
Q4	268	23.4%	267	23.5%
Total	**1,144**	**100%**	**1,134**	**100%**

(1) In NIS millions.

[26] See footnote #1 above.
[27] See footnote #1 above.

Income from the sale of products in the Fun & Indulgence segment is generally (relatively) higher in the first quarter of the year and generally (relatively) lower in the second quarter of the year. Seasonality is mainly influenced by the winter months, which fall in the first quarter and are characterized by increased consumption of chocolate products as well as consumption of Fun & Indulgence products as Passover approaches. This trend continued and even grew stronger in 2020. Additionally, in 2020 the COVID-19 crisis adversely affected the Company's income, particularly in the second quarter.

8.3.6 Production capacity[28]

The production capacity of the Group's sites in the Fun & Indulgence segment is measured in quantities of product per year. The production lines in the Group's sites in the Fun & Indulgence segment are automatic, and most of them are operated in three shifts a day.

In 2020, and particularly in the lockdown months, the plants operated in 12-hour two shifts per day in order to maintain work "bubbles" and ensure continuous production.

It is noted that the Group's plants in this area are not alternate, and the production lines themselves are not alternate for the most part. The maximum potential yearly production capacity of the Group's manufacturing sites in the Fun & Indulgence segment, operating in three shifts, in tons of product per year in the years 2020 and 2019 was approximately 84 thousand tons and 82 thousand tons per year, respectively. The actual average capacity utilization rate in the years 2020 and 2019 was 52% and 54%, respectively. It is noted that a number of production lines in the segment are liable, at certain points in time and during holiday seasons, to reach maximum production capacity.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its production sites and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans. Additionally, the Group outsources the production of some of its products as needed.

[28]The maximum potential yearly production capacity data include 100% of the figures for Strauss Frito-Lay, although financial data on Strauss Frito-Lay are stated according to the Company's relative holding, i.e. 50%.

8.3.7 Fixed assets, real estate and facilities

Following is a description of Group's main material fixed assets, which serve the segment's business:

Plants in the Fun & Indulgence Segment

Plants				
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**	**Liens**
Production plant in the Nof Hagalil industrial zone (1)	Production of confectionery and bakery products	70,000 m^2 (2)	38,700 m^2	---
Production plant in the Sha'ar Hanegev industrial zone	Production of salty snacks	26,400 m^2 (3)	13,000 m^2	---

(1) The plant in Nof Hagalil does not have a valid City Building Plan. As at the date of the report, the Company is handling the issue in full coordination with the local authority and local committee. The Company estimates that the foregoing has no significant implications upon the Company.

Rights in and to the site:

(2) Leased until 2060.

(3) Leased from ILA under a lease agreement ending in October 2058, including the lessee's option to extend the lease for an additional 49 years.

Distribution, Logistics and Cross-Docking Centers in the Fun & Indulgence Segment

Distribution, Logistics and Cross-Docking Centers				
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**	**Liens**
Distribution and logistics center in Acre	For distribution of Company products that do not require refrigeration, in northern Israel	20,000 m^2 (1)	8,695 m^2	---
Yevulim warehouses, Sha'ar Hanegev industrial zone	For distribution of products that do not require refrigeration, in southern Israel	40,000 m^2 (2)	7,000 m^2	---
Cross-docking sites	Most of the cross-docking sites serve the Health & Wellness segment, and a small number also serve the Fun & Indulgence segment. For information on the Group's main cross-docking sites in Israel, see section 8.2.7.2 above.			

Rights in and to the site:

(1) Leased from a third party (which has leased the land from ILA until January 2052). An option for a 5-year period ending in January 2026 has been exercised. The Group does not have an option for further extension.

(2) Leased from a third party under a lease agreement for 5 years commencing December 4, 2016, plus 9 additional option periods for a total of 15 years.

For information on the Group's logistics center in Shoham, see section 8.1.9 above.

For Company policy regarding the depreciation of machinery and equipment in its various plants, see Note 3.4.5 to the Financial Statements of the Company as at December 31, 2020.

8.3.8 Research and development

For a description of R&D processes carried out by the Group, see section 15 below. Salty snack products are developed, inter alia, using PepsiCo's knowhow.

8.3.9 Intangible assets

8.3.9.1 Licenses and franchises

Strauss Frito-Lay has an agreement with PepsiCo for the use of PepsiCo's trademarks with respect to all salty snack products marketed by Strauss Frito-Lay, which are based on PepsiCo's knowhow. For information on the licensing agreement and the payments paid in its respect, see section 8.3.14 below. In addition, the Group has trademark licenses for its products from several third parties with which the Group has contracted, in consideration for the payment of royalties for such use in amounts that are immaterial to the Company.

8.3.9.2 Trademarks and samples

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is great. Trademarks are registered in the Group's name in Israel on most of the brand names serving it in the Fun & Indulgence segment, except for those that are registered in PepsiCo's name, for which the Group has a usage license.

Registration of trademarks in Israel is valid for limited periods prescribed in the legislation and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic life of its main trademarks is indefinite.

For an itemization of costs and changes in intangible assets in the years 2020 and 2019, see Note 15.1 to the Financial Statements of the Company as at December 31, 2020.

8.3.10 Human capital

For a description of the Group's organizational structure and additional information on employment agreements, see section 16 below.

Following is information on the number of employees in the Group (including all employees of Strauss Frito-Lay, a joint venture in which the Company holds 50%) in the Fun & Indulgence segment:

Number of Employees in the Fun & Indulgence Segment		
	December 31, 2020	**December 31,** 2019
Administration	90	103
Sales and distribution	449	500
Logistics	224	211
Operations	1,019	1,090
Total	**1,782**	**1,904**

Including 8 and 189 employment agency workers, as at December 31, 2020 and 2019, respectively.

8.3.11 Raw materials and suppliers

The main raw material used by the Group in the manufacture of Fun & Indulgence products (in addition to packaging, as described in section 8.1.10 above) is cocoa and its by-products (cocoa butter, cocoa mass and cocoa powder), the cost of which in 2020 accounts for 27% of total purchases of raw and packaging materials in the segment. The Group also mainly uses milk powders, sugar, nuts, vegetable oils, potatoes and packaging materials.

A considerable part of the abovementioned raw materials are commodities that are bought and traded on the commodities exchanges in London and New York in foreign currency (the dollar, euro and pound sterling). Consequently, the cost of these raw materials is exposed to fluctuations in currency exchange rates and price volatility in commodity markets. Moreover, the cost of raw materials produced from agricultural crops (such as sugar, cocoa, nuts) is affected by fluctuations originating in agricultural markets, notably fluctuations in supply due to changes in weather, ripening periods, etc.

2020 was marked by volatility in cocoa prices. The first half of the year was characterized by falling prices, which slumped to a 15-month low in July 2020, whereas in the second half of the year prices alternatively rose and fell. The average price of cocoa in 2020 was similar to its price in 2019. Cocoa butter processing costs were on a decreasing trend compared to the prior year due to lower demand than expected. Processing costs of cocoa mass rose compared to 2019 due to the incremental cost of cocoa beans to growers.

The following graph shows the changes in the price of cocoa beans in the years 2015-2020, according to Bloomberg:

Changes in the Price of Cocoa Beans in 2015-2020

Units: Pound Sterling per 10 tons

Sugar prices in 2020 were volatile. The first quarter was marked by a sharp drop, which began in January and hit a 13-year low at the end of April. Commencing in May sugar prices rose gradually, reaching a peak at the end of the year. The average price of sugar in 2020 was about 12.8% higher than its average price in 2019. The increase in the average price is the result of logistic problems due to the pandemic in India and Brazil, inclement weather that harmed yields, rising oil prices and the Brazilian real.

The following graph presents the changes in sugar prices in the years 2015-2020, according to Bloomberg:

Changes in Sugar Prices in 2015-2020

Units: US dollar per 50 tons

For further information, see section 3-11, “Changes in the Economic Environment”, in the Report of the Board of Directors of the Company as at December 31, 2020.

8.3.12 Working capital

Following is the composition of working capital in the Fun & Indulgence segment in 2020, according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the Fun & Indulgence Segment	
	Amount Included in the Management Reports
Operating current assets (1)	365
Operating current liabilities (2)	173
Excess of current assets over current liabilities	192

(1) Including net trade receivables, inventory, income receivable and prepaid expenses.
(2) Including net trade payables, income received in advance and accrued expenses.
(3) In NIS millions.

8.3.13 Restrictions and oversight in the segment

Declaration as a monopoly in the chocolate tablet market – in 1988 the Company was declared as a monopoly, inter alia, in the chocolate tablet market. For further information, see section 10 in the Report of the Board of Directors of the Company as at December 31, 2020 and section 25.z below.

8.3.14 Material agreements

Agreements with PepsiCo

PEPSICO

The manufacture, marketing and sale of salty snacks in Israel are carried out by Strauss Frito-Lay. The Company holds 50% of the shares of Strauss Frito-Lay, and the remaining 50% are held by the American food concern PepsiCo through its subsidiary, PepsiCo Europe. The Company, PepsiCo Europe and PepsiCo, Inc. contracted in a shareholders' agreement that regulates the joint relationship in all aspects relating to Strauss Frito-Lay. Additionally, there is a licensing agreement between Strauss Frito-Lay and the PepsiCo concern for the use of certain PepsiCo trademarks. The main agreements are as follows:

Licensing agreement for the use of knowhow and trademarks: According to an agreement of 2016 (which superseded a previous licensing agreement) between Strauss Frito-Lay and PepsiCo, Inc., Strauss Frito-Lay was granted an exclusive, non-transferable license for the manufacture, distribution and sale in Israel of salty snacks, spicy snacks and extruded snacks, and also for the use of PepsiCo, Inc.'s relevant trademarks. Under an amendment of 2018, commencing in October 2018 the license was extended to include export to the kosher market only in Europe of products under the Doritos, Cheetos and Elite Crunch brands. According to an amendment of 2019, commencing in August 2019 the license was extended to also include the export of products under the brands Lay's, Doritos, Cheetos and Elite Crunch to the US and Canada, to the kosher market only. The agreement further determines that PepsiCo, Inc. has the right at any and all times to add to or alter the abovementioned trademarks at its exclusive discretion.

The licensing agreement will remain in force for as long as the Company (or a wholly-owned subsidiary of the Company) is a shareholder of Strauss Frito-Lay and for as long as the shareholders' agreement remains in force. The validity of the licensing agreement in a case where one of the parties ceases to be a shareholder of Strauss Frito-Lay is as provided in the shareholders' agreement, as described below.

PepsiCo, Inc. has the right to revoke the licensing agreement in various cases, including a fundamental breach of the agreement by Strauss Frito-Lay.

In consideration for the grant of the license, Strauss Frito-Lay pays PepsiCo, Inc., each quarter, a certain percentage of net sales (as defined in the agreement) and at least a minimum amount, as set forth in the agreement. Strauss Frito-Lay also pays PepsiCo, Inc. a yearly payment for technical support services.

In 2019 and 2020 the Group credited PepsiCo, Inc. with payments under the royalty agreement at the amounts of NIS 7.6 million and NIS 8.2 million, respectively.

Shareholders' agreement: According to the shareholders' agreement, in a case where the Company is controlled (directly or indirectly) by a party that is not the Strauss family, PepsiCo Europe will have the right, after 12 months have passed since control of the Company changed as aforesaid, to acquire all of the Company's remaining shares in Strauss Frito-Lay at the market price that will be determined according to the method set forth in the agreement, on condition that PepsiCo Europe will itself reasonably determine that its attempt to cooperate in good faith with that party in said 12 month period did not succeed.

The term "control" in the shareholders' agreement means the ability to direct, directly or indirectly, the activity of the relevant entity (not including ability arising only as a result of holding the position of a director or other position), and a person is presumed to control a corporation if he holds, directly or indirectly, more than 50% of the share capital or voting rights in the relevant entity; or if he holds, directly or indirectly, the right to appoint more than 50% of the directors of the relevant entity. The term "holding" in this section shall have the meaning of the term within section 1 of the Securities Law, 1968.

PepsiCo Europe has the right to appoint the CEO and CFO of Strauss Frito-Lay with the Company's prior consent, which shall not be withheld other than on reasonable grounds. The Company and PepsiCo Europe each have the right to appoint 50% of the members of the board of directors of Strauss Frito-Lay. The chairman of the board will be appointed by the Company from among the directors appointed by the Company (the chairman of the board does not have a casting vote), on condition that he is not a manager of the Company. Resolutions of the board will be passed with a majority of votes, excluding resolutions that will be passed unanimously, inter alia with respect to the discontinuation of Strauss Frito-Lay's activity in Israel or its winding-up for any reason other than insolvency, change of the name or logo of Strauss Frito-Lay, merger, acquisition of companies or other businesses, alteration of the articles of association and changes in Strauss Frito-Lay's share capital (not including dilution as a result of financing by either of the shareholders).

The agreement defines provisions pertaining to the financing of Strauss Frito-Lay and to the dilution of a shareholder who refuses to provide its share of additional financing requested by Strauss Frito-Lay's board of directors.

The shareholders' agreement determines that a shareholder will be entitled to transfer its shares to a third party only and solely after having received the other shareholder's prior consent. The agreement further determines a right of first refusal mechanism upon the transfer of shares by the parties thereto, and requires that each of the parties transfer all of its shares in Strauss Frito-Lay as a condition for the transfer (the abovementioned provisions do not apply to a "permitted transfer" to a wholly-owned subsidiary, directly or indirectly, of the transferor).

The agreement also defines a mechanism for the resolution of disputes between the parties (by means of a representative of each of the shareholders, and in the absence of agreement – by an outside arbitrator), in the absence of agreement of one of the parties with the arbitrator's decision, the other party will have the option of acquiring its shares. If both parties do not agree with the arbitrator's decision or in a case of failure to exercise a party's right to acquire the other's shares as aforesaid, the parties will take joint action to locate a buyer for all of Strauss Frito-Lay's shares. If no such buyer is located within one year, Strauss Frito-Lay will be wound up.

The agreement will remain in effect unless the causes for cancellation specified in the agreement are fulfilled. However, the agreement defines a number of "triggering" events (including regulatory changes that have a material influence on the parties' ability to draw dividends from Strauss Frito-Lay or to perform the agreement; a government act obliging either party to sell or transfer all or part of its holdings in Strauss Frito-Lay; a material breach of the agreement; a breach of the non-competition stipulation set forth in the agreement) on the occurrence of which either party (but not both parties simultaneously) will have the right to oblige the other to acquire its shares or sell it its shares, in the manner and at the price set forth in the agreement.

In the case of a sale of shares by a party to the other, the agreement asserts the obligation of the seller party to continue to abide by the agreements between it and Strauss Frito-Lay (if PepsiCo sells its shares – the licensing agreement; and if the Company sells its shares – the sales and distribution agreement, the major services agreement and the licensing agreement for the use of the Company's trademark) for periods ranging between 3 to 4 years, as set forth in the agreement (or shorter periods if the buyer party subsequently sells all or part of its shares in Strauss Frito-Lay to a third party whose identity is not approved by the seller party).

If PepsiCo Europe's shares are sold as a result of regulatory changes or government acts that are material to the agreement, PepsiCo, Inc. will continue to perform the licensing agreement for a period of 10 years, and PepsiCo Europe will be entitled to buy back its shares in Strauss Frito-Lay within those 10 years under the terms and conditions set forth in the agreement. In this period PepsiCo Europe will have the right of first refusal to acquire the Company's shares in Strauss Frito-Lay. In a case of the sale of the Company's shares to a third party and failure to exercise said right of first refusal, the period of PepsiCo, Inc.'s obligation to abide by the licensing agreement, as set forth in the agreement, will be reduced.

The parties have agreed to the distribution of an annual dividend of 33% of the distributable profits according to Israeli law and Strauss Frito-Lay's financial statements.

The agreement further determines that annulment of the shareholders' agreement for any reason will not affect the parties' obligations under the abovementioned licensing agreement and under the agreements set forth below.

To complete the picture, it is noted that the series of agreements between the Company and Strauss Frito-Lay also regulates the services provided to Strauss Frito-Lay by the Company, these include:

a. **A licensing agreement for the use of the Company's trademark**, pursuant whereto the Company has granted Strauss Frito-Lay a non-exclusive license to use the "Elite" trademark in Israel in all aspects related to the manufacture, sale, distribution, marketing and trade in salty snacks. Strauss Frito-Lay also undertook to use the "Elite" trademark for the entire term of the agreement. As at the date of the report, the agreement is renewed for five-year periods (it was most recently renewed on January 1, 2019) unless a party has announced its intention to terminate it at least six months before a five-year extension period, for as long as the Company is a shareholder of Strauss Frito-Lay. Should the Company cease to be a shareholder of Strauss Frito-Lay the agreement will be valid according to the periods set forth therein.

b. **A major services agreement** in which the Company undertook to provide Strauss Frito-Lay with management services and IT services. The agreement is valid for as long as the Company (or a wholly-owned subsidiary) is a shareholder of Strauss Frito-Lay, subject to the provisions of the shareholders' agreement pertaining to its validity.

c. **A sales and distribution agreement** in which the Company undertook to exclusively distribute and sell the salty snacks manufactured by Strauss Frito-Lay, in Israel. The Company provides Strauss Frito-Lay with storage services, as well as distribution and sales services to customers. Strauss Frito-Lay has undertaken not to distribute its products to customers other than through the Company. The first term of the agreement was for ten years, and since January 1, 1999 and thereafter, the agreement is automatically renewed for 5-year periods.

d. In addition, in 2014 the Group began marketing products under PepsiCo's Quaker brand according to an agreement in which Strauss Frito-Lay was granted a marketing and distribution license for said products in Israel. The distribution agreement is for an unlimited period and may be terminated, according to its provisions, following advance notice by either party. According to the distribution agreement, Strauss Frito-Lay purchases the products and markets and distributes them in Israel. Strauss Frito-Lay has undertaken not to manufacture, sell or distribute products that compete with the aforesaid products in Israel (with the exception of the "Energy" products, which are manufactured by Strauss Group) without PepsiCo's consent. See also risk factors in section 25 ac-ae below.

9. The Coffee Operation (Israel and International)

At a glance	
	Active in three hubs – Israel, Eastern Europe and Brazil (through Três Corações (JV)
	One of the world's five leading coffee companies (according to Euromonitor)(1)
	Três Corações (JV) is ranked Number 1 in market share in the Brazilian coffee market. (2)

(1) Euromonitor data are current according to a report published on February 3, 2021.
(2) Nielsen 2020 data for Russia are current according to a report published on December 18, 2020. Data for Poland are current according to a report published on January 20, 2021. Data for Romania are current according to a report published on January 22, 2021. Data for Ukraine are current according to a report published on January 25, 2021. Data for Serbia are current according to a report published on January 29, 2021. Data for Brazil are current according to a report published on February 2, 2021.

9.1 General information on the Coffee Operation

Following is general information on the Coffee Operation, which is common to the Israel Coffee segment and the International Coffee segment.

9.1.1 Structure of the operation and changes occurring therein

In Brazil (through Três Corações (JV)[29]), Israel, Russia and Eastern European countries, the Group manufactures, markets and distributes a variety of coffee products - roast and ground (R&G) coffee (including filter coffee and coffee capsules) and instant coffee (including powdered instant coffee and freeze-dried instant coffee), hot drink powders (such as chocolate and cappuccino powders) and cocoa powders for baking; markets and distributes coffee machines for home use in Brazil and in Israel; and markets and distributes coffee machines and coffee products for consumption away from home (AFH) (hotels, cafés, offices, etc.). Furthermore, in Israel the Group is active (through the Elite Café chain) in the sale of coffee products, bakery products and soft drinks at some 65 points of sale throughout Israel, most of which cater to customers in public places. Additionally, as part of its activity in Brazil (through Três Corações (JV)) the Group purchases, processes and sells green coffee, corn products, cashew-based dairy substitutes and juice powders.

In 2020, the Coffee Operation was impacted by the spread of COVID-19, which had a mixed effect according to the different sales channels. In the retail channel, increased at-home coffee consumption led to moderate growth in most countries of operations in sales of basic coffee brands, coffee beans and capsules for home use. Online coffee sales also increased in all countries of operations. In the institutional and AFH channel business activity dropped, mainly as a result of temporary restrictions imposed on the activity of hotels, cafés, restaurants, offices and the points of sale in the Elite Café chain.

[29] See Footnote #5 above.

For further information, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

In terms of costs, 2020 was marked by a considerable increase in the cost of green coffee due to the appreciation of the dollar against the functional currencies and an increase in the cost of green coffee in Brazil. However, in the future price adjustments are possible over the long term, which will compensate for the increase in green coffee prices in local currency.

The information in this section with regard to the adjustment for green coffee costs is forward-looking information, as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual events may differ materially from those anticipated, among other things as a result of various developments which may occur in the state of the markets, an enduring recession, etc.

The coffee company's supply and distribution chain was operational throughout the year, and at the date of this report is operating fully and regularly, but was affected by high manufacturing costs due to work procedures implemented by the Group as a result of the pandemic. 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. For further information, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

In February 2020, Três Corações (JV)[30] in Brazil established a joint venture with the company Positive Brands, which manufactures and sells health products in the dairy substitute category (plant-based, mainly cashews), and on July 31, 2020, Café Três Corações S.A. (a subsidiary of Três Corações Alimentos S.A., a joint venture in Brazil 50% owned by the subsidiary Strauss Coffee B.V.) closed a transaction with unrelated third parties for the acquisition of 100% of the shares of Mitsui Alimentos Ltda. ("Mitsui Alimentos" or "Mitsui") in Brazil. Mitsui is active in the manufacture, marketing and sale of coffee in Brazil. For further information, see section 9.3 below.

In 2020, approximately 67% of sales by the Group's Coffee Operation originated in the business in Brazil and Israel, and 9% - in other markets (Romania and Serbia); in those countries of operations the Group is first or second in size in terms of market share in retail coffee sales (according to Nielsen[31] and StoreNext[32] figures).

For the effect of fluctuations in currency exchange rates on the Group's sales, see section 6 with regard to the analysis of financial results in the Report of the Board of Directors of the Company as at December 31, 2020.

In 2020, the Group focused on strengthening its core business while applying measures to mitigate the negative impacts of the COVID-19 crisis, as described above. The Group also increased its activity in new

[30] See Footnote #5 above.

[31] Nielsen is engaged in market research, data and market analysis. To the best of the Company's knowledge, Nielsen is active in 110 countries including Israel. 2020 data for Russia are current according to a report published on December 18, 2020. Data for Poland are current according to a report published on January 20, 2021. Data for Romania are current according to a report published on January 22, 2021. Data for Ukraine are current according to a report published on January 25, 2021. Data for Serbia are current according to a report published on January 29, 2021. Data for Brazil are current according to a report published on February 2, 2021.

[32] StoreNext data are current according to a report published on January 6, 2021.

value propositions such as single-portion capsules and single-origin roasted coffee beans. Additionally, the Group expanded its direct-to-consumer online sales, while managing operations and risks in a complex macroeconomic environment in some of the markets where it is active and delivering a response to the consumption trends described in section 9.1.4 below, which were intensified and accelerated as a result of the pandemic. For further information, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

9.1.2 The global coffee market

In general, the coffee industry is an attractive, large and stable category, and one that is growing continuously in local currency terms and volumes and, as a rule, is not dependent on economic slowdowns. Growth was observed in most countries of operations in local currency and in volumes sold to retailers, despite the economic slowdown in 2020 in the wake of the COVID-19 pandemic.

The information in this section regarding the attractiveness of the global coffee market, its size, growth and general non-dependency on the economy is forward-looking information, as defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual events may differ materially from those anticipated, among other things as a result of various developments which may occur in the state of the markets, consumption habits, etc. For further information, see section 7 above.

According to Euromonitor[33], the world coffee industry generated sales amounting to approximately USD 92.6 billion in 2020 (retail selling prices), and Brazil is the second-largest coffee market in the world, with retail sales of USD 5.4 billion in 2020. According to Euromonitor[34], in 2020, Brazil, the Eastern European countries and Israel accounted for 5.8%, 8% and 0.5%, respectively, of world retail coffee sales in volume terms.

Following are data on the world coffee market according to Euromonitor[35] reports:

Share of FMCG Market Held by Private Labels

Global Retail Coffee Market(1)		
	2020	2019 (2)
Sales in retail prices	USD 92.6 billion	USD 88.5 billion
Sales volumes	6.3 million tons	6.1 million tons
	2015-2020	2014-2019
Compound annual growth rate (CAGR) in value terms	2.4%	2.2%
CAGR in volume terms	2.5%	2.0%

(1) Excluding cafés.
(2) Figures for 2019 were adjusted for Euromonitor's updated calculations.

[33] Euromonitor data are current according to a report published on February 3, 2021..
[34] See Footnote #33 above.
[35] See Footnote #33 above.

Global Retail Roast & Ground (R&G) Segment[1]		
	2020	2019 [2]
Percentage of global coffee market in value terms	63.7%	63.1%
Percentage of global coffee market in volume terms	70.9%	70.9%
Sales value	USD 59.0 billion	USD 55.8 billion
Sales volumes	4.5 million tons	4.3 million tons
	2015-2020	2014-2019
CAGR in value terms	3.0%	2.9%
CAGR in volume terms	2.2%	1.8%

(1) Including fresh coffee beans, ground coffee beans and capsules.
(2) Figures for 2019 were adjusted for Euromonitor's updated calculations.

Global Retail Instant Coffee Segment		
	2020	2019 [1]
Percentage of global coffee market in value terms	36.3%	36.9%
Percentage of global coffee market in volume terms	29.1%	29.1%
Sales value	USD 34 billion	USD 33 billion
Sales volumes	1.8 million tons	1.8 million tons
	2015-2020	2014-2019
CAGR in value terms	1.4%	1.2%
CAGR in volume terms	3.0%	2.6%

(1) Figures for 2019 were adjusted for Euromonitor's updated calculations[36].

Following are data on the major players in the world retail coffee market, according to Euromonitor figures[37]:

Major Players in the Global Retail Coffee Market[1]		
Market share	2020	2019 [2]
Nestle	25.3%	25.0%
JAB[3]	11.6%	11.5%
Lavazza	2.7%	2.6%
Strauss Coffee[4]	**2.4%**	**2.3%**
JM Smucker	2.4%	2.4%
Kraft Heinz	1.6%	1.7%

(1) Value market share, excluding mixes (instant coffee powders containing sweetener/milk powder/other powders (hereinafter: "Mixes").
(2) Figures for 2019 were adjusted for Euromonitor's updated calculations[38].
(3) Figures include all companies acquired by JAB Holdings in recent years, including JDE.
(4) Figures include 100% of the business of Três Corações (JV)[39] according to Euromonitor data[40].
For additional information, see section 9.3 below.

36 See Footnote #33 above.
37 See Footnote #33 above.
38 See Footnote #33 above.
39 See Footnote #5 above.
40 See Footnote #33 above.

The global R&G market is a decentralized market, which is characterized by the presence of numerous companies with smaller market shares than those that are typical of the instant coffee market. Following are data on the major players in the global retail R&G market, based on Euromonitor figures[41]:

Major Players in the Global Retail R&G Market(1)		
Market share	2020	2019 (2)
Nestle	15.3%	14.5%
JAB(3)	12.9%	12.7%
Lavazza	3.8%	3.7%
JM Smucker	3.4%	3.4%
Strauss Coffee (4)	**3.0%**	**2.9%**
Kraft Heinz	2.2%	2.3%

(1) Including fresh coffee beans, ground coffee beans and capsules – value market share.
(2) Figures for 2019 were adjusted for Euromonitor's updated calculations[42].
(3) Figures include all companies acquired by JAB Holdings in recent years, including JDE.
(4) Figures include 100% of the business of Três Corações (JV)[43], and commencing in 2020, 100% of Mitsui's business, according to Euromonitor data[44].
For additional information, see section 9.3 below.

Following are data on the major players in the global instant coffee market, based on Euromonitor figures[45]:

Major Players in the Global Retail Instant Coffee Market(1)		
Value market share	2020	2019 (2)
Nestle	37.1%	37.1%
JAB(3)	8.8%	8.7%
Dongsuh Foods Co. Ltd.	2.8%	3.0%
Ajinomoto Co. Inc.	1.7%	1.8%
Mayora Indah Tbk PT	1.7%	1.6%
PT Java Prima Abadi	1.4%	1.5%
Strauss Coffee (4)	**1.2%**	**1.2%**

(1) Value market share, excluding Mixes.
(2) Figures for 2019 were adjusted for Euromonitor's updated calculations[46].
(3) Figures include all companies acquired by JAB Holdings in recent years, including JDE.
(4) Figures include 100% of the business of Três Corações (JV)[47] according to Euromonitor data[48].
For additional information, see section 9.3 below.

[41] See Footnote #33 above.
[42] See Footnote #33 above.
[43] See Footnote #5 above.
[44] See Footnote #33 above.
[45] See Footnote #33 above.
[46] See Footnote #33 above.
[47] See Footnote #5 above.
[48] See Footnote #33 above.

Following are data on global coffee sales according to geographic segmentation:

Global Coffee Sales According to Geographic Segmentation		
	2020	2019 (1)
Western Europe	22%	21%
North America	14%	14%
Latin America	19%	19%
Australia Asia Pacific	26%	26%
Eastern Europe	8%	9%
Middle East and Africa	11%	11%

(1) Figures for 2019 were adjusted for Euromonitor's updated calculations[49].

9.1.3 Mergers and acquisitions in the global coffee industry

In general, in 2020 the trend of consolidation between companies in the global coffee market slowed. In November 2020, publications in the world financial press stated that Illicafe had announced the sale of a 20% stake to the private equity firm Rhône Capital for over EUR 200 million with the aim of expanding its operations to the US. Subject to the required regulatory approvals, the transaction will be closed in the course of 2021.

9.1.4 Consumer trends in the coffee market

In 2020, following the COVID-19 pandemic, AFH coffee consumption decreased significantly due to the restrictions imposed on the operation of hotels, restaurants and cafés, as well as a significant drop in the presence of employees in the office.

Conversely, at-home consumption trends were expressed as follows:

In 2020, the main consumer trend in the coffee world in recent years – the birth of the coffee culture – continued, characterized by a continuing rise in the level of sophistication of consumers and products alike.

The factors driving the coffee culture are trends of premiumization in food and beverages (also expressed in the wine, beer, cheese and other categories), the continuous growth of high-end cafe chains and the coffee capsule (single portion) segment, which deliver a more sophisticated coffee experience and products, greater knowledge of coffee, its sources of cultivation and methods of preparation. Additionally, new high-value categories and products have developed, and in general, there is a wider variety of products. Following the pandemic and the drop in AFH consumption, the premiumization trend was boosted by at-home consumption of coffee products. Another factor that is driving the coffee culture forward is the growing use of the Internet, which enables extensive dissemination and greater accessibility of knowledge and experiences in the world of coffee, as well as a direct connection with consumers. This trend too was expedited by the COVID-19 crisis and the general increase in private consumption via the Internet. Consequently, coffee consumers have become more sophisticated, more knowledgeable, and demand higher standards.

[49] See Footnote #33 above.

If, formerly, coffee consumers would stick to a single type of coffee, there is now a trend of product diversification as consumers vary between several kinds of coffee (R&G, instant, espresso), sometimes even on the same day. For manufacturers, who are adapting to the coffee culture through up-to-date brands, a strategic manufacturing and distribution chain and by leveraging food technologies, this is an opportunity to add consumer value, generate growth and bigger margins, and to mitigate risk and exposure to raw material volatility. As a result of these trends, relatively new coffee categories such as single-portion capsules, roasted beans, ready-to-drink coffee, instant coffee combined with R&G, etc., are growing fast.

The Group conducts research from time to time in an attempt to anticipate changes in consumption trends. According to these trends, in recent years the Group has expanded its activity in single-portion capsules and in other premium products such as customized orders of fresh coffee beans, and has enhanced its capabilities in the development and launch of new, high added-value products.

In Brazil (through Três Corações (JV)[50]), in 2017 a manufacturing site for the production of coffee capsules became operational, which has been enlarged in the past three years through the construction of additional production lines. In Israel Strauss Coffee manufactures and markets capsules sold direct-to-consumer via e-commerce and retail, and in early 2019, under the BeanZ brand, the Group launched an online marketing and distribution platform for coffee machines and freshly roasted coffee beans tailored to the consumer's individual taste. Since 2016, the Group has made unique coffee bean launches in Romania and Poland, in which the products are personally tailored to the consumer's taste (coffee origin, roasting method, grinding thickness, etc.) and delivered to the consumer directly after roasting to preserve maximum freshness, sold online and through the retail channel. The Group also markets coffee beans for retail sale in all countries of operations in Europe.

For the possible impact of the COVID-19 outbreak on the consumption trends described above, see section 2 in the Report of the Board of Directors of the Company as at December 31, 2020.

9.1.5 Changes in the scope of the activity framework and its profitability

9.1.5.1 Changes in the scope of activity

The Group's operation in the coffee business has expanded and grown in recent years, mainly in Brazil and Israel, as a result of organic growth, building and developing existing and new brands (including through brand acquisitions – see section 9.3.1 below), and launching new high added-value products in alignment with consumption trends, first and foremost the emergence of the coffee culture as described in section 9.1.4 above.

9.1.5.2 Changes in profitability

For information on changes in income and profitability in the Coffee Operation, including the Israel Coffee segment and the International Coffee segment, see section 20.2 in the Report of the Board of Directors of the Company as at December 31, 2020.

[50] See Footnote #5 above.

9.1.6 Critical success factors in the activity framework and changes occurring therein

In addition to the critical success factors that are common to all the Group's business areas as described in section 7 above, there are success factors that are unique or highly significant to the coffee business, including: (1) in R&G coffee products, which are products that possess local characteristics – the ability to tailor the product, its flavor, appearance and other consumption characteristics to the unique tastes of the consumer in each country where the Group operates; (2) maintenance and boosting the strength of brands and their attractiveness to consumers; (3) knowhow and complex technological capabilities in instant coffee; (4) systemic capabilities in the development, operation and maintenance of coffee vending machines; (5) marketing and distribution capabilities in the Away-From-Home (AFH) market and maintenance of diverse points of contact between coffee products and consumers at different consumption opportunities (such as at-home consumption, on-the-go, workplace consumption and in hotels); and (6) a modern and professional supply chain which enables the consistent manufacture of top-quality products.

9.1.7 Major entry barriers to the activity framework and changes occurring therein

In addition to the major entry barriers that are common to all the Group's business areas as described in section 7 above, the main entry barriers in the Coffee Operation arise from the need for knowledge in all aspects relating to the procurement of green coffee; the existence of customs duties on the import of finished products in some of the countries where the Group is active, which, among other things, influences the need for self-production of the products in these countries; in instant coffee products technological knowhow is required, as well as large-scale investments in building a production site; the supply channel requires a modern and professional system that enables the consistent manufacture of top-quality products, and in the AFH channel there is a need for a unique sales-support system that is able to provide a technical response to a large number of points that operate different coffee machines, including vending machines selling hot beverages and chilled products.

9.1.8 Substitutes for the products of the activity framework and changes occurring therein

The main substitutes for coffee products are tea, cocoa and energy drinks. Soft drinks, water and carbonated beverages are secondary substitutes.

9.1.9 Raw materials and suppliers

The main raw material used by the Group in the Coffee Operation, the cost of which accounts for about 60% of total purchases of raw materials in this activity framework, is green coffee. The Group also purchases other raw materials, mainly sugar, cocoa powder and packaging materials (such as jars, based on molds which the Group furnishes to manufacturers), which are purchased by the Group companies. The Group companies also buy instant coffee of different types from various external vendors, mainly in Brazil, Vietnam and India. In the Company's estimate, at the present time the Group is not dependent on any of its suppliers.

World production of green coffee is divided between Arabica beans (56%) and Robusta beans (44%). Approximately 50% of the Group's procurement consists of Robusta beans. According to information from the International Coffee Organization (ICO)[51], the leading countries in the production of Arabica green coffee are Brazil, Colombia and Ethiopia; and the leading countries in the production of Robusta green coffee are Vietnam, Brazil and Indonesia. Arabica is traded on the commodities exchange in New York (New York Board of Trade), and Robusta, on the commodities exchange in London (Euronext LIFFE).

Green coffee is purchased for the Group as a whole (with the exception of Brazil, where Três Corações (JV)[52] purchases green coffee from local suppliers) in a centralized manner. Green coffee is bought from various vendors in some 20 different countries, mainly Vietnam, Central and South America and East Africa. Purchase agreements are performed according to the terms and standard provisions of the European Standards Coffee Contract.

The Group has a system in place for the management of quality tests that is designed to achieve uniformity in coffee beans and to enable quality problems to be quickly identified. This system is also used by the Group's suppliers worldwide.

Green coffee is a commodity traded on world exchanges, and from time to time the Group enters into futures contracts and option contracts for the purchase and sale of green coffee. For further information, see section 4 in the Report of the Board of Directors of the Company as at December 31, 2020.

The price of green coffee is affected by supply (weather, trading restrictions, etc.) and by demand. In 2020, average annual Arabica and Robusta prices rose, and price volatility during the period was high. In the beginning of the year Robusta prices were on a downward trend, and in the second half the trend reversed.

The following graphs present the changes in prices of the different types of green coffee in the years 2015-2020, based on information received from ICE[53].

Changes in Arabica Prices in 2015-2020

Units: US cents/lb.

[51] The International Coffee Organization (ICO) is the main intergovernmental organization for coffee, bringing together exporting and importing governments to tackle the challenges facing the world coffee sector through international cooperation; http://www.ico.org.

[52] See Footnote #5 above.

[53] Intercontinental Exchange (ICE) is a supplier of commodity market information, which generates and provides commodities analyses; https://www.theice.com/index.

Changes in Robusta Prices in 2015-2020

Units: USD/ton

9.2 The Israel Coffee Segment

9.2.1 General information on the Israel Coffee segment

a. In this segment the Group develops, manufactures, sells, markets and distributes a variety of coffee products bearing its brands in Israel, and also manufactures and sells chocolate powders and other drink powders, as well as cocoa powders for baking. Additionally, the Group is engaged (through Elite Café chain) in the sale of coffee and bakery products and soft drinks at various points of sale located in public places throughout Israel. In early 2019 the Group also launched an online direct-to-consumer (D2C) business for the marketing and distribution of coffee machines and freshly roasted coffee beans under the BeanZ brand.

The Israel Coffee segment includes Strauss Coffee's headquarters, which coordinates the Group's entire Coffee Operation (except for identifiable costs of Strauss Coffee's various investees and the results of procurement activities for the entire Coffee Operation, which are fully allocated).

b. In terms of developments in the markets of the activity segment or changes in the characteristics of its customers, in Israel there has been continuous growth in demand for coffee of all kinds, stemming from an increase in coffee consumption. Additionally, in recent years there has been a growing trend of diversification between the types of coffee drunk during the day. In 2020 at-home coffee consumption increased and AFH consumption dropped as a result of lockdowns and restrictions on movement due to the COVID-19 pandemic, with the closure of hotels, restaurants and cafés, a reduction in railway traffic (which affected the activity of the Elite Café chain) and limited presence in the office. In addition, online sales grew – also as a result of the pandemic. For further information on major consumption developments in the Company's markets in Israel, see sections 7 and 8.1.3 above.

9.2.2 Products

The Group's main products in the Israel Coffee segment are:

(1) Roast and ground coffee (in the categories: Turkish ("black") coffee, filter coffee, roasted beans and capsules for espresso machines) for home and institutional use and AFH consumption. For example:

(2) Instant coffee (in the categories: powder and freeze-dried) for home and institutional use and AFH consumption. For example:

(3) Chocolate powders (“Choco”) under the Chocolite brand and drink powders, sold for home consumption and to the institutional market, and for home baking (such as cocoa). For example:

(4) In early 2019 the Group launched a direct-to-consumer (D2C) marketing and distribution business supplying coffee machines and freshly roasted beans under the BeanZ brand. The Group also markets coffee beans under the BeanZ brand to the AFH market and operates points of sale under the BeanZ brand through the Elite Café chain. For example:

BEANZ CAFÉ

(5) In addition, the Group operates the Elite Café chain, which specializes in the sale of coffee and accompanying products in the OTG (on-the-go) segment, mainly at coffee stands located in railway stations, academic institutions and hospitals. In 2020, following lockdowns and restrictions on movement due to COVID-19, part of the cafés in the chain were intermittently closed during the year or operated in a limited format.

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9.2.3 Segmentation of income and profitability of products and services (according to the Company's Management Reports, as defined in section 5 above)

In 2020, revenue of the entire Israel Coffee segment accounted for less than 10% of the Company's total consolidated revenue according to the Company's Management Reports, as defined in section 5 above.

9.2.4 Competition

a. All of the Group's coffee products in Israel have rival products. The Group leads in some categories of coffee products and "Choco" powders. The main competitors in the different categories are as follows: (1) instant coffee products – "Osem-Nestle" and "Jacobs", which is marketed by "Diplomat"; (2) R&G coffee products –"Landwer", "Jacobs" and the private labels of the retail chains Shufersal, Rami Levy and others; espresso capsules – "Nespresso", which sells coffee capsules and machines at its stores, "Starbucks", "L'OR" and "Jacobs", marketed by "Diplomat", Shufersal Nespresso-compatible private label coffee capsules, Cup O' Joe Nespresso-compatible capsules; (3) AFH consumption – café chains.

b. **Market share** – the table below presents information on the market shares of the Group and its major competitor in each of the categories with regard to the Group's main products in the Israel Coffee segment:

Market Shares in the Israeli Coffee Market				
	2020		2019 (1)	
	The Group	**Main Competitor**	**The Group**	**Main Competitor**
Israel: instant coffee	34.3%	47.5%	36.1%	43.4%
Israel: R&G (2)	65.7%	3.7%	65.1%	3.9%
Israel: instant and R&G (weighted) (3)	49.7%	24.2%	50.4%	23.4%

(1) Figures for 2019 were adjusted for StoreNext's updated calculations[54].

(2) Market shares for the R&G product group in Israel were calculated by weighting StoreNext's figures[55] for the barcoded retail market and an estimate of direct sales in the non-barcoded market in view of the Company's opinion that StoreNext's data alone are not representative of this product group.
The information in this section regarding estimated sales in the non-barcoded market is forward-looking information, as defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date, of which the accuracy is uncertain, among other things due to the data not being based on objective information of an external source.

(3) Market share data do not include the capsule market due to the lack of reliable data on this market, most of which is not barcoded.

c. Negative factors which, in the Group's opinion, influence or are likely to influence its competitive position in the Israel Coffee segment, are, among others, economic crisis, continued development of private labels, potential expansion of the operations of international coffee companies in the Israeli domestic market, and the development of rival distribution capabilities, which will reduce the Group's competitive advantage. The Group contends with the competition in the Israel Coffee segment on a continuous basis by concentrating marketing and advertising efforts; building and maintaining its brands; a comprehensive distribution system; innovation – the development and launch of new products; entry into new business areas; investment in manufacturing facilities and

54 See footnote #1 above.
55 See footnote #1 above.

the development of technological capabilities; and adaptation of its products to the different emerging consumer trends.

9.2. 5 Seasonality

Following are data for the years 2020 and 2019 on the Company's income in the Israel Coffee segment, by quarter, according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the Israel Coffee Segment				
	2020		2019	
	Income(1)	% of Total Segment Income	Income(1)	% of Total Segment Income
Q1	235	33.0%	222	29.4%
Q2	133	18.7%	165	21.9%
Q3	175	24.6%	196	26.0%
Q4	169	23.7%	171	22.7%
Total	712	100%	754	100%

(1) In NIS millions.

There is no clear seasonality trend in the Israel Coffee segment; at the same time, revenues are generally (relatively) higher in the first quarter of the year due to increased consumption of coffee products as Passover approaches. In 2020, Israel Coffee's income in the second quarter was adversely affected by the closure of the Elite Café chain's points of sale and the drop in sales to the institutional and AFH market following the COVID-19 pandemic.

9.2.6 Production capacity

The production capacity of the Group's plants in the Israel Coffee segment is measured by quantities of product per year. The maximum potential annual production capacity of the Group's plants in the Israel Coffee segment, operating in three shifts, in tons of product per year for the years 2020 and 2019 was approximately 23 thousand tons for each of the years. The actual average production capacity utilization rate in the years 2020 and 2019 was about 58%. It is noted that the Group's plants are not alternate, and that most of the production lines themselves are not alternate. It is noted that a number of production lines in the activity segment may reach their maximum production capacity at certain points in time and during holiday periods. In addition, if necessary, the Group produces some of its products by way of outsourcing.

The production lines in the Group's plants are automatic, and some of them are operated in three shifts a day.

It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans.

9.2.7 Fixed assets, real estate and facilities

Material Fixed Assets in the Israel Coffee Segment			
Nature and Location	**Site Designation**	**Land Area**	**Built-Up Area**
Plant in the new industrial zone in Safed	Manufacturing and packaging of instant coffee, Chocolite and cocoa	16,900 m²	3,200 m² (1)
Plant in Lod	Production of R&G, including capsules and powders	5,600 m²	4,441 m² (2)

Rights in and to the site:

(1) Leased from ILA under capitalized lease agreements, ending in March 2031 (10,460 m²) and in January 2033 (6,380 m²). Each of the leases includes an option for the lessee to extend the lease period for a further 49 years.

(2) Ownership of 4,884 m² and leasing of 797 m² under a capitalized lease agreement ending in December 2033, with an option for the lessee to extend the lease period for a further 49 years.

For information on the Group's logistics center in Shoham, see section 8.1.9 above.

For the Group's policy with respect to the depreciation of machinery and equipment in its various plants, see Note 3.4.5 to the Financial Statements of the Company as at December 31, 2020.

9.2.8 Intangible assets

The Group has registered trademarks in Israel on most of the coffee brand names (excluding brands that are distributed by the Group and are not owned by it). The major trademarks in Israel are valid for a defined period and may be renewed at the end of that period. In view of the many years of use of these trademarks and their dominant status in the markets, the Group estimates that the economic life of its main trademarks is indefinite.

For an itemization of costs and changes in intangible assets in the years 2020 and 2019, see Note 15.1 to the Financial Statements of the Company as at December 31, 2020.

9.2.9 Human capital

a. For a description of the Group's organizational structure and information on employment agreements, etc., see section 16 below.

b. Following is information on the number of employees in the Group in the Israel Coffee segment:

Number of Employees in the Israel Coffee Segment		
	December 31, 2020	**December 31,** 2019
Management and administration	81	88
Sales and distribution	167	398
Procurement and logistics	189	184
Operations	170	164
Total	**607**	**834**

Including 27 and 39 employment agency workers as at December 31, 2020 and 2019, respectively.

c. The above administrative staff includes, inter alia, the members of Strauss Coffee management, which directs the Group's entire coffee operation.

d. Strauss Coffee's headquarters are attributed to the Israel Coffee segment. For a description of the organizational structure of the Group's coffee operation, see section 16.1 below.

9.2.10 Raw materials and suppliers

a. For information on the procurement of raw materials and suppliers in the Coffee Operation, see section 9.1.9 above.

b. In addition, in Israel the Group purchases powdered instant coffee from two external suppliers, from Vietnam and India, which manufacture the products according to product development in conjunction with and for the Group and according to the Group's technological guidelines and specifications. The suppliers are obligated not to produce the product for others. The products are purchased for a price that is based on prices of green coffee plus manufacturing costs and fixed costs. The Group is not bound to minimum quantities from these suppliers. Due to there being two suppliers, the Group has no dependency on any one of them.

9.2.11 Working capital

Following is the composition of working capital in the Israel Coffee segment in 2020, according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the Israel Coffee Segment	
	Amount Included in the Management Reports
Operating current assets (1)	177
Operating current liabilities (2)	68
Excess of current assets over current liabilities	109

(1) Including net trade receivables, inventory, income receivable and prepaid expenses.
(1) Including net trade payables, income received in advance and accrued expenses.
(2) In NIS millions.

9.2.12 Restrictions and oversight in the segment

Declaration as a monopoly

In 1988, the Company was declared a monopoly, inter alia, in the categories of instant coffee and cocoa powders for at-home consumption. For information, see section 25 z below.

Approval by the Competition Commissioner

Within the context of an agreement for the acquisition of the coffee machine business of the Dutch company "Douwe Egberts", the Israeli Competition Commissioner granted approval, including conditions for the merger, stipulating, inter alia, that Strauss Elite Away From Home Ltd. (which was merged with Strauss Coffee) and any and all persons related to it shall not be associated (including by way of the grant of aggregate discounts) in any manner whatsoever between the supply of coffee machines and/or concentrate and/or powder for coffee machines and the supply of other of its products to hotels.

Consensual decree

Following the merger announcement issued by the Company and the Elite Café chain in 2005 with respect to the acquisition of 26% of the shares of Elite Coffee (formerly Coffee To Go) by the Company and the Commissioner’s objection to a discussion with regard to the notice, in February 2006 the Competition Court approved a consensual decree between the Company and the Commissioner, pursuant to which the merger would be approved, whereas the Company will not be a party to a collaboration arrangement that affects the Israeli market and grants the Company a material ability to direct the actions of another person who manages a business, unless the collaboration arrangement is submitted for the Commissioner’s approval in advance.

9.3 The International Coffee Segment

9.3.1 General information on the International Coffee segment

In this segment, the Group develops, manufactures, sells, markets and distributes a variety of coffee brands mainly in Brazil (through the Três Corações (JV)[56]) and also in Romania, Russia and Ukraine, Poland and Serbia. For additional general information on the Coffee Operation, which is common to the Israel Coffee segment and the International Coffee segment, see section 9 above.

Brazil – in 2020, the volume of Três Corações (JV)'s[57] sales in Brazil increased as the company continued to solidify its position as the biggest coffee company in Brazil (according to Nielsen[58]) in terms of market share, despite a challenging economic and political environment. However, the gross profit margin eroded as a result of an increase in coffee prices in Brazil (following the erosion of the real versus the dollar), which was not passed onto the consumer due to a recession, among other reasons caused by the COVID crisis, and challenging competitive conditions. Additionally, the shekel results of operations in Brazil were adversely affected by the appreciation of the shekel against the Brazilian real. For further information on foreign exchange volatility, see section 6 in the Report of the Board of Directors of the Company as at December 31, 2020.

In February 2020 Três Corações (JV)[59] formed a joint venture with the company Positive Brands, which manufactures and sells health products in the dairy substitute category (plant based, primarily cashews), with an investment of approximately BRL 39 million (reflecting 100%).

In July 2020 Café Três Corações S.A. ("Café Três Corações"), a subsidiary of Três Corações (JV), closed a transaction for the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil ("Mitsui Alimentos"), which is active in R&G under the Café Brasileiro brand, a category in which Três Corações (JV) is the player with the largest market share in Brazil. Mitsui Alimentos is primarily active in two regions where Três Corações (JV)[60] did not lead in market share prior to the acquisition.

The transactions are intended to further strengthen the position of the joint venture in Brazil and are aligned with the joint venture's strategy to boost its leading status in the Brazilian coffee market. For further information, see 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) and also section 21.2.2 in the Report of the Board of Directors of the Company as at December 31, 2020.

Russia – in 2020 the Group's local currency sales grew, mainly due to an increase in quantities sold thanks to the growth in at-home consumption of coffee products following the COVID-19 pandemic and the ensuing increase in retail channel sales. This positive effect was partly set off by a drop in business results

[56] See Footnote #5 above.
[57] See Footnote #5 above.
[58] See Footnote #31 above.
[59] See Footnote #5 above.
[60] See Footnote #5 above.

due to the depreciation of the ruble against the dollar, which impacted the purchase prices of the main raw materials. Additionally, the shekel results of operations in Russia were negatively affected by the appreciation of the shekel against the ruble. For further information on foreign exchange volatility, see section 6 in the Report of the Board of Directors of the Company as at December 31, 2020.

Ukraine – in 2020 sales turnover in local currency dropped, mainly as a result of a drop in average sales prices, which were impacted by the mix of products sold and restrictions on AFH coffee consumption and on the activity of open-air markets following the COVID-19 pandemic.

Poland – the Group's sales in local currency grew in 2020 compared to the prior year following volume growth in retail channel sales, which was partly offset by a drop in sales to the AFH channel as a result of the pandemic. Although consumers are continuously looking for cheap products, discounts and campaigns, the trend of buying quality brands has continued and growth in the consumption of roasted coffee beans is ongoing.

Romania – the Group's sales in Romania in local currency decreased in 2020, mainly as a result of the growing competition led by the retail chains, which had a negative effect on sales prices, as well as due to a drop in sales to the AFH channel as a result of COVID-19.

Serbia – in 2020 macroeconomic conditions worsened following the COVID-19 pandemic. In addition to the drop in AFH consumption following the restrictions on movement, the large discounters have grown stronger at the expense of traditional trade, a phenomenon that was intensified following the expansion of the Lidl chain in the Serbian market. The Group's sales in Serbia in local currency dropped in 2020, mainly as a result of a drop in quantities sold due to decreased sales in the AFH channel and a drop in average sales prices due to discounts and campaigns in the retail channel.

For further information, see section 3-11 in the Report of the Board of Directors of the Company as at December 31, 2020.

9.3.2 Developments in the markets of the activity segment or changes in customer characteristics

The main consumer development in the Group's countries of operations is the emergence of a coffee culture and conflicting effects of the COVID crisis – a positive effect on at-home consumption (mainly through the large retail chains and online purchase), coupled with a negative effect on AFH consumption as described in section 9.1.4 above.

In Brazil, there has in recent years been a deterioration in political and economic stability, which increased with the pandemic, resulting in volatility in exchange rates between the Brazilian real and the dollar and shekel and sending the Brazilian currency to an all-time low. By contrast, there are positive trends of increased consumption of single-portion coffee capsules and specialty coffees, together with continuous growth in the company's core R&G business. In addition, in 2020 the trend of growing strength of cash-and-carry chains (chains that sell directly to small retailers such as groceries) continued. For further information on foreign exchange volatility, see section 6 in the Report of the Board of Directors of the Company as at December 31, 2020.

In Russia brand loyalty is declining and consumers are continuously looking for discounts and campaigns, particularly in the organized (modern trade) market, and the competitive environment is challenging (for further information, see section 9.3.5 below). In 2020 coffee consumption increased, mainly of premium products such as roasted coffee beans and freeze-dried instant coffee.

In Ukraine economic uncertainty grew in 2020, mainly as a result of the impacts of the COVID crisis, but the local currency appreciated against the dollar, allowing for price reductions. The traditional sales channel in stores and groceries is more dominant in Ukraine compared to the organized market, but there is a clear trend – which has grown stronger due to the COVID crisis – of shifting to the organized market. There has also been an increase in the consumption of roasted coffee beans as part of the coffee culture and premiumization trend in at-home consumption.

In the Eastern European countries (Romania, Poland and Serbia) the trend of shifting from sales to end consumers in open air markets and sales by small grocery stores to sales to organized market customers, characterized by the operation of a number of points of sale (food chains, etc.), has continued. Additionally, in Romania and Poland there is a trend of premiumization, characterized by increased consumption of roasted coffee beans, and in Romania, increased consumption of coffee capsules.

9.3.3 Products

The Group's main products in the International Coffee segment are R&G, instant coffee, roasted coffee beans, espresso capsules and coffee machines, chocolate and other drink powders including coffee substitutes, corn products, cashew-based dairy substitutes and juice powders. In 2020 Strauss Coffee focused on strengthening and positioning its brands, developing new categories and flavors, and solidifying its capsule and coffee machine brands.

Brazil – through Três Corações (JV)[61], the Group sells R&G coffee beans, instant coffee, espresso capsules and machines, cappuccino products, chocolate powders, juice powders, cashew-based dairy substitutes and corn products. For example:

[61] See Footnote #5 above.

In Brazil, the Group mainly operates under the following brands:

(1) **Três Corações** (instant coffee, R&G, filter coffee, cappuccino, chocolate powders, ready-to-drink coffee);

(2) **Santa-Clara** (instant coffee, R&G, filter coffee, chocolate powders and cappuccino);

(3) **Pimpinela** (instant coffee, R&G, filter coffee);

(4) **Kimimo** (R&G and instant coffee);

(5) **Fino Grão** (R&G);

(6) **Itamaraty** (R&G);

(7) **Principal** (R&G);

(8) **Iguaçu** (instant coffee, R&G and cappuccino);

(9) **Amigo** (instant coffee)**, Manaus** (R&G);

(10) **Tres** (capsules and espresso machines);

(11) **Dona Clara** (corn products), **Frisco** (juice powders).

(12) **Brasileiro** (R&G);

(13) **Tal Castanha** (cashew-based milk substitutes).

For further information, see section 9.3.1 above. As part of its activity in Brazil, the Group also purchases, processes and exports green coffee, mainly to Europe and the US.

Russia and Ukraine – the companies in Russia and Ukraine operate under a number of brands, but the company in Russia places emphasis on "**Chornaya Karta"** as the leading brand. For example:

The companies in Russia and Ukraine mainly operate under the following brands:

(1) **Chornaya Karta** (freeze-dried instant coffee as a main brand, roasted coffee beans and R&G);

(2) **Totti** (instant coffee, premium branded tea and R&G);

(3) **Le-Café** (freeze-dried coffee);

(4) **Ambassador** (freeze-dried coffee, roasted coffee beans and espresso);

(5) **Fort;**

(6) **Elite Health Line**;

(7) **Chicory** beverages (chicory coffee substitute).

Poland – the Group sells R&G, instant coffee and espresso under a number of brands. For example:

The Group continues to focus on developing the MK sub-brands, and is active in Poland mainly under the following brands:

(1) **MK**;

(2) **Fort**;

(3) **Pedro's**.

(4) In 2016 the Group launched the **MK Fresh** brand in Poland for the online sale of freshly roasted coffee beans, personally tailored to the customer's taste.

Romania – the Group sells R&G, espresso, instant coffee and coffee beans, under a number of brands. For example:

In Romania, the Group mainly operates under the following brands:

(1) **Doncafé**, an umbrella brand that includes various brands bearing the brand name in the instant and R&G segments;

(2) **Amigo** (instant coffee);

(3) **Fort** (R&G);

(4) In 2016 the Group launched the **Doncafé Fresh** brand in Romania for the sale of freshly roasted coffee beans, personally tailored to the customer's taste.

Serbia – the Group mainly sells R&G coffee manufactured at its local plant. For example:

In Serbia, the Group mainly operates under the following brands:

(1) **Doncafé** as an umbrella brand that includes:

a. **Doncafé Moment**;

b. **Doncafé Minas**;

c. **Doncafé Strong** (R&G);

d. **Doncafé Mix** (instant coffee)

(2) The brand **C-Kafa**.

9.3.4 Segmentation of income and profitability of products and services (according to the Company's Management Reports, as defined in section 5 above)

For the segmentation of International Coffee's income from external entities (consolidated) (according to the Company's Management Reports, as defined in section 5 above) by geographical regions in which the Group operates, see section 21.2.1 in the Report of Board of Directors of the Company as at December 31, 2020.

Following is the International Coffee segment's income from external entities (consolidated) arising from a group of similar products, the percentage of which accounts for 10% or more of the Group's total income (according to the Company's Management Reports, as defined in section 5 above) in the years 2020, 2019 and 2018:

Segmentation of the Group's Income from External Entities (Consolidated)						
Group of Similar Products	Income(1)			% of the Group's Total Income		
	2020	2019	2018	2020	2019	2018
R&G	1,555	1,903	2,107	18.6%	22.3%	24.6%

(1) In NIS millions.

9.3.5 Competition

Brazil – the Federal Republic of Brazil is divided into 26 federal states and one federal district where the capital city of Brasilia is situated. As a result, the market is regional and decentralized (numerous small companies with no dominant domestic manufacturer). In each region, there are one or two competitors as leading major rivals, several medium size competitors and a large number of small local manufacturers, while in 2020 Três Corações (JV)[62] continued to solidify its position as the largest coffee company in Brazil in terms of market share, according to Nielsen[63].

The Group's major competitors in the R&G market in Brazil are Marata, Melitta and JDE; in instant coffee – Nestle, JDE and Melitta; and in single-portion products (capsules and others) – Dolce Gusto, Nespresso, L'OR, Starbucks and Pilão.

Russia – the domestic instant coffee market is the largest in the world. The main competitors in instant coffee are Orimi, JDE and Nestle, and the Group ranks in fourth place. 2020 was marked by aggressive competition, mainly versus the two major rivals, Nestle and JDE, which attempted to increase their market share by granting discounts, launching new products and transferring products to the mainstream category. To contend with the competition, the Company applied a control mechanism over sales prices and applied a policy of channel- and consumer-targeted campaigns while planning the variety of products marketed and its marketing budget to protect and grow market share.

Ukraine – the main competitors are the global concern, JDE (in R&G and instant coffee), Nestle and Galka (in powdered instant). According to Nielsen[64], the Group is the largest coffee company in R&G in Ukraine and the third-largest in instant coffee, in terms of market share. In Ukraine there is an issue of counterfeit products and the smuggling of products to west Ukraine, and as a result, rivals have been granting significant discounts. The Group is working to counter this competition by bettering its price lists, lowering expenses and focusing on the promotion of its major brands.

Poland – in the R&G market, the Group has two main competitors – JDE and Tchibo; the Group is in third place in terms of market share in R&G in Poland. In roasted coffee beans the Group has two major rivals

[62] See Footnote #7 above. .
[63] See Footnote #33 above.
[64] See Footnote #33 above.

– Lavazza and JDE – and numerous rivals with a relatively small market share (including the private labels of the retail chains). The Group is third in size in this market.

Romania – in the R&G market, the main competitor is the international corporation, JDE, as well as the local company Fortuna. The Group is the second-largest in market share. In the instant coffee market, the main competitors are Nestle, JDE and private label, and the Group is in first place in market share. 2020 was marked by aggressive competition and price reductions introduced by global rivals in an attempt to grow market share. The Company is working to counter this competition by concentrating on sales promotion while frequently revising targeted campaigns, and on strengthening its brands in relation to the competition.

Serbia – in the R&G market, the major competitor is Grand Prom, and the Group has the second-largest market share. In 2020 private label gained strength with the rapid growth of the Lidl chain in Serbia, in addition to growing competition in R&G retail prices, which were impacted by the campaigns and discounts policies of local manufacturers and JDE's gradual solidification.

9.3.5.1 Market shares

a. The following table presents the market shares of the Group and its major competitor in the International Coffee segment, with respect to the Group's main coffee products in its major countries of operations. The figures are based on Nielsen data[65].

Market Shares in the International Coffee Segment

	2020		2019(2)	
	The Group	Major competitor	The Group	Major competitor
Brazil(1): roast coffee	31.2%	19.7%	28.8%	19.4%
Brazil(1): instant coffee	34.0%	47.4%	33.5%	46.8%
Brazil(1): capsules	23.3%	36.5%	24.4%	44.0%
Poland: roast coffee	19.4%	31.6%	19.1%	32.5%
Poland: roasted coffee beans	10.0%	19.8%	8.9%	21.2%
Serbia: roast coffee	26.1%	53.2%	27.3%	53.1%
Romania: roast coffee	17.3%	38.7%	19.1%	38.5%
Romania: instant coffee	38.3%	24.1%	38.3%	22.9%
Russia: instant coffee	7.7%	31.3%	7.9%	30.8%
Ukraine: roast coffee	17.9%	16.9%	17.4%	16.6%
Ukraine: instant coffee	8.9%	46.8%	9.8%	43.8%

(1) Market share in Brazil is based on 100% of the sales of Três Corações (JV)[66] and not only on the Group's share of sales (50%).
(2) The figures for 2019 were adjusted for Nielsen's updated calculations[67].

b. Negative factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Coffee segment, are expansion of the operations of international coffee

65 See Footnote #33 above.
66 See Footnote #7 above.
67 See Footnote #33 above.

companies in the domestic market in each country and the development of rival distribution capabilities, which will reduce the Group's competitive advantage. Furthermore, international coffee companies may develop capabilities, which will enable them to shape the coffee culture among consumers.

Positive factors which, in the Group's opinion, influence or are likely to influence its competitive position in the CEE countries, in addition to the factors set forth in section 7 above, include the Group's high-level capabilities in product development; its ability to tailor its products to the tastes of the local market in each country; increased regulation and enforcement in these countries, which is liable to shrink the "black market" for cheap coffee products that compete with the Group's products, and a rise in consumer purchasing power, which will increase purchases of branded products.

The Group contends on a continuous basis with the competition in the coffee market by concentrating its marketing and advertising efforts; building and maintaining its brands; a comprehensive distribution system; innovation – the development and launch of new products; entry to new business areas; investment in manufacturing facilities and the development of technological capabilities; and adaptation of its products to the different emerging consumption trends. The Group also deals with the competition by acquiring rival businesses or establishing joint ventures with its competitors.

9.3.6 Seasonality

Following is information for the years 2020 and 2019 on the Company's income in the International Coffee segment, by quarter, according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the International Coffee Segment

	2020		2019	
	Income(1)	% of Total Segment Income	Income(1)	% of Total Segment Income
Q1	609	23.7%	672	22.6%
Q2	617	24.0%	748	25.2%
Q3	676	26.3%	790	26.6%
Q4	665	26.0%	762	25.6%
Total	2,567	100%	2,972	100%

(1) In NIS millions.

Seasonality is mainly affected the Christian holidays and the end of the Gregorian year in the fourth quarter, a period that is characterized by increased purchases of coffee products. The second quarter of 2020 was adversely affected by the effects of the COVID crisis and the restrictions on movement and lockdowns, which reached a peak in the countries of operations in this period.

9.3.7 Production capacity[68]

The production capacity of the Group's manufacturing plants in the International Coffee segment is measured in quantities of product per year. The maximum potential annual production capacity of the

[68] Maximum potential annual production capacity data include 100% of the figures for Três Corações (JV) in Brazil, although financial data for Brazil are presented according to the Company's relative share, i.e. 50%.

Group's plants in the segment, operating in three shifts, in tons of product per year for the years 2020 and 2019, was approximately 508 thousand tons and 485 thousand tons, respectively. The increase in production capacity is due to the acquisition of Mitsui Alimentos, which owns two R&G manufacturing sites in Brazil.

The actual average capacity utilization rate in the years 2020 and 2019 was approximately 73% and 75%, respectively.

It is noted that the Company's freeze-dried instant coffee manufacturing plant is not an alternative plant. It is further noted that a number of production lines in the activity segment are liable, at certain points in time during holiday periods, to reach their maximum production capacity. On lines where the Company reaches maximum production capacity, the Company purchases products from external vendors, on which the Company is not dependent. For further information, see section 9.1.9 above.

The production lines in the Group's plants are automatic, and some are operated in three shifts daily. It is the Group's practice to regularly improve and upgrade the machinery and equipment in its plants and to expand production lines with the aim of maintaining and increasing production capacity according to the Group's work plans.

9.3.8 Fixed assets, real estate and facilities

Following is a description of the Group's main real estate properties and other material fixed assets, which serve the International Coffee segment:

Material Fixed Assets in the International Coffee Segment				
Nature of the Site	**Location of the Site**	**Site Designation**	**Land Area**	**Built-Up Area**
Plant in Brazil	In Santa Luzia in the state of Minas Gerais	Production of R&G and cappuccino	98,142 m²	20,106 m² (1)
Plant in Brazil	In Eusébio, in the state of Ceará	Production of R&G	10,067 m²	7,084 m² (1)
Plant in Brazil	In Natal, in the state of Rio Grande do Norte	Production of R&G, packaging of instant coffee products, chocolate drink powder and cappuccino	38,046 m²	12,660 m² (2)
Plant in Brazil	In Nova Iguaçu, in the state of Rio de Janeiro	Production of filter coffee	5,650 m²	4,548 m² (2)
Plant in Brazil	In Mossoro, in the state of Rio Grande do Norte	Production of corn products and drink powders	53,908 m²	19,681 m² (2)
Facility in Brazil	In Varginha, in the state of Minas Gerais	Mapping and sorting of green coffee	70,000 m²	8,234 m² (1)
Facility in Brazil	In Manhuaçu, in the state of Minas Gerais	Mapping, sorting and processing of green coffee	16,590 m²	7,062 m² (1)
Plant in Brazil	In Montes Claros, in the state of Minas Gerais	Production of capsules	52,873 m²	26,440 m² (3)
Plant in Brazil	In Araçariguama, in the state of Sao Paulo	Production of R&G	20,062 m²	5,861 m² (1)
Plant in Brazil	In Cuiabá, in the state of Mato Grosso	Production of R&G	19,250 m²	5'131 m² (1)
Plant and distribution center in Brazil	In Manaus in the state of Amazonas	Production of R&G	27,873 m²	6,834 m² (1)
Plant in Serbia	In Simanovci near Belgrade	Production of R&G	29,484 m²	8,500 m² (4)
Plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	7,785 m²	4,491 m² (4)
Plant in Russia	Vladimirskaya area, Strunino	Production of R&G and a packaging plant for freeze-dried instant coffee.	9,409 m²	8,890 m² (4)
Plant in Germany	Norddeutsche Kaffeewerke GmbH ("NDKW")	Production of freeze-dried instant coffee	50,191 m²	7,089 m² (4)
Plant in Poland	In Swadzim, near Poznan	Production of R&G	52,689 m²	11,540 m² (4)
Plant in Romania	Bucharest	Production of R&G	6,535 m²	4,365 m² (5)

Rights in and to the site:
(1) Três Corações (JV)[69] owns the land rights.
(2) SC Imóveis (a 50% indirectly owned subsidiary) owns the land rights.
(3) Três Corações (JV)[70] owns 50% of the land rights.
(4) Ownership.
(5) Leased from a third party until December 2023. May be extended with 6 months' advance notice.

[69] See Footnote #5 above.

[70] See Footnote #5 above.

9.3.9 Intangible assets

Trademarks and brands – in view of the Group's focus on branded products, the importance of registering trademarks on its brands is high. Trademarks on most of the brand names set forth above, which serve the Group in the International Coffee segment, are registered in the names of the Group's companies in the countries where they are active (excluding products that are sold and distributed by the Group, but the Group is not the owner of the brand).

The main trademarks are valid for a defined period, which may be renewed at the end of that period. In view of the years of use of these trademarks and their dominant status in the markets, Group management estimates that the economic life of the Group's major trademarks is indefinite.

For an itemization of costs and changes in intangible assets in the years 2020 and 2019, see Note 15.1 to the Financial Statements of the Company as at December 31, 2020.

9.3.10 Human capital

For a description of the Group's organizational structure and information on employment agreements, etc., see section 16 below.

Following is information on the number of Group employees in the International Coffee segment:

Number of employees in the International Coffee Segment		
	December 31, 2020	**December 31, 2019**
Management and administration	1,058	1,025
Sales and distribution	5,433	5,259
Procurement and logistics	296	353
Operations	2,197	2,052
Total	8,984	8,689

Including all employees of Três Corações (JV)[71] in Brazil, a jointly controlled entity in which the Company holds 50%, and including 542 and 565 employment agency workers, as at December 31, 2020 and December 31, 2019, respectively.

For information on employee claims in Brazil, see Note 24.1.3.3 to the Financial Statements of the Company as at December 31, 2020.

9.3.11 Raw materials and suppliers

a. For a description of the procurement of raw materials and suppliers in the Coffee Operation, see section 9.1.9 above.

b. In the International Coffee segment, the Group's plant in Germany and the companies that manufacture R&G purchase the different types of green coffee collectively from Strauss Commodities AG; freeze-dried instant coffee is purchased by Russia and Ukraine from the Group's plant in Germany and from external vendors. Additional products sold in the International Coffee segment and packaging materials are purchased from external vendors. In the relevant reporting

[71] See Footnote #5 above.

periods there was no single external supplier in the International Coffee segment, which accounted for more than 10% of the Group's total purchases of raw and packaging materials in the segment.

9.3.12 Working capital

Following is the composition of working capital in the International Coffee segment in 2020 according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the International Coffee Segment	
	Amount Included in the Management Reports
Operating current assets (1)	640
Operating current liabilities (2)	289
Excess of current assets over current liabilities	351

(1) Including net trade receivables, inventory, income receivable and prepaid expenses.
(2) Including net trade payables, income received in advance and accrued expenses.
(3) In NIS millions.

9.3.13 Restrictions and oversight in the segment

For further information on restrictions and oversight over the Group's activities, see section 20 below.

9.3.14 Material agreements

Joint venture in Brazil

Establishment of the joint venture – on December 29, 2005 a series of agreements was signed between companies in the Group and the Lima Brothers of Brazil and companies under their control, with the goal of consolidating the parties' businesses in Brazil by establishing a joint corporation which would be equally held by the parties and which would absorb and control the parties' businesses in Brazil. The goal of the joint venture is to gain additional market share, penetrate new geographical regions, exploit synergies between the companies and become a leading coffee group in Brazil, including the establishment of a platform for the manufacture, marketing, distribution and sale of additional food products.

Within the framework of these agreements[72] it was asserted that the joint venture would be annulled with the agreement of the parties if it is liquidated or when the shareholders (or their "permitted transferees") would cease to be shareholders of the joint venture, Três Corações (JV)[73]. Additionally, a dispute resolution mechanism was defined, and it was asserted that the joint venture agreement would be governed by Brazilian law.

A shareholders' agreement (as amended from time to time) regulates the management and conduct of the joint venture, share transfers and the relationship between its shareholders (which, at the date of this report, are Strauss Coffee and São Miguel (hereinabove and hereinafter: the "Shareholders")). The agreement is for a term of twenty years, to be renewed automatically for additional periods of twenty

[72] To clarify, part of the rights of the parties under said agreements were transferred in the course of the years to permitted transferees, as defined in the agreements, including amendments to the agreements signed over the years, such that the following description describes the status of the rights as at the date of this report.

[73] See Footnote #5 above.

years each, provided that neither of the Shareholders has informed the other, four and a half years prior to the end of the first term and five years prior to the end of each additional term, of its desire not to automatically extend the agreement.

The shareholders' agreement determines that the board of directors of Três Corações (JV)[74] will comprise 8 members, and subject to the Shareholders holding Três Corações (JV)'s[75] shares in equal parts, each Shareholder has the right to appoint 4 directors. Board meetings will be held on condition that each Shareholder will be equally represented by directors. It was further agreed that a management would be appointed for Três Corações (JV)[76] comprising 5 members proposed by the Shareholders and appointed by Três Corações (JV)'s[77] board of directors for a period of one year.

The shareholders' agreement determines methods for financing Três Corações (JV)'s[78] activity, and, in this context, the Shareholders undertook to extend guarantees for external loans that would be granted to Três Corações (JV)[79] (according to the ratio of their holdings in Três Corações (JV)[80]) and also to grant loans or execute a capital increase; the parties also agreed on dilution should a Shareholder fail to contribute the financing decided upon at a general meeting of the Shareholders and the other Shareholder would extend the additional funding.

It was further determined that a transfer or sale of shares, directly or indirectly, by a Shareholder in Três Corações (JV)[81] to a third party unrelated to either of the Shareholders is subject to the right of first refusal to the sale, to the right of first offer and to a Shareholder's tagalong right to the sale of the other Shareholder's shares; the agreement also determines that the Shareholders will have precedence in regard to any future allotment of securities by Três Corações (JV)[82], which will enable them to acquire such new securities according to the ratio of their holdings. Should a Shareholder of Três Corações (JV)[83] enter insolvency proceedings, the other Shareholder will have the right to acquire all of the shares of the Shareholder in insolvency proceedings according to Três Corações (JV)'s[84] fair market value, subject to a valuation mechanism determined in the agreement.

The parties undertook to refrain from activity in areas similar to Três Corações (JV)'s[85] business areas and to limit Três Corações (JV)'s[86] activity outside Brazil according to the terms and conditions of the agreement, as well as to offer any new food business to Três Corações (JV)[87] in the categories in which

[74] See Footnote #5 above.
[75] See Footnote #5 above.
[76] See Footnote #5 above.
[77] See Footnote #5 above.
[78] See Footnote #5 above.
[79] See Footnote #5 above.
[80] See Footnote #5 above.
[81] See Footnote #5 above.
[82] See Footnote #5 above.
[83] See Footnote #5 above.
[84] See Footnote #5 above.
[85] See Footnote #5 above.
[86] See Footnote #5 above.
[87] See Footnote #5 above.

Três Corações (JV)[88] is active. Non-compete provisions against Três Corações (JV)[89] by the Shareholders or any of their related companies were also determined. These non-compete limitations will also apply to a Shareholder that has ceased to be a shareholder of Três Corações (JV)[90] for a period of 5 years from the date of the sale of its holdings in Três Corações (JV)[91]. In addition, the Shareholders are subject to a restriction not to sell their shares to a competitor of Três Corações (JV)[92] until June 30, 2021.

The agreement further determines that should an arbitrator appointed in a dispute between the Shareholders of Três Corações (JV)[93] rule that a Shareholder has breached the shareholders' agreement or the joint venture agreement, the non-breaching Shareholder is entitled to exercise its option to buy the shares of the breaching Shareholder for a price equal to 80% of the fair market value, or alternatively, to exercise its option to sell its shares to the breaching Shareholder for a price equal to 120% of the fair market value, according to a mechanism defined in the shareholders' agreement.

According to the shareholders' agreement, in the event of a "change of control" (i.e. any change, directly or indirectly, terminating the Strauss family's/Lima family's control in one of the companies that are a party to the agreement (or in their parent companies), the counterparty will have the right to sell all of its shares in Três Corações (JV)[94] to the first party (put option) or to acquire all of the shares held by the first party in Três Corações (JV)[95] (call option) in consideration for Três Corações (JV)'s[96] fair market value, as agreed by and between the parties. In the absence of agreement, the market price of the shares will be determined by an external valuator; however, should the parties not succeed in reaching an agreement on the identity of the valuator, or if one of the parties opposes the price determined by the valuator, each party shall have the right to appoint another valuator. The final fair market value will be the arithmetic average of the valuations.

For information on sales volumes in Brazil, see section 21.2.2 in the Report of the Board of Directors of the Company as at December 31, 2020. See also risk factors in sections 25 aa, ac-ae below.

[88] See Footnote #5 above.
[89] See Footnote #5 above.
[90] See Footnote #5 above.
[91] See Footnote #5 above.
[92] See Footnote #5 above.
[93] See Footnote #7 above.
[94] See Footnote #7 above.
[95] See Footnote #7 above.
[96] See Footnote #7 above.

10. The International Dips & Spreads Segment

At a glance		
	Sabra has the largest market share in the US	61.9%
	Average annual sales growth in North America in the past decade	8.9%
	Partnership with the global food corporation, PepsiCo	
	Global penetration and presence in various regions: Australia, New Zealand, Mexico and Western Europe	

* According to IRI and Nielsen[97]

10.1 General information on the International Dips & Spreads segment

10.1.1 Structure of the segment and changes occurring therein

In this segment the Group manufactures, sells, markets and distributes a variety of chilled dips and spreads in the US and Canada (through Sabra), Australia, New Zealand and Mexico (through Obela) and Western Europe (through Obela and Florentin). Since its inception, the activity has focused on the hummus category.

The activity is performed in partnership with the international food conglomerate PepsiCo, through the Sabra and Obela joint ventures. For additional details on the agreements with PepsiCo, see section 10.13 below.

According to IRI (Information Resources, Inc.), Sabra is the largest dips and spreads company in the US in terms of sales volume and market share; in the hummus category Sabra has the largest market share in the US and is the second-largest in market share as a branded product in Canada (according to IRI and Nielsen[98] figures). As at the reporting date, Obela's activity is immaterial to the Company's business. It is noted that in the hummus category, Obela has the largest market share in most of the territories where it is active, although the categories in which it is active are small in scope.

In 2020 the Group continued to focus on improving its products, while delivering a response to new consumption trends, among other things through product innovation. In this context, Sabra continued to target different and new consumer groups in the US and Canada, including those seeking plant-based foods and those whose food choices are made for health reasons and due to growing awareness of the environmental impacts of food choices. Sabra also continued to work on expanding the hummus

[97] See Footnote #33 above.
[98] See Footnote #33 above.

category, among other things by marketing hummus for home consumption and as a meal ("center of the plate") rather than only as a dip, particularly in light of the COVID-19 crisis, when social get-togethers were virtually non-existent. In 2020 Obela continued to focus on further solidification in Australia, New Zealand, Mexico and Western Europe.

For further information, see section 21.3 in the Report of the Board of Directors of the Company as at December 31, 2020.

10.1.2 Changes in the scope of activity in the segment and its profitability

In 2020, the prices of packaged food and beverage products in the US rose by about 0.6%, and the prices of Sabra products were aligned with this trend. However, Sabra adjusted the prices of hummus products in the US and the prices of guacamole products in the US and Canada for changes in costs.

For information on changes in the income and profitability of the International Dips & Spreads segment, see section 21.3 in the Report of the Board of Directors of the Company as at December 31, 2020.

10.1.3 Developments in the markets of the segment or changes in customer characteristics

In 2020, consumer trends in the Dips & Spreads segment continued to be aligned with the global consumption trends described in section 7 above, including consumption of healthy, natural products with greater nutritional value and comfort foods, consumption for health and nutrition reasons or based on beliefs (e.g. a plant-based diet), a preference for light products that are easy and convenient to consume (ready-to-eat), alongside home cooking and enhancement of the at-home food consumption experience. In the US and Canada, the hummus category has succeeded in reaching almost full distribution through existing distribution channels (as described in section 16.1.b below), and future growth will need to be achieved through innovation, by increasing shelf space and launching new products, through marketing, by increasing purchase frequency by households which are customers of the Company, penetrating new households and optimizing current shelving at the expense of rival brands or other categories. Alternative channels, such as online grocery shopping and home deliveries of meal kits, continue to represent distribution opportunities, particularly in light of the COVID crisis. The trend of switching to shopping at club chains (chains that operate giant warehouses specializing in no-frills sales of a limited variety of brands in large packages at discount prices) was also typical of 2020, and at the start of the crisis, purchases of large-sized products rather than individual-portion and portable products suited for AFH consumption rose sharply following the shift to learning and working at home and spending most of the time at home in general.

The guacamole category continued to grow in the US in 2020 (8.9%), accounting for around 17% of the fresh dips and spreads category in the US in that year.

For further information on the consumption trends described above, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

10.1.4 Critical success factors and changes occurring therein

In addition to the critical success factors and changes therein enumerated in section 7 above, other critical success factors in the segment include dominance in markets and distribution channels, development of products that offer consumers an experience and added value and provide a response to market trends, a large-scale distribution system, expansion of production capacity to support the increase in sales volumes, continued efficiency enhancement in production and cost reduction.

10.1.5 Major entry barriers to the segment and changes occurring therein

In addition to the main entry barriers that are common to all of the Group's operating segments as specified in section 7 above, other major entry barriers include the need to make large investments in the market in selling and distribution infrastructures, including shelf occupancy; the ability to accommodate high production volumes; and the need for relatively sophisticated manufacturing technologies that are able to support new consumption trends.

10.1.6 Substitutes for the segment's products and changes occurring therein

The Group's products in the Dips & Spreads segment have interchangeable products manufactured by rival companies, including the private labels of retail chains. For further information on competition, see section 10.4 below.

10.2 Products

In the US and Canada, Sabra manufactures and sells a variety of chilled dips and spreads (particularly hummus in a range of flavors and fresh guacamole salads) under the Sabra brand, which is regarded as a leading brand in this category in the US and Canada.

Under the Obela brand, Obela sells a variety of dips in Australia (hummus, yogurt-based dips and guacamole); in Mexico (hummus in a variety of flavors); in New Zealand (hummus and dips); and in Western Europe (hummus in a variety of flavors, particularly in Germany and Holland). Obela is also active in Australia in the manufacture and sale of a variety of dips under the RRD – Red Rock Deli brand (a variety of vegetable-based premium dips with cashew nuts and cheese) and other brands.

In addition, in Western Europe (mainly in Germany and Holland), Obela markets organic hummus, falafel, spreads and pita bread products under the Obela and Florentin brands.

For example:

10.3 Segmentation of income and profitability of products and services (according to the Company's Management Reports, as defined in section 5 above)

In 2020, the revenue of the International Dips & Spreads segment accounted for less than 10% of the Company's total consolidated revenue according to the Company's Management Reports, as defined in section 5 above.

10.4 Competition

In the US and Canada – the US business is characterized by local competition against the private labels of retailers and private labels of a large number of small local manufacturers, which operate in the regions where they manufacture, as well as competition against large companies with extensive distribution capabilities.

Due to the accelerated growth of the hummus category in recent years the category has become highly competitive, and this is evident in all markets where the Group is active in the category. The competition is expressed, among other things, in aggressive pricing strategy applied by rivals to promote sales and penetrate households, and also by broadening their distribution capabilities. In Canada, a certain amount of innovation has been observed among rival firms, which continued to launch locally produced and preservative-free products. Private labels continue to be strong players in the US and Canadian markets. In addition, significant growth in the dips and spreads world in general as part of the trend of consuming fresh foods, including more indulgent product categories such as cheese dips and dairy dips, has continued to place pressure on the hummus category (including guacamole).

Market Share in the International Dips & Spreads Segment				
Products	**2020**		**2019**	
	The Group	**Main competitor**	**The Group**	**Main competitor**
US: Hummus	61.9%	Private label: 16.2% Boar's Head: 4.8% Cedar's: 3.9%	62.2%	Private label: 14.3% Boar's Head: 4.8% Lantana: 3.9%
US: Guacamole	17.1%	Private label: 16.4% Wholly Guacamole: 33.2% Yucatan & Cabo: 16.9%	15.9%	Private label: 17.7% Wholly Guacamole: 34.1% Yucatan & Cabo: 17.0%

It is noted that Obela leads in market share in the hummus category in Australia and Mexico, although it is small category in those countries.

The Group contends continuously with the competition in the International Dips & Spreads segment by developing and launching new products, developing and maintaining its existing brands and by concentrating marketing and advertising efforts. For example, in 2020 Sabra focused on gaining a deeper understanding of consumers' lives and on connecting its marketing activities to current events at the heart of public attention. Thus, for example, Sabra launched a digital campaign, "Hummus at Home", to help consumers find different ways to use hummus during the many hours spent at home during the pandemic. Sabra continued to place emphasis on at-home consumption and focused less on dips for large social gatherings, which declined due to the crisis. COVID-19 led to a change in consumption from single-portion, portable packs suited for AFH use to the consumption of food sold in bigger packs.

Negative factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Dips & Spreads segment, are, among others, moves applied by the retail chains such as strengthening their private labels and assuming responsibility for orders and placement of the merchandise, increasing regulation directed at large food companies, development of brands and selling and marketing capabilities by rivals.

Positive factors which, in the Group's opinion, influence or are likely to influence its competitive position in the International Dips & Spreads segment, are the Group's dominance in the markets in which it operates, top-quality products that deliver a consumption experience and added value, continuous innovation, research and a response to consumption trends, meticulous attention to product quality, competitive prices, a broad-scale production and distribution network, collaboration with industry leaders and massive investments in marketing.

For additional negative and positive factors affecting the Group's competitive status, see section 7 above.

10.5 Seasonality

Following is information for the years 2020 and 2019 on the Company's income in the International Dips & Spreads segment by quarter (the Company's share), according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the International Dips & Spreads Segment				
	2020		2019	
	Income(1)	% of Total Segment Income	Income(1)	% of Total Segment Income
Q1	197	27.3%	192	25.0%
Q2	178	24.7%	198	25.6%
Q3	186	25.8%	193	25.0%
Q4	161	22.2%	188	24.4%
Total	**722**	100%	**771**	100%

(1) In NIS millions.

There is no distinct trend of seasonality in the International Dips & Spreads segment. As a rule, income volumes are generally (relatively) higher in the summer months in the second and third quarters, as consumption of hummus is greater due to holidays, campaigns and special dates in those quarters. Notwithstanding the foregoing, in 2020 seasonality was impacted by the COVID-19 crisis, which adversely affected the Company's revenues, particularly in the second quarter of the year, while an increase in Q1 sales was observed as a result of the March 2020 lockdown.

For further information, see section 21.3 in the Report of the Board of Directors of the Company as at December 31, 2020.

10.6 Production capacity[99]

a. Production capacity is measured in quantities of product per year. The production lines are automatic, and most of them are operated in two shifts per day.

b. The maximum potential annual production capacity in two daily shifts in ton products per year in the Group's production facilities in the International Dips & Spreads segment in the years 2020 and 2019 was approximately 112 thousand tons and 103 thousand tons, respectively. The actual average actual capacity utilization rate in the years 2020 and 2019 was approximately 59.8% and 66.5%, respectively. Capacity utilization was adversely affected by the pandemic, which placed restrictions on occupation.

It is the Group's practice to continuously improve and upgrade the equipment and machinery in its plants, as well as from time to time to review the need to expand production lines, with the aim of increasing production capacity.

[99] Maximum potential annual production capacity figures include 100% of the data for Sabra and Obela, although financial data on the companies are presented in the financial statements according to the Group's relative holding, i.e. 50%.

10.7 Fixed assets and real estate

Following is a description of Group's main material fixed assets and real estate, which serve the international Dips & Spreads' business:
The assets are not encumbered.

Material Fixed Assets in the International Dips & Spreads Segment				
Nature of the Site	**Location of the Site**	**Site Designation**	**Land Area**	**Built-Up Area**
Production plant	Colonial Heights, Virginia, USA	Production of hummus	193,200 m^2	26,583 m^2 (1)
Production plant	Mijdrecht, Holland	Production of dips and spreads	9,750 m^2	7,600 m^2 (2)
Production plant	In Cavan, South Australia	Production of dips	7,930 m^2	2,000 m^2 (3)
Production plant	In Mexico City, Azcapotzalco, Mexico	Production of dips	1,639 m^2	1,639 m^2 (4)

Rights in and to the site:
(1) Owned by Sabra.
(2) Leased from a third party until June 2021, with three 5-year options.
(3) Leased from a third party until August 2021, with a 5-year extension option.
(4) Leased from a third party for 10 years, until 2022.

10.8 Research and development

The Group, together with PepsiCo, built a Center of Excellence, where Sabra carries out research and development and leverages knowhow to support business activity in the US, Canada, Australia, New Zealand, Western Europe and Mexico. The Center is engaged in the development of existing products, packaging, and technology and new products. Sabra is also involved in research and development with other parties. For a description of the Group's R&G, see section 15 below.

10.9 Intangible assets

In view of the Group's focus on branded products, the importance of registering trademarks on its brand names is considerable. Trademarks are registered in the Group's name on most of its brand names used in the International Dips & Spread segment.

Registration of a trademark in the US and the countries of operations is valid for limited periods prescribed in the law (in the US, Mexico, New Zealand, Australia and Europe – 10 years) and is renewable at the end of each such period. In view of the many years of use of these trademarks and their dominant status in the market, the Group estimates that the economic life of its major trademarks is indefinite.

10.10 Human capital

c. Following is information on the number of employees employed in the segment:

Number of Employees in the International Dips & Spreads Segment		
	December 31, 2020	**December 31, 2019**
Management and administration	170	161
Sales and distribution	71	51
Procurement and logistics	42	42
Operations	854	776
Total	**1,137**	**1,030**

Including all employees of Sabra and Obela, joint ventures in which the Company holds 50%, as well as 21 and 21 employment agency workers, as at December 31, 2020 and 2019, respectively.

d. According to the employees' employment terms, both the employer and the employee may terminate the employment relationship at any given time, subject to the law. Employees are not unionized and no collective agreements apply to them, except for hourly employees in Australia, who are employed under a collective agreement.

10.11 Raw materials and suppliers

The main raw materials used by Sabra and Obela in the manufacture of their products are raw tahini (sesame), hummus (chickpeas), soybean oil and garlic.

The companies use plastic products (cups and lids) to package the products.

Prices of chickpeas and garlic remained substantially unchanged in 2020 compared to 2019, while tahini prices rose slightly in 2020 as a result of inflation in the sesame market.

Prices of packaging materials (cups and lids) rose slightly in 2020 following an increase in packaging production costs due to a rise in employment costs and raw material costs, unrelated to the COVID-19 crisis; part of the increase in packaging production costs was offset by a reduction in the cost of resin. In the reporting period, there was no single supplier in the International Dips & Spreads segment which accounted for more than 15% of the Group's total purchases of raw and packaging materials in this segment, excluding guacamole and packaging material purchases in the US from external suppliers. The Group has no dependency on these suppliers and will be able to replace them at no substantive incremental cost to the Company.

10.12 Working capital

Following is the composition of working capital in the International Dips & Spreads segment in 2020, according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the International Dips & Spreads Segment	
	Amount Included in the Management Reports
Operating current assets (1)	**106**
Operating current liabilities (2)	**42**
Excess of current assets over current liabilities	**64**

(1) Including net trade receivables, inventory and prepaid expenses.
(2) Including net trade payables and accrued expenses.
(3) In NIS millions

10.13 Material Agreements

10.13.1 Joint venture with PepsiCo – Sabra

In December 2007 a joint venture was signed, such that commencing on March 28, 2008 the Company, through S.E. USA, Inc. (hereinafter in this section: "Strauss USA"), and PepsiCo (through Frito-Lay Dip Company, Inc., hereinafter in this section: "PepsiCo") each hold 50% of the "participation rights" in Sabra.

The relationship between the owners of the participation rights in Sabra was regulated in an agreement between the parties (the "Bylaws"), which determines that Sabra's management powers are fully delegated to the board of directors, which will comprise four directors, two on behalf of each of the parties, provided that if the holding of either of the parties should fall below 50% through to a percentage of 25%, that party will be entitled to one representative on the board of directors, and if it should fall below 25%, that party will not be entitled to representation on the board of directors. The Bylaws further determine that a director representing PepsiCo and a director representing the Company will rotate as chairman of the board for two-year periods.

Resolutions of the board of directors will be adopted by a majority vote, provided that for as long as each party holds 50% of the participation rights in Sabra, support of the proposed resolution by at least one director representing each of the parties is required.

In the event of a deadlock, the Bylaws determine a deciding mechanism to be applied by the parties, and in the absence of agreement between the parties, the issue will be referred to an agreed arbitrator. The Bylaws determine a mechanism for the acquisition of the participation rights of a party that does not agree to the results of the arbitration, on the basis of Sabra's market value (as set forth in the Bylaws), and if all owners of participation rights do not agree to the outcome of the arbitration (or if the participation rights of the non-agreeing party are not acquired), provisions are determined pursuant whereto the owners of the participation rights will take joint action to locate a third party which will acquire all participation rights in Sabra, and if no such party is located within one year, Sabra will be wound up.

The board of directors will appoint a general manager and a financial manager for Sabra. For as long as each party holds 50% of the participation rights in Sabra, then in a case where either of the two aforesaid officers is related to one of the parties, the other owner of the participation rights will be entitled to appoint the next other officer (subject to approval by the other party, which will not be unreasonably withheld). Each of the parties is entitled to request the replacement of the general manager on the grounds enumerated in the Bylaws. Should the party to which the general manager is related refuse this request, the dispute resolution mechanism described above will be activated.

In accordance with the conditions enumerated in the Bylaws, the parties have undertaken that neither they nor a company related to them (as defined in the Bylaws) will compete, directly or indirectly, with Sabra in its business areas in the US or Canada.

Should a party holding participation rights cease to be a wholly-owned subsidiary of the Company or PepsiCo, according to the circumstances, or should a corporation included in the list of corporations enumerated in the Bylaws acquire over 20% of the holdings in the Company or in PepsiCo, according to the circumstances, the counterparty will be entitled to acquire, pro rata, all participation rights in Sabra held by that party on the basis of Sabra's market value.

Each of the owners of the participation rights in Sabra has a put option to sell its participation rights to the other owners of participation rights in Sabra at such time, on the basis of Sabra's market value less 25%. The party against which this option has been exercised will have the right to acquire the participation rights of the party exercising the option at said price or alternatively, to sell its participation rights to the party exercising the option on the basis of Sabra's market value plus 25%.

The Bylaws further define provisions relating to the manner of Sabra's financing, including provisions relating to the dilution of a party that does not contribute to Sabra's financing.

The Bylaws determine that a transfer of participation rights in Sabra will require prior approval by Sabra's board of directors, with the exception of a transfer to a related company (as defined in the Bylaws) controlled by the transferor owner of participation rights, and with the exception of a transfer made subject to the right of first refusal of the other owners of participation rights (which is permissible only if the offeror offered all of his rights in Sabra for sale, in consideration for cash).

Additionally, sale of participation rights to a third party is subject to the tagalong right of the other owners of participation rights, and if this right is not exercised, the seller will have the right to enforce a drag-along sale on the other owners of participation rights. The Bylaws also enumerate certain corporations, to which any transfer of participation rights in Sabra will require the consent of the parties, according to the provisions of the Bylaws.

The Bylaws enumerate cases on the occurrence of which Sabra will be wound up, including if 75 years have elapsed from the date of signing of the agreement or if an owner of participation rights has committed a material breach of a provision of the Bylaws or a provision of the agreements relating to the closing of the joint transaction and has failed to cure such breach as provided in the Bylaws. Notwithstanding the foregoing, to the extent that the owners of the participation rights shall so choose and subject to the provisions of the Bylaws, they may acquire, pro rata, the participation rights of the breaching owner of participation rights on the basis of Sabra's market value, in lieu of Sabra's winding-up.

The Bylaws determine that a company related to PepsiCo (as defined in the Bylaws) will be granted an option to distribute Sabra's products under market conditions, provided that the terms and conditions of its offer are not inferior to those of similar offers. See also risk factors in section 25 ac-ae below.

10.13.2 Joint venture with PepsiCo – Obela

In July 2011 the Company contracted with PepsiCo (through PRB Luxembourg, hereinafter: "PRB") in an agreement for the establishment of a joint venture through a company in which the parties would be equal shareholders (each party holding 50%) – PepsiCo Strauss Fresh Dips & Spreads International GmbH (hereinafter: the "Venture"). The agreement is for a term of 20 years and will be renewed automatically for additional periods of 20 years each, provided that neither shareholder has informed the other, five years prior to the end of the 20-year period, of its desire not to renew the agreement.

According to the agreement, the management powers in the Venture are fully delegated to the board of directors of the Venture, which will comprise six directors, three on behalf of each party, provided that if the stake of either party should fall below 50% through to 25%, that party will be entitled to two representatives on the board of directors, and if the holding should fall below 25% through to 10%, that party will be entitled to one representative. If the holding should fall below 10%, that party will not be entitled to representation on the board of directors. The agreement also determines that the chairman of the board will be appointed by the directors representing the shareholder that is not authorized to appoint the general manager of the Venture (as described below). The chairman of the board will be elected for a term of two years (and may be elected to this office for a further two years). The office will alternately be held by a director representing the Company and a director representing PRB. Resolutions of the board will be adopted by a majority of votes, provided that for as long as each of the parties holds 50% of the shares of the Venture, support of the proposed resolution by at least one director representing each party shall be required. Should the holding of a party fall below 50%, board resolutions will be passed by a majority of votes.

The agreement determines a mechanism for deciding disputes by the parties in the case of a deadlock as a result of the board's inability to approve resolutions, including referral to a non-binding conciliation proceeding, subject to the terms and conditions of the agreement. If the dispute is not resolved, either party may offer its shares to the other, or offer to acquire the shares of the other, on the basis of the market value of the Venture. If the offeree shareholder does not wish to buy or sell the shares of the Venture, the parties will be required to act jointly to locate a third party which will purchase all shares of the Venture. If a buyer is not found within one year, the Venture will be wound up.

The general manager and financial manager will be appointed by the board of directors. The general manager will be appointed by the directors representing the shareholders that did not participate in electing the chairman of the board of directors of the Venture. The general manager of the Venture will appoint officers as he deems fit.

For as long as each party holds 50% of the shares of the Venture, then in a case where one of the two above officers is related to either of the parties to the Venture, the other party (which is not related to the officer) will be entitled to appoint the other officer (subject to the other party's approval, which will not be unreasonably withheld). In no case will the board of directors' refusal to approve the appointment of the general manager or financial manager of the Venture cause a deadlock as defined in the agreement until the three candidates proposed by the proposing party have been rejected. Each of the parties may request of the board of directors that the general manager be replaced. If a party to which the general manager is related refuses this request, the dispute resolution mechanism described in the agreement will be activated.

A related company (as defined in the agreement) of PRB was granted an option to distribute the Venture's products, under market conditions, provided that the terms and conditions of its offer are not inferior to those of similar offers. In any case, the board of directors may propose that the products of the Venture will be distributed through third parties, and PRB will have the option to amend its offer such that it is comparable to the third party's offer.

The parties have undertaken that neither they nor a company related to them (as defined in the agreement) will compete, directly or indirectly, with the Venture, other than within the territory of the US (including Puerto Rico), Canada, where the joint venture Sabra is active, and Israel (as set forth in the agreement), and will not hold shares of another business that competes, directly or indirectly, with the products of the Venture within the territories of said countries.

However, should one of the parties acquire ownership of another business which directly or indirectly competes with the products of the Venture other than within the territory of the US (including Puerto Rico), Canada and Israel (as set forth in the agreement), this will not constitute a breach of the agreement if its holding is less than 20% of the total annual profit of the other business, and to the extent that it offers the Venture to buy its holding in the other business at market value and under the terms and conditions set forth in the agreement. If its holding is more than 20% of the annual profit of the other business, and said annual profit is more than ten million dollars, that party will be required to sell its holding in the business or to merge it with the Venture.

It is noted that in the agreement, the Company acknowledged that PepsiCo had contracted in a joint venture with a third party relating to other product categories in certain countries (as set forth in the agreement).

In 2016 the Venture acquired the company Florentin, as described in section 1.2 above. As part of the acquisition, the parties agreed that the Company will be permitted to manufacture, distribute and sell the products distributed by Florentin under the following conditions: (1) the products will be sold in agreed countries only; (2) the parties, directly and through their related companies, are authorized to manufacture, distribute and sell the products in the territory, as defined in the agreement, and the non-compete provisions between the parties will not apply to this matter.

Should a corporation in the list of corporations enumerated in the agreement acquire over 20% of the holdings in the Company, the counterparty will be entitled to acquire, pro rata, all of the Company's shares in the Venture on the basis of market value. This clause will apply, mutatis mutandis, should one of the corporations in the list of corporations enumerated in the agreement acquire over 20% of the holdings in PepsiCo, or if PRB ceases to be a subsidiary of PepsiCo.

Each of the parties to the Venture has a put option to sell its shares to the counterparty on the basis of the Venture's market value less 25%. The party against which the option has been exercised will have the right to acquire the shares of the party exercising the option at the same price and alternatively, to sell its shares to the party exercising the option according to the Venture's market value plus 25%, all as set forth in the agreement.

The parties will not transfer shares of the Venture to any of the corporations enumerated in the agreement or to companies related to those corporations, without first receiving the other party's written consent. To clarify, a transfer of shares of the Venture by either party to a related company under its control does not require the counterparty's consent (but requires the approval of the board of directors). The transferee (recipient of the shares of the Venture) will inform the counterparty that it agrees to and acknowledges the terms and conditions of the agreement. A party that has transferred all of its shares in the Venture pursuant to the provisions of the agreement will guarantee the obligations of its related companies (even though it does not have voting rights and is not a party to the agreement). Should the transferee related company cease to be a related company of the transferor shareholder the transferor will be obliged to buy back the shares of the Venture. Any transfer or attempted transfer other than in accordance with the agreement will be null and void. A party may not pledge its shares to any party whatsoever without receiving the counterparty's consent.

Dividends will be paid with the approval of the meeting of shareholders after a board proposal of the distribution has been accepted.

The parties will attempt to resolve any dispute that may arise in regard to the interpretation or performance of the agreement by applying the dispute resolution mechanism, and in the absence of agreement between the parties, the issue will be referred to a non-binding conciliation proceeding. Should the proceeding be unsuccessful the dispute will be brought for arbitration, as prescribed in the agreement.

The agreement enumerates cases, upon the occurrence of which the Venture will be wound up. In the case of bankruptcy or a breach by one of the parties, the Venture and the counterparty will be entitled to sue the breaching party for damages they were caused or to decide on the dissolution of the Venture. Notwithstanding the foregoing, if the shareholders so choose and subject to the provisions of the agreement, they will be entitled to buy the shares of the breaching party, pro rata, according to market value less 25%.

See also risk factors in section 25 ac-ae below.

11. The Strauss Water Operation

At a glance		
	In Israel, the Group's business includes the products of Tami 4, in China, the Group is active through an investment in a material associate in partnership with Haier Group of China, and in the UK the Group operates through a partnership with Virgin Group.	
	Company's average annual revenue growth since 2017	7.2%
	The company's EBIT has multiplied by 2.5 since 2017	
	HSW's average growth since 2017 (100%, local currency)	7.9%
	Water Bars under active service agreements	737,000
	The first in the world to offer drinking water bars, technology and patents especially developed in Israel	

11.1 General information on the Strauss Water segment

11.1.1Structure of the operation and changes occurring therein

The Group is active in the drinking water market and is engaged in the development, assembly, sale, marketing and servicing of systems for the filtration, purification of and carbonation of drinking water at the point of use (POU systems). The water systems are mostly based on innovative patent-based technology developed by the Group, comprising a combination of innovative development in the fields of engineering, chemistry and microbiology. As of the date of the report, the activity is mainly carried out in Israel. The business began in 2009, with the acquisition of Tana Industries Ltd. ("Tami 4"). In addition, activity of immaterial scope is performed in the UK, in partnership with Virgin Group (see section 11.13 below), as well as immaterial activity in several other countries, through local franchisees. In addition, the Group has a material holding (49%) in an associate, a joint venture established by Strauss Water with Haier Group of China, which is active in China, mainly in the filtration and purification of drinking water at the point of use as well as at the point of entry to the home (POE systems). See section 12.2.5 below.

11.1.2 Changes in the scope of activity in the segment and its profitability

In recent years, the business in the Israeli water market has grown continuously. In 2020, the market continued to grow in both the POU and the mineral water categories. The Group estimates that growth is due to the health trend, which is expressed, among other things, in lowering sugar consumption and switching to drinking water rather than sweetened drinks and supports the increase in the consumption of bottled water and the sale of water filtration bars, as well as the public's growing awareness of drinking water quality and various contaminants it may contain, even in areas where water quality is considered good. In 2020, the COVID-19 crisis contributed to the company's leading trends of convenience and health. For further information on trends in the food and beverage market, including the possible impact of the COVID-19 outbreak on consumption trends, see section 7 above and also section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

11.1.3 Critical success factors in the segment and changes occurring therein

In this area of activity, several critical success factors can be identified: development of advanced technology and advanced, high-quality products, a broad distribution network, fast and efficient customer service, innovation and operational efficiency, brand strength, and the ability to continue to provide continuous service to customers in changing conditions (for example, during the COVID-19 pandemic).

11.1.4 Major entry and exit barriers in the activity framework

The main entry barriers to activity in this segment are the need for large investments in the development of products and infrastructure for sale, distribution and service to customers. The main exit barrier is the warranty given to customers and the obligation to supply spare parts for the appliances.

11.1.5 Substitutes for the products of the activity framework and changes occurring therein

Substitutes for the Group's products include tap water, mineral water (in jugs and bottles), filtered water in bottles or jugs and filtration in jugs using a filter (such as Brita).

11.2 Products and services

The Group's products in this segment are water bars that connect to the customer's tap water infrastructure (POU) and filter and purify the water, including cooling, heating, and in Israel, also carbonation. For example:

In addition, the Group services the products it sells, including maintenance and the supply of filters, purifiers and ultraviolet lamps, as well as servicing appliances at the customer's home.

The products operate under various filtration and purification technologies. On the date of this report, the main technology is Maze, an innovative technology for water filtration and purification that enhances the quality, clarity and taste of the water.

The products are divided into home water bars sold to the private market (households) and water bars for businesses, adapted to the needs of customers in the business and institutional sector.

In Israel, the products are marketed under the Tami 4 brand, and in the UK, under the Virgin Pure brand. In other countries, the products are marketed under the Strauss Water brand, or combined with the brand of the local franchisee.

11.3 Segmentation of income from products and services

In this activity segment, there is no group of similar products or services that account for 10% or more of the Company's total consolidated income.

11.4 Customers

The Group’s customers in the Strauss Water operation are households, businesses (offices and stores) and institutional customers (such as government offices), characterized by great diversity and broad dispersal.

In Israel, the filtration and purification devices are sold to end customers together with a service agreement for consumable components.

As part of the service agreement, the Group 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 monthly throughout the term of the service 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.

11.5 Marketing and distribution

The Group's products are marketed and distributed to households and businesses by direct sale, through a sales call center and online via the Group’s websites.

Marketing and distribution to the institutional market in Israel are performed through sales representatives and, if necessary, by participating in tenders.

The main advertising channels in Israel are mass media (radio, television and newspapers) as well as online advertising.

11.6 Competition

The major rivals in Israel are companies that sell mineral water in bottles and jugs, and companies that offer water bars and POU water filtration devices based on various technologies. Generally, competition in the POU market is affected by the level of water treatment offered by each competitor, which varies by technology and product, and may include treatment of all or part of the following: aesthetic contamination (chlorine, particles, etc.), microbiological pollution (bacteria, cysts, etc.), chemical pollutants from industrial or agricultural sources (asbestos, atrazine, etc.), heavy metals (lead, mercury, etc.) and pollutants originating in personal use (such as medications and hormones).

The main competitors are: Mey Eden, Neviot, Brita, Ma’ayanot and Afikim (Noam 1), alongside other, smaller competitors. The Company estimates that the Group’s share of the Israeli water market is about one-quarter of the market (on the reporting date, approximately 737,000 water bars under active service agreements).

The Company deals with the competition by strengthening the brand (Tami 4) among new and existing customers through the Group’s marketing and distribution system in the activity segment and through technological enhancements, product innovation (e.g. launch of the Maze technology in 2018) and by improving its service, traditional and digital alike. These moves have enabled it to continue to attract new customers and retain existing ones.

11.7 Seasonality

Following are data for the years 2020 and 2019 on income in the Strauss Water segment by quarter according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income in the Strauss Water Segment

	2020		2019	
	Income(1)	% of Total Segment Income	Income(1)	% of Total Segment Income
Q1	144	21.6%	143	22.8%
Q2	159	23.8%	159	25.3%
Q3	184	27.5%	165	26.3%
Q4	181	27.1%	161	25.6%
Total	**668**	**100%**	**628**	**100%**

(1) In NIS millions.

Sales of the Group's water bars are generally higher during the summer months (April to October) compared to the other months of the year, and accordingly, there is increase in servicing in the fourth quarter of the year. However, in 2020 the COVID-19 crisis adversely impacted the company's revenues, particularly in the second quarter.

11.8 Fixed assets and real estate

Following is a description of Group's main material fixed assets and real estate, which serve Strauss Water's business:

Material Fixed Assets in the Strauss Water Segment			
Nature of the Site	**Location of the Site**	**Site Designation**	**Built-Up Area**
Production plant	Industrial zone, Kibbutz Netiv Halamed Heh	Logistics center	3,500 m^2 (1)
Offices	Or Yehuda Industrial Zone	Management offices, call center, service and sales, dining room and laboratory complex	7,798 m^2 (2)

Rights in and to the site:
(1) The building is leased from a third party until December 31, 2021.
(2) The buildings are leased from a third party until December 31, 2022.

11.9 Research and development and intellectual property

The Group has developed cutting-edge water purification technologies, consisting of a combination of innovative developments in engineering, chemistry and microbiology, which enable a wide variety of applications in the domestic drinking water sector. In addition, the Group continues to develop technologies for treating drinking water. These developments are supported by some 30 patents as well as additional patent applications filed in numerous countries.

Following are Strauss Water's main patents that have been publicly announced:

Main Patents[11]

Patent Name	Description	Priority Date	Earliest Application Date[12]
Spray nozzle and portable filter, including use inside spray nozzle. The patent was divided into 5 separate patents[1]	1. Upper manifold 2. Telescopic filter – water flows in and out at same level 3. Compact folding condenser, wall formation, cooling 4. Folding drip tray 5. UV replacement without risk of electrocution	April 2, 2004	March 31, 2005
Gravity filter for liquids and drinking water container housing it[2]	Method, product and process for gravity filtration of liquids from a reservoir located above the filter	August 28, 2006	August 28, 2007
Premium filter[3]	Sample of the "binocular" shape	April 16, 2009	October 15, 2009
Water filtering device[4]	Water filtration device (V4) from a pressurized water source containing two water filtration cells, each comprising at least one water treatment element, between which the water flows point to point	May 12, 2011	May 8, 2012
Beverage dispenser with carbonation system[5]	Beverage bar including a carbonation system, pouring system, pressure reducing system	September 13, 2012	September 13, 2013
Container with an identification module and a machine with a receptacle for its utilization[6]	Metal container with RFID tag	December 13, 2011	December 4, 2012
Pressurized gas canister and coupling to device[7]	Pressurized gas canister for use in device dispensing water/soda water	February 4, 2014	February 1, 2015
Carbonation unit[8]	Drink dispensing device which includes carbonation system without UV lamp, water/soda water pouring apparatus	February 6, 2014	January 14, 2015
Water filtration unit and assembly process[9]	Water filtration unit and its assembly process, consisting of only a few parts	March 23, 2015	January 18, 2016
Carbonation unit, system and method[10]	Continuous carbonation unit	October 10, 2016	October 1, 2017
Water treatment filter	Water filter (T), including solution for homogeneous pressure distribution	April 20, 2017	April 14, 2018

Countries where approved (as at January 2021):
(1) Israel, US, France, Germany, UK, Canada, China and Hong Kong.
(2) Israel, US, France, Germany, Greece, Italy, Holland, Poland, Portugal, Spain, Sweden, UK, Turkey, China, Hong Kong, Canada, South Korea, India.
(3) Israel, US, EU, India.
(4) Israel, US, Mexico, China, Hong Kong.
(5) Israel, US, France, Germany, UK, Italy, Norway, Sweden, Canada, China, Russia, Hong Kong, Mexico, Brazil.
(6) Israel, China, Italy, Germany, Turkey, UK, Brazil.
(7) Israel, Germany, Italy, UK, Turkey.
(8) Israel, US, Germany, Cyprus, Spain, UK, Ireland, Italy, China.
(9) US, China, Israel, France, Germany, Italy, UK, Spain.
(10) Israel, Russia, South Africa.
(11) All patent rights owned by Strauss Water.
(12) Some of the applications have later dates.

11.10 Human capital

Following is information on the number of Strauss Water employees as at December 31, 2020 and December 31, 2019:

Number of Employees in the Strauss Water Segment		
	December 31, 2020	**December 31, 2019**
Management and administration	267	265*
Sales and distribution	632	546*
Procurement and logistics	56	61*
Operations	243	237*
Total	**1,198**	**1,109**

(1) Including 251 and 180 employment agency workers as at December 31, 2020 and December 31, 2019, respectively.
* reclasified

Following is information on the number of Strauss Water employees by country, as at December 31, 2020 and December 31, 2019:

Number of Employees in the Strauss Water Segment		
	December 31, 2020	**December 31, 2019**
Israel	1,167	1,078
UK	31	31
Total (incl. employment agency workers)	**1,198**	**1,109**

11.11 Raw materials and suppliers

a. Strauss Water procures water bars, filters, purifiers and UV lamps for use in water bars from a number of outside suppliers. Water bars are procured from two suppliers: ENG Electronic Co. Ltd. and Flextronics (Israel) Ltd. The water bar suppliers are obligated to exclusivity in production for the Group, and they manufacture the appliances under product specifications developed by the Group, on production lines that are used only for the Group's products. The Group is dependent on the suppliers of the water bars, as their replacement would require several months of preparation and will constitute a material incremental cost to Strauss Water.

Under the contract terms with the water bar supplier, Flextronics (Israel) Ltd., termination of the agreement is subject to prior notice of 6 months by the Group and of 18 months by Flextronics. Under the contract terms with ENG Electronic Co. Ltd., termination is subject to 60 days' prior notice by the Group, and in certain cases of insolvency or failure to comply with a material provision of the agreement, the agreement may be cancelled by either party with 60 days' and 30 days' prior notice, respectively.

b. Purchases of filters and purifiers are made from a single supplier (KX Technologies). The Group is dependent on this supplier, as its replacement would require several months of preparation and will constitute a material incremental cost to Strauss Water.

Under the contract terms with said supplier, termination of the agreement is subject to 6 months' prior notice by the Group and 18 months by the supplier, and in certain cases of insolvency or failure to comply with a material provision of the agreement, the agreement may be cancelled by either party with 60 days' and 30 days' prior notice, respectively.

For further information, see section 25 w below.

11.12 Working capital

Following is the composition of working capital in the Strauss Water segment in 2020 according to the Company's Management Reports, as defined in section 5 above:

Working Capital in the Strauss Water Segment	
	Amount included in the Management Reports
Operating current assets [(1)]	**200**
Operating current liabilities [(2)]	108
Excess of current assets over current liabilities	92

(1) Including net trade receivables, inventory, income receivable and prepaid expenses.
(2) Including net trade payables and accrued expenses.
(3) In NIS millions.

11.13 Restrictions and oversight

The Group's products in this segment are required to comply with domestic as well as international standards pertaining, among other things, to drinking water treatment systems for home use, testing of products that come into contact with drinking water, safety of household electrical appliances, etc.

11.14 Material agreements

Joint venture with Virgin Group Ltd.

In November 2011 Strauss Water contracted in an investment agreement (which was updated in August 2012) with a number of investment funds of Virgin Group for the establishment of a joint venture, VSW, which will be active in the marketing, sale and servicing of Strauss Water products in England. The parties also contracted in a series of accompanying agreements for the operation of the venture (including a licensing agreement, service agreements and a supply agreement). As at the date of this report, Strauss Water holds approximately 72% of the shares of VSW, and investment funds of Virgin Group (indirectly) hold the remaining shares (approximately 28%). Four directors hold office in VSW, three appointed by Strauss Water and one appointed by Virgin. The Company's products are sold in the UK under the Virgin Pure brand.

Licensing agreement – according to the licensing agreement (and the schedules thereto of 2017 and 2020) between Strauss Water and VSW and Virgin Group (through Virgin Enterprises Ltd., hereinafter: "VEL"), VSW has the right to use the Virgin brand name in the territories defined in the agreement, and in consideration will pay VEL royalties at fixed percentages of its sales, as set forth in the agreement. Strauss Water has guaranteed payment of the royalties. The agreement is effective until December 31, 2024 (however, either party may notify the other of its termination without cause until June 30, 2021 and may also annul the agreement after said date for any of the causes enumerated in the agreement). On termination, VSW will be subject to various provisions, including the obligation to discontinue use of the name Virgin or similar names.

Shareholders' agreement – according to a shareholders' agreement of 2012 between Strauss Water, VSW and investment funds of Virgin Group, Strauss Water has management control of VSW. Strauss Water has undertaken not to compete with VSW in the territories where it is active. The agreement determines that if there is change of control of Strauss Water, the investment funds of Virgin Group will have the right to demand the swap of their shares in VSW for Strauss Water shares, or to compel Strauss Water to buy their holding in VSW at fair value, with the choice between the two options being given to Strauss Water. The agreement will remain in effect without time limit other than upon satisfaction of the causes for cancellation enumerated in the agreement. For further information, see section 25 ac-ae below.

11.15 Material investment by Strauss Water in an associate

1. On the reporting date, Strauss Water holds 49% of the shares of HSW, whereas the remaining 51% are held by a company of Haier Group of China.

2. HSW's business focuses on the home water market in China, and the company mainly offers water appliances based on reverse osmosis or nanofiltration technology, as well as water purification products based on the Maze technology.

The products are marketed in China under the brand names Haier, Haier Strauss Water and Casarte through various channels such as retail chains, direct marketing and online, and the appliances are serviced by the company and by a local distributor.

Sales are made to retailers and to end consumers and generally do not include service agreements. Various components (such as filters and purifiers) are sold according to need. For further information on the macroeconomic environment and the impacts of the spread of the COVID-19 pandemic, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

3. **Series of agreements with Haier Group** – under a series of agreements signed in May 2015 (including a joint venture agreement that was replaced in 2018) between Strauss Water and the Haier Group, the business of a joint venture in which the parties began operating in 2011[100] was transferred to HSW. Under these agreements, Haier transferred to HSW its reverse osmosis water filtration and purification activity (which until then was owned by Haier), and Strauss Water granted HSW an exclusive license to use the Maze technology in the territory of China.

   The joint venture agreement regulates the relations between the parties and their roles in managing HSW. The agreement is valid for 50 years from the date of establishment of HSW (February 6, 2015), and at least two years before its termination the parties will discuss its extension, with the agreement of the parties and the approval of the relevant authorities. Additionally, the agreement determines that it may be terminated before the end of the term upon the occurrence of certain events (including a material change in regulation that has a material economic effect on one of the parties, while the parties fail to reach an agreement on the adaptation of the agreement). According to the agreement, five directors will serve on the board of directors, three appointed by Haier and two by

[100] The activity of the joint venture commenced in 2011 and focused on the Maze purification technology. Upon its establishment, the joint venture was jointly owned by the Group and Haier in equal parts. The joint venture purchased the products from Strauss Water and was provided with distribution and sales services, as well as servicing by companies of Haier Group.

Strauss Water. The chairman of the board will be appointed by Strauss Water. The CEO and the CFO of HSW will be appointed by the board at Haier's recommendation, and the deputy CEO will be appointed by the board at Strauss Water's recommendation. Board resolutions will be passed by a simple majority, except for certain resolutions that are required to be passed unanimously (alteration of the articles of association, suspension or termination of HSW's activity, modification of the registered share capital as well as mergers or any change in the company's structure) and other resolutions that require a simple majority that includes a director on behalf of Strauss Water (issuance of securities by HSW, entry into areas of activity outside HSW's regular areas of activity and others). In addition, two observers will be appointed in HSW, one by Haier and one by Strauss Water. Furthermore, restrictions were determined with respect to share transfers, including a tagalong right (with agreed or pro-rata distribution) for each of the parties in a case where the counterparty transfers its rights to a third party, and a preemptive right for each party to acquire the holdings of the counterparty in HSW. See also risk factors in section 25 ac-ae below.

4. The water market in China – the Chinese market for drinking water solutions using machines and filtration devices is divided among point of use (POU) systems, systems that treat the water at the point of entry to the home (POE) and water solutions for businesses. HSW's activity in China is primarily in the POU market for the private sector, as well as the POE market in partnership with the company BWT.

   As at the reporting date, HSW's products are manufactured through subcontractors. In March 2020, the board of directors of the HSW joint venture approved an investment of approximately CNY 375 million (c. NIS 190 million) for the construction of a facility for the production and assembly of HSW products sold in China. The planned site area is approximately 24 acres; construction began in 2020 and is planned to be completed within the first half of 2021. HSW estimates that construction of the manufacturing site will improve its competitive position, as independent manufacturing capabilities allow for greater flexibility in the development and production of unique, innovative products, shorter time-to-market and the launch of high-quality products. Such capabilities carry significant weight in leveraging a competitive position in a growing and developing market. It is noted that the majority of significant players in the market have independent manufacturing capabilities. To support the realization of HSW's strategy and its ongoing activities, the subsidiary Strauss Water granted a shareholder loan of approximately NIS 49 million, in accordance with its share in the partnership.

   The information contained in this section, the date of completion of the construction of the manufacturing site, including estimates that its construction will enable HSW to improve its competitive position, is forward-looking information as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of market developments and the impacts of the COVID-19 pandemic. See also section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

   As part of HSW's desire to expand into additional categories in the water business, including the POE market (point of entry filtration and purification systems treat the water as it enters the home by connecting directly to the water line, improving water quality for general use as well as consumption), in 2019 HSW entered into a distribution agreement for POE products to be manufactured by a company owned by Haier Electronics (which indirectly holds 51% of HSW) and BWT.

5. **Competition** – the Chinese market is widely dispersed with a large number of competitors. The sale of water treatment products is conducted through two sales channels: offline - mainly through retail, and online. The major competitors in the POU private sector market in the offline channel are Angel, Truliva, AO Smith and Midea. The major competitors in the online channel are Xiaomi, Truliva, Midea and AO Smith.

   To the best of the Company's knowledge and based on estimates only (the Chinese market is not barcoded), the five major competitors in the POU private sector market account for about 60% of the market in the online sales channel and about 80% of the market in the offline channel. HSW's market share in the POU private sector market is approximately 13.6% and 9.9%, respectively.

6. **Seasonality** – following is information for the years 2020 and 2019 on HSW's income by quarter according to the Company's Management Reports, as defined in section 5 above:

Quarterly Income – HSW				
	2020		2019	
	Income(1)	% of Total Segment Income	Income(1)	% of Total Segment Income
Q1	106	18.4%	155	25.9%
Q2	139	24.1%	141	23.5%
Q3	142	24.6%	134	22.4%
Q4	190	32.9%	169	28.2%
Total	**577**	100%	**599**	100%

(1) In NIS millions.

   As a rule, the months of January, September and November are considered to benefit from higher sales due to the Chinese holidays that fall in the months of February and October. However, revenues dropped in early 2020 as a result of the COVID-19 outbreak. In early March the Chinese market began to recover, and the increase in income continued until the end of 2020. This trend is alignment with the overall growth of the Chinese market.

7. **Human capital** – HSW employs approximately 500 employees and managers.

Part IV – Matters Relating to Group's Overall Activity

12. Customers

12.1 Segmentation of sales to customers

The Group's customers in its various business segments and in the different countries of operations (except for the customers of Strauss Water – see section 11.4 above), are divided into two main types: retail market customers and Away-From-Home (AFH") customers.

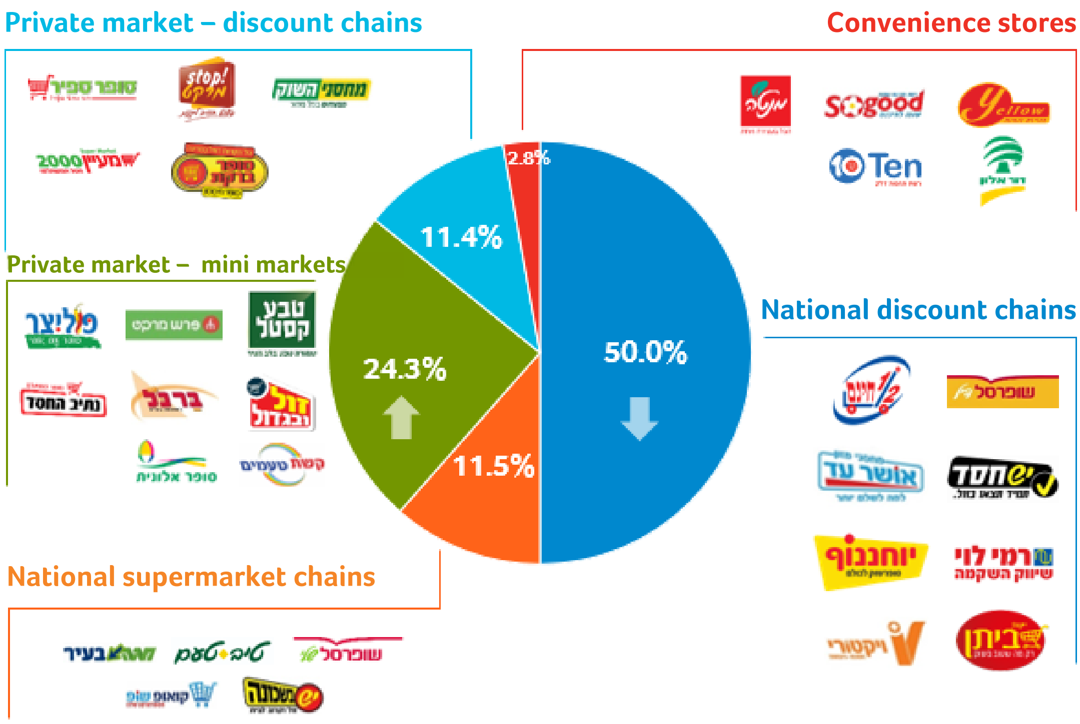
Retail customers (such as food chains, grocery stores, minimarkets, supermarkets, convenience stores, snack bars, kiosks) supply consumers with food and beverage products mainly for home consumption. Customers in the AFH market, such as offices, hospitals, cafés, hotels, coffee machines and vending machines, provide the consumer with food and beverage consumption opportunities while away from home. In part of the AFH market, sales are carried out on the basis of tenders published by various entities, with the quantity and price being defined in advance.

Generally, sales to the Group's customers in and outside Israel are made on the basis of periodic orders placed from time to time, as necessary, with no order backlog.

12.1.1 Sales channels – breakdown according to segment

a. In Israel – the Israeli retail market comprises three channels:

Segmentation of the Major Channels in the Israeli Retail Market



National chains – this market includes retailers with a broad geographical spread and (relatively) large central procurement, comprising national discount chains (on the reporting date, around 50% of the market) – chains whose stores are spread countrywide, with concentrated shopping (discount) features; national supermarket chains (on the reporting date, around 11.5% of the market) – retail chains/sub-chains with a countrywide store spread and supplementary shopping features, generally neighborhood stores in city centers.

Private market – the private market comprises small chains and private stores. The internal division between the sub-channels of the private market is determined according to the overall sales volume of the point of sale: private discount market (on the reporting date, around 11.4% of the market) – private chains that are mostly concentrated in specific geographical regions, stores with concentrated shopping (discount) features; small private market (minimarkets and grocery stores) (on the reporting date, around 24.3% of the market) – private stores and small chains with lower sales volumes and supplementary shopping features. In 2020 the private market grew with the spread of COVID-19 in Israel, as a result of consumers switching to shopping in neighborhood stores that are close to home.

Convenience stores – (on the reporting date, around 2.8% of the market) – chain stores with extensive deployment, generally located in gas stations and possessing supplementary shopping features. In 2020 these stores experienced a drop in sales with the spread of COVID-19 in Israel, following the imposition of lockdowns and the drop in traffic volumes.

b. **In the International Coffee segment** – in Brazil, sales by Três Corações (JV)[101] are mainly made through direct distribution channels reaching around 55,000 retail customers (on the reporting date, around 90%). In addition, the company makes sales to AFH customers (on the reporting date, around 3% of the market) and to electrical appliance stores (on the reporting date, around 1%), where coffee machines are sold. The company exports green coffee to customers in the US and Europe (on the reporting date, around 1%). In 2020 the company in Brazil expanded and improved its direct-to-consumer online sales channel (on the reporting date, around 1%).

The Group's customers in Central and Eastern Europe include retail market customers, AFH customers and exports from Eastern European countries to neighboring countries from time to time.

In 2020, due to the impacts of COVID-19 and the ensuing restrictions on movement, sales to AFH customers decreased significantly in the countries of operations.

In the retail market, a trend of growing strength has been observed in modern trade, characterized by large marketing centers and national marketing chains, as opposed to traditional retail, which is characterized by neighborhood stores. In Ukraine and Serbia, the traditional market is still dominant, while in Poland, Russia and Romania, modern trade has already reached more than half of the retail

[101] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**").

market. In Central and Eastern Europe, the organized market includes national key account chains and wholesale cash & carry and discount retail chains, characterized by low prices. Modern trade continued to grow stronger and even intensified in 2020 as a result of COVID-19, with consumers preferring to concentrate their shopping and reduce the number of store visits, combined with restrictions on open air markets, whose sales were diverted to modern trade.

c. **International Dips & Spreads customers** – in the US, dips and spreads products are sold and distributed to retail chains (national and regional) (around 67.8% of the market); mass merchandisers (large department store chains such as Walmart) (around 17.8% of the market); club chains (chains operating giant warehouses that specialize in sales of a limited selection of brands in large packages at discount prices) (around 12.2% of the market); and convenience stores and the institutional market (around 2.1% of the market). In Australia, New Zealand and Mexico, the products are sold and distributed in large retail chains, private retail chains and the institutional market. In Western Europe, products under the Florentin brand are sold to food chains and stores specializing in organic products, with part of the sales made through local distributors.

Following is the distribution of the Group's total sales (in NIS millions) and their percentage of the Group's total income, segmented by customer type, in 2020 and 2019 (according to the Company's Management Reports, as defined in section 5 above):

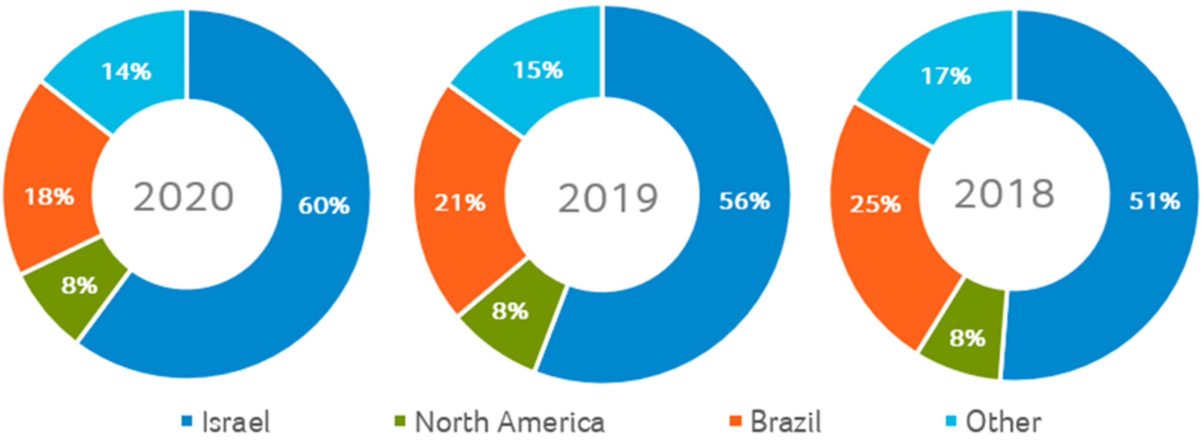
Customer Type	Distribution of the Group's Total Sales by Customer Type in 2020							
	Health & Well-ness	Fun & Indul-gence	Israel Coffee	Inter-national Coffee	Inter-national Dips & Spreads	Water	Total Group	% of Total
Large customer market	1,187	410	310	1,294	518	--	3,719	44.6%
Private market	1,218	593	235	953	125	--	3,124	37.4%
AFH	111	42	100	104	28	--	385	4.6%
Other	21	99	67	216	51	668	1,122	13.4%
Total	**2,537**	**1,144**	**712**	**2,567**	**722**	**668**	**8,350**	**100.0%**

Customer Type	Distribution of the Group's Total Sales by Customer Type in 2019							
	Health & Well-ness	Fun & Indul-gence	Israel Coffee	Inter-national Coffee	Inter-national Dips & Spreads	Water	Total Group	% of Total
Large customer market	1,091	403	292	1,540	574	--	3,900	45.8%
Private market	1,045	576	212	1,135	118	--	3,086	36.1%
AFH	121	53	127	155	57	--	513	6.0%
Other	20	102	123	142	22	628	1,037	12.1%
Total	**2,277**	**1,134**	**754**	**2,972**	**771**	628	8,536	**100.0%**

For further information, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020 with respect to the COVID-19 outbreak.

12.1.2 Segmentation of sales by geographical region

Following is the sales turnover by geographical region in the years 2020, 2019 and 2018:



Sales Turnover by Geographical Region			
	2020	2019	2018
Israel	5,029	4,766	4,584
North America	640	658	676
Brazil	1,469	1,793	1,963
Europe and ROW	1,212	1,292	1,354
Total	8,350	8,536	8,577

Figures are in NIS millions.

12.1.3 Dependency on customers

In 2020 there were no customers in which respect income from sales accounted for more than 10% of Group's total income according to the Company's Management Reports, as defined in section 5 above, the loss of which would have a material impact on the Group's business results in the medium and long term.

In the fresh dips and spreads segment there is dependency on two Sabra customers, Kroger and Walmart, which account for approximately 13.1% and 12.0% of Sabra's net sales, respectively. Business with these customers is carried out on the basis of periodic purchase orders.

13. Marketing and Distribution

13.1 In Israel (excluding Strauss Water)

a. The sales and distribution system for the Group's products in Israel (Health & Wellness, Fun & Indulgence and Israel Coffee products), excluding the products of Strauss Water, serves some 13,000 points of sale, including supermarkets, grocery stores, minimarkets, kiosks, hotels, restaurants, cafés, offices, etc.

b. The Group's distribution operations are executed from the distribution center in Shoham, which serves as a combined logistics center for all product categories. Finished goods are transported from the finished-goods warehouses in the Group's plants to the three distribution centers in Shoham, Haifa and Acre (the Haifa and Acre warehouses are equipped to provide backup to Shoham in the case of any malfunction). In addition, there are cross-docking centers in Yotvata, Beersheba and Kiryat Shmona, to which the goods are transported from the distribution centers.

c. At the distribution centers, orders are picked and issued to drivers who are Company employees and to independent distributors. Sales and distribution are carried out in one of the following methods: "presale", used mainly in the food chains and large stores; in this method orders are collected from customers by a Group sales representative or by the customers themselves, and are supplied within 48 hours to the stores or to logistics centers operated by some of the major chains. In early 2014, the Company took significant steps allowing it to supply chilled products to most of its customers within a period of up to 24 hours in the "van-sale" method - used mainly for points of sale in the small minimarket, grocery store and kiosk channel, where sales are made directly from the distribution vehicle that serves as a mobile warehouse. In this method, the distributor is the one who executes the order from the distribution center according to his visiting plan at points of sale. Additionally, the Group is active in the AFH channel also in a third sales and distribution method – telesales, where orders are collected from customers by telephone and delivered within 48 hours.

d. The Group's distribution system is mainly based on a network of independent distributors (external system) and an internal network of distributors (Company employees).

e. The network of independent distributors mainly distributes the chilled Health & Wellness products (dairy products, milk beverages and fresh juices), while the internal distribution system (Company employees) mainly distributes Fun & Indulgence products, salty snacks, Yad Mordechai products and coffee.

The independent distributors distribute only products that are manufactured or distributed by the Group, and the points of sale are determined by the Group according to the allocation of the distribution lines between the various distributors. The Group is responsible for collecting the consideration from customers. The distributors undertake to maintain, at their own expense, a suitable vehicle for chilled transport according to technical specifications defined by the Group. In regard to sales to large customers and to major customers in the AFH channel, the Group (and not the distributor) is the party that makes the sale directly to the customer.

In consideration for the distribution services, the Group pays the independent distributors commissions that are defined as a percentage of the sales turnover, which varies according to customer type (new distribution channels are characterized by high commissions), customer size (the commission percentage decreases pro rata to the increase in the size of the sale), the type of activity required (sale, order, picking or collection) and various performance measures. With most of the independent distributors the Group is engaged in agreements, pursuant whereto it is entitled to terminate the engagement with the distributor following advance notice. The distribution right may not be transferred by the distributor other than with the Group's consent. There is no employment relationship between the Company and the distributors and the Company is not dependent on them.

f. The Group has a distribution and picking agreement for dry food products and for certain packaged salads with Shufersal, pursuant to which Shufersal places a collective order for the above products to be delivered to Shufersal's logistics centers in Modi'in or in Shoham, and Shufersal is responsible for the day-to-day supply of the orders to its stores. Under the agreement, inventory data and store orders are transferred to the Group via StoreNext's EDI system to allow for the ability to manage sales at store and item levels.

g. The Group installs coffee machines bearing the Group's brands directly and through independent operators, who are responsible for the installation and maintenance of the machines and for the supply and distribution of coffee products to various hubs.

h. The Group has exclusive distribution agreements in Israel with an independent distributor to the Israel Prison Service and the Israel Police, and with a distribution company that caters to army canteens, for the distribution of the Group's food products (excluding dairy products, milk beverages and salads). The Group also has a number of exclusive independent distributors who buy the Group's products and sell them in the territories of the Palestinian Authority and to small customers in the private market.

i. According to the provisions of the Food Law, a large supplier or a party acting on its behalf is prohibited from engaging in the placement of products in the stores of a large retailer, as well as from dictating, recommending or otherwise intervening in the placement of products. At the same time, however, the Food Law permits the Commissioner to grant an exemption in certain matters. Thus, since the Food Law entered into effect, temporary provisions were determined with regard to the exemption of actions and arrangements relating to product placement in a large retailer's store. The last exemption of April 2, 2017 applied for a period of three years, and in March 2020 was extended for a further three years. The exemption allows suppliers to provide placement services to large retailers that satisfy the provisions enumerated in the exemption. The Group provides placement services to large retailers subject to the satisfaction of the required conditions. Additionally, the Group's commercial activity is performed in accordance with the requirements of the Food Law, trade activities and the resulting agreements. Thus, for example, the Group is prevented from activity in the selling space that is allocated to its products on the shelves in stores belonging to retailers that are subject to the law and is prevented from intervening in the retail prices of its products, etc. For further information, see section 20 below and section 10 in the Report of the Board of Directors of the Company as at December 31, 2020.

j. The Group takes care to maintain the freshness of its products on the shelf and collects returns from most points of sale and oversees their destruction. In stores where the chain's own shelf-stocking system is in place (see section 13.1.i above), returns are handled as agreed.

13.2 In countries outside Israel

As a rule, in countries where the Group operates outside Israel, there are distribution centers in each country from which finished products are distributed, as well as warehouses and cross-docking sites.

Brazil – Três Corações (JV)'s[102] sales and distribution system serves some 71,000 customers representing 300,000 points of sale in the presale method, and is operated primarily by employed distributors and a small number of independent distributors, with which the Group contracts as needed. The products are transported by trucks owned by Três Corações (JV)[103] and external suppliers' trucks, as needed. Delivery times range from 24 hours to 7 days, depending on the location of the point of sale (the long delivery times are relevant for points of sale located in remote rural regions). In August 2020, direct sales from two company-owned distribution sites to end customers who had purchased goods online were initiated.

Poland, Romania, Serbia, Ukraine and Russia – the retail market sales network sells directly to a limited number of customers, some of which are independent wholesale distributors that sell the goods to small stores, while others are large modern retail chains, which usually carry out distribution independently through independent logistic centers and warehouses. Sales in the retail market are carried out in the presale method. The AFH sales system serves direct points of sale such as cafés, offices, institutions and hotels, and also sells to independent distributors, which in turn sell to customers such as cafés, offices, institutions and hotels. In addition, the AFH sales system sells and places vending machines at customer premises and is responsible for the service and maintenance of these machines. Direct-to-consumer sales are also made online.

Sabra and Obela – The sales and distribution system serves some 50 thousand points of sale in the US and Canada. The products are sold in the presale method and distributed directly to the logistics centers of the retail chains (from the production warehouses of Sabra and Obela) or distributed by the distribution networks of independent wholesale distributors and by external transportation companies. Customers do not have shelf-stocking and placement systems. Deliveries to customers are made within up to 14 days from the date the order was received and products are non-returnable.

[102] See Footnote # 5 above.

[103] See Footnote # 5 above.

14. Fixed Assets, Real Estate and Facilities

Following is a description of the Group's material fixed assets, in addition to the fixed assets serving the operation segment:

Following is a description of the Group's material fixed assets, in addition to the fixed assets that serve the operating segments:

Additional Material Fixed Assets			
Nature and Location	**Site Designation**	**Built-Up Area**	**Liens**
Office building in Yanai Park, 49 Hasivim Street, Petach Tikva (Buildings 3 and 4)	The Group's Head Management offices	Ground floor plus nine floors above it, basement space and parking(1)	--

Rights in and to the site:
(1) A right to be registered as the owner. In the agreements for the acquisition of the property, the sellers undertook to complete the registration of the rights in and to these assets in their name; as at December 31, 2020, said registration has not yet been completed. The agreements contain provisions intended to secure the Company's rights as well as the registration of the condominium.

For further information on the Group's real estate properties, which are not attributed to a specific segment, see Notes 16.2 and 25 to the Financial Statements of the Company as at December 31, 2020.

15. Research and Development

As part of its business strategy, the Group is continually engaged in the development of new products and their introduction to the market, as well as refreshing existing products, among other things through technological innovation and product and packaging innovation in response to the demands and tastes of target audiences. Development and innovations in dairy products and salty snacks are carried out, inter alia, using the knowledge in the possession of the Group's strategic partners, Danone and PepsiCo, respectively. Various solutions in the chilled salad category in Israel are developed in collaboration with Sabra.

Strauss Water works continuously on the development of technological innovations for its products and the development of new products in response to market and consumer demand. Development is carried out using the knowledge in Strauss Water's possession, and occasionally, in collaboration with outside parties, including technological collaborations with various institutions active in the water sector in

Israel. The Group also works to increase technological collaborations with global companies from corresponding disciplines such as cosmetics, raw and packaging materials, machinery, etc.

In 2020, the Group continued, in all activity segments, to develop innovative products with health benefits, improve and streamline manufacturing processes, develop alternative energy consumption and enhance energy efficiency, develop raw material sources, protect the environment and develop new packaging which will improve the preservation of product quality and freshness. The Group simultaneously worked on implementing smart manufacturing projects, including smart, advanced management of industrial plants and processes that provide for communication and interfacing among machines, real-time data analysis, robotics and AI. The technological response to the Group's needs is provided by tech teams consisting of the development people in the business units and engineering and technology teams in the plants.

The Group strives to identify, develop and assimilate breakthrough technologies. To this end, the Alpha Strauss FoodTech Community was established in Israel, which actively connects the Group to researchers, inventors, entrepreneurs, academic institutions, venture capital funds and government research institutions.

In 2020, numerous new technologies were examined and over 40 projects were executed by the Company's innovation arm, which includes the CTO unit and the Group's innovation team that is active in creating collaborations between the Group and various initiatives in order to integrate new technology in the Group companies (Alpha Strauss). The projects made an advanced review of different technologies to support growth engines as well as those of value to the technological aspects of the Group's products, raw materials, manufacturing processes, unique ingredients, quality control and assurance processes, packaging, energy, wastewater and ingredients with health benefits. In 2017 the Group joined the European consortium EIT Food, which furthers technological innovation collaborations among 50 companies and research institutes throughout Europe.

In the course of 2015, the Group launched the technological incubator, The Kitchen, as part of the Chief Scientist's Technological Incubators Program. The incubator's goal is to boost Israeli food tech by investing in early-stage technological ventures, which offer solutions to the global food industry. On January 1, 2015, after winning the franchise, the incubator was launched in the city of Ashdod. During the 8-year franchise period, each year The Kitchen hosts several innovative ventures each year, to cultivate them and lead each of them to raise additional capital within two years. Since its establishment, the incubator has invested in 18 companies, some of which have completed product development, commenced initial sales and raised further investments. The Company participated in several of the funding rounds at amounts that are immaterial to the Company.

The following is a list of companies operating as of this date under the incubator and their areas of activity:

List of Companies Active in the Incubator	
Company Name	**Area of Activity**
Yofix	Development of plant-based probiotic foods and beverages
Yeap	Development of a unique method for producing proteins from yeast
Torr FoodTech	Development of healthy snacks using production processes that bind product ingredients together without the need to use sugar
MaoLac	Development of a system that identifies proteins with medical properties and their use to enrich food products
DLR	Development of a vision-based robotic controller that enables robots to learn and replicate the performance of human tasks for use in industry
Flying SpArk	Research and development of proteins produced from insects for human consumption and pet food
BactuSense	Development of a device for rapid bacterial detection in food
Myfavoreats	Development of a platform that helps users to create personalized recipes aligned with their individual dietary needs
Amai Proteins	Development of a technology that produces sweet designer proteins by combining agile integrative computational protein design with biotechnology-based products
Bio-Fence	Development of an antimicrobial anti-viral coating for work surfaces to create a safe, contaminant-free environment
Aleph Farms	Development of processes for meat production using biotechnological methods
Inspecto	Development of a portable device for the early detection of food contaminants in the field
Better Juice	Development of a process that removes sugar from freshly squeezed juice using biotechnological methods
RilBite	Development of technology that creates nutritionally beneficial plant-based minced meat analogues with a small number of ingredients
Imagindairy	Development of processes that use bioengineered yeast cells to produce milk proteins for milk and cheese products
Vanilla Vida	Unique technology for the efficient cultivation and processing of vanilla worldwide
Anina	Development of fast ready-to-cook, natural-ingredient-only meals using innovative means to upcycle agricultural produce discarded for aesthetic reasons
Zero Egg	Development, production and marketing of a nutritious plant-based egg substitute
Prevera	Development of disinfection and purification solutions to treat water and for other uses

The information in this section regarding the incubator's planned activity, including plans to host several innovative ventures each year and lead them to fundraising within two years is forward-looking information, as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. In practice, there is no certainty with regard to the number of startups which the Company will host each year, including the date on which the startups will be ready for investment, among other things due to their maturity, their suitability to the project and market conditions.

For research and development in the Strauss Water operation, see section 11.9 above.

In the Company's estimate, total financial resources invested in 2020 and 2019 in the development of new flavors and products, new packaging, improvement and efficiency enhancement of work processes, projects related to breakthrough technologies, etc. according to the Company's Management (Non-GAAP) Reports, amounted to approximately NIS 106 million.

16. Human capital

16.1 Organizational structure

a. The Group operates according to an operating model which is based on a matrix structure that integrates business units responsible for profitable growth with central units in Group headquarters and the Israel Operation, which manage core processes and supporting processes across the organization.

Following is a diagram of the Group's organizational structure proximate to the date of publication of the Periodic Report:

Organizational Structure

Group President & CEO

- **Strauss Israel CEO**
  - Achihud Dairy
  - Yotvata Dairy
  - Fresh Food
  - Apiary
  - Sweets
  - Frito-Lay (salty snacks) (1)
  - Sales Division
  - Supply Chain & Operations Division
  - Finance
  - Human Resources
  - Technology
  - Marketing & Growth Engines
- **Strauss Coffee CEO**
  - The Netherlands
  - Russia
  - Ukraine
  - Romania
  - Serbia
  - Poland
  - Brazil (2)
  - Israel
  - Marketing
  - Finance
  - Human Resources
  - Operations – Supply Chain
  - Switzerland-Commodities Purchase
  - Factory in Germany
- **PepsiCo Strauss Fresh Dips & Spreads**
  - Finance
  - Sales
  - Human Resources
  - Technology
  - Supply chain
  - International Business & Business Development
  - Strategy
- **Strauss Water CEO**
  - Strauss Water Israel
  - Strauss Water UK
  - Finance
  - Technologies
  - Human Resources
  - Product Operation & Development
  - Product Marketing & Business Development
  - Organizational Transformation, Partners Management & IT
- **EVP, General Counsel & Corporate Secretary**
  - Capital Market & Corporate Governance
  - Commercial
  - Real-Estate
  - Insurance
  - Business Regulation
  - Compliance
- **SVP of Human Resources**
  - Remuneration & Benefits
  - Talent Management
  - HQ Human Resources
- **Group CFO**
  - Investor Relations
  - HQ Finance
- **EVP of Growth & Innovation**
  - Technology
  - The Kitchen
  - Alpha Strauss
  - Business Development
  - Information
- **Communications, Brand, Spokesperson & Sustainability**

(*) The chart is current on the date of publication of the report.
(*) On April 1, 2021, a Deputy CEO is to assume office.
(1) The salty snacks operation is part of the Fun & Indulgence segment and is managed in partnership with PepsiCo.
(2) The CEO of Brazil reports to the board of directors of Três Corações (JV)1.

[1] See Footnote #103 above.

b. Senior management – the Group is headed and managed by Group management. Group management defines the overall strategy of the Group and its subsidiaries and follows up on the accomplishment of business results. Management members also serve as members of the boards of directors of the companies and the Group's main business units, which craft strategic directions in the Group. Group management includes the Group President & CEO[104], Chief Legal Officer (CLO) and Group Secretary, the Group Chief Human Resources Officer, Chief Financial Officer (CFO), the Group's VP Growth and Innovation, the CEO of Strauss Israel, the CEO of Strauss Coffee, the CEO of Strauss Water and the CEO of Sabra.

c. Group headquarters – assists Group management in managing the Group, with emphasis on the management of strategic aspects. HQ serves as a professional, strategic and guiding element that provides professional support to Group management, controls the performance of the Group companies in relevant areas, and adds value by leading core aspects that support the "one group" concept.

The functions included in Group HQ are: finance (accounting, economics & control, investor relations, treasury and risk management), IT, human resources, legal department & Company Secretary, real estate, insurance, communications, corporate brand, sustainability, strategy, technology, the Alpha Strauss innovation unit, the technological incubator, business development, and the Chairperson's and CEO's offices. For an itemization of the number of employees in Group headquarters in the years 2020 and 2019, see section 16.2.b below.

d. The Israel Operation – the Group's activity in Israel has a separate management. Management is responsible for managing the Israel Operation, for crafting its strategy and for its approval vis-à-vis Group management, and is responsible for implementing the strategy and achieving the goals deriving from it. Strauss Israel's management comprises the CEO of Strauss Israel, the managers of the business divisions in the Health & Wellness segment – the managers of the dairies division and the fresh foods division, the managers of the business divisions in the Fun & Indulgence segment – the managers of the confectionery division and the salty snacks division, and the managers of the central units: the supply chain and operations manager, the sales manager, the human resources manager, the CFO and the marketing and growth engine manager.

The business divisions, Health & Wellness and Fun & Indulgence, are responsible for growth and profitability in their areas of responsibility, and also for the management of their manufacturing sites and the execution of manufacturing plans according to the frameworks determined by the planning unit in the supply chain.

Each business division has its own separate management, which includes the division manager and financial, operations, development, marketing and human resources managers (part of whom are also subordinate to the central professional units).

The central units (sales, supply chain, human resources, finance and marketing and growth engines) provide professional services to the business divisions. The sales division is responsible for the sales

[104] Commencing in April 2021, Group Management will include a Deputy CEO.

and distribution system for all of the Group's products in Israel to all of the Group's retail customers in Israel. The supply chain division handles the centralized procurement of raw materials for the various divisions, and is also responsible for the handling and transportation of raw materials to the production sites and of finished products from the sites to the Group's distribution and cross-docking centers and its warehouses in Israel. The supply chain division serves as the professional entity in charge of managing demand and supply planning, which includes setting policy and strategy on issues of production planning, procurement and logistics in Israel. HR is a business partner that accompanies organizational processes, change processes, etc. The human resources unit also manages the shared resources unit for recruitment, salary and benefits, training, welfare and work relations, which serves the entire Israel Operation. Finance HQ in Israel focuses on the supply of services to the business divisions and the central units in Israel in the areas of performance management, financial and management reporting, payroll controls, strategic and budget planning, forecasts, business development, etc. Marketing and growth engine HQ is engaged in the development of digital worlds and digital innovation in Israel, marketing excellence, business development, the customer experience and provides services to the business divisions in the areas of media buying and consumer insights research.

e. **The Coffee Operation** – Strauss Coffee has its own separate management, which is responsible for the complete management of the business, for building strategy and having it approved by Strauss Coffee's board of directors. Management of the coffee company is responsible for the implementation of its strategy, the achievement of strategic goals, and the development of people and brands. Under service agreements between the Company and Strauss Coffee, the Company provides Strauss Coffee with certain head office services such as HR, legal services, operations and logistics, sales and distribution. Strauss Coffee management comprises the CEO, the human resources manager, the marketing manager, the CFO and the operations and supply chain manager. The International Coffee business is managed by the local managements of the companies in the different countries: Holland, Switzerland, Poland, Russia, Ukraine, Romania, Serbia, Germany, Israel and Brazil (the coffee business in Brazil operates through Três Corações (JV)[105], which is overseen by the joint venture's board of directors). Each company in each country is headed by a separate management, in line with the scope and nature of the activity carried out by the respective company.

f. **The International Dips & Spreads operation** – the Group's International Dips & Spreads activity has a separate management. Sabra's management consists of a team comprising the company CEO, CFO, VP Human Resources, VP Supply Chain, CTO, VP Sales and VP International and Corporate Development. Obela has country managers, CFOs and managers who are responsible for different business functions, such as marketing, sales, operations and HR. Sabra's board consists of four directors - two on behalf of the Company and two (one of whom serves as chairman of the board) on behalf of PepsiCo. Obela's board of directors consists of six directors – three on behalf of the Company and three (one of whom serves as chairman of the board) on behalf of PepsiCo.

g. **The Strauss Water operation** – Strauss Water's management consists of the CEO, CFO, CEO of Strauss Water Israel, VP Human Resources, VP Operations and Development, VP Product Strategy and Business Development, VP R&D and VP Business Transformation and Partnership Management.

[105] See Footnote # 5 above.

Strauss Water's management is responsible for the full management of the business and for crafting its strategy. Strauss Water's management is responsible for implementing the strategy and achieving the objectives derived from it.

16.2 Headcount

a. In total, the Group employed approximately 16,540 and 16,300 employees on December 31, 2020 and December 31, 2019, respectively (including 957 and 1,085 employment agency workers as at December 31, 2020 and December 31, 2019, respectively). Headcount includes all employees in the Group, including jointly controlled entities in which the Company holds 50% and not including the employees of the joint venture in China, in which Strauss Water holds 49%. For further information, see section 5 above.

Following is the number of employees in Group headquarters in Petach Tikva:

Number of Employees in Group Headquarters in Petach Tikva		
	December 31, 2020	December 31, 2019
Group HQ employees	195	187

b. Following is the number of Group employees in the head offices of the Israel Operation, the sales division and the supply chain division, who serve the Group's entire activity in Israel, including 53 and 35 temporary employment agency workers, as at December 31, 2020 and December 31, 2019, respectively:

Number of Employees in Group Headquarters in Israel		
	December 31, 2020	December 31, 2019
Employees of the head offices of the Israel Operation, sales division and supply chain division(1)	1,555	1,460

(1) For further information, see sections 8.2.10 and 8.3.10 above.

c. Collectively, the companies in the Group employ a total of approximately 16,540 employees (about 6,380 employees are employed in Israel) as provided in section 16.2.a above. Excluding half of the employees of proportionately consolidated companies, according to the Company's Management Reports as defined in section 5 above the Group employs 11,932 employees. In companies controlled by the Group, the Group employs about 7,320 employees (according to the GAAP financial statements).

16.3 Social benefits and employment agreements

16.3.1 Israel

Most of the Group's employees in Israel are employed under collective agreements. There are general collective agreements that apply to all employees of the Group by virtue of the Group companies' membership in the Manufacturers Association of Israel, which relate to wage conditions, contributions to pension insurance plans, convalescence pay, reimbursement of travel to and from work, and payment of a cost-of-living increment. Additionally, there are sectoral collective agreements, some of them updated from time to time, that apply to some of the Group's employees in Israel, since professionally, they belong to the instant coffee industry, the chocolate and confectionery industry or Strauss Water. Furthermore, there are certain terms and conditions in special collective agreements that were signed at the Group's various production plants and apply only to all or part of the workers employed by that respective plant, which are revised from time to time in negotiations between the workers' committees and plant management. The employment terms of the rest of the employees are determined in personal employment contracts. These include, among others, employees of the sales division, HQ and those in the head offices of all divisions in Israel. Salespeople in the sales division receive incentives that vary according to sales in addition to their basic salary, from time to time or on a regular basis. The incentives are included in the pension contributions.

16.3.2 Outside Israel

All employees of the Group companies outside Israel are employed under personal employment contracts.

The Group's obligations as far as employees' social rights are concerned are governed by the relevant laws in each country, and the Group makes payments as required.

In Brazil, Três Corações (JV)[106] is subject to the collective agreements in effect in each state where it operates. There is no uniform general collective agreement applicable to all of the employees in Brazil. In parallel, each state has regional trade unions organized on the basis of occupation (drivers, production workers, etc.).

In the US, Russia, Ukraine, Poland, Romania, Germany and Serbia there is no general collective agreement that applies to the Group's employees and the employees are not organized in trade unions. In Germany and Poland there are collective agreements with the employees of the plant, which cover a number of labor aspects.

The countries differ in regard to the nature and conditions of employment agreements, which are influenced, among other things, by the provisions of the local law and accepted work culture in that country. At the same time, Group management's approach with respect to human resources in general is to apply a uniform policy insofar as possible, in all countries where it is active.

16.4 Compensation plans for Group employees

The Group incentivizes its employees on the basis of accomplishment of qualitative objectives arising from their jobs and accomplishment of the business unit's financial objectives, according to the employee's title and rank. The objectives are derived from the Company's work plans. As a rule, senior employees are also compensated for accomplishing long-term objectives.

16.5 Agency employees

The Group employs agency workers as needed, in order to cope with varying manufacturing and service needs. In some of the countries of operations, there is a maximum period of time for the employment of contractor's workers: in Brazil it is nine months, in Romania up to 36 months, in Germany and Serbia no

[106] See Footnote #103 above.

more than 24 months and in Holland, the employment period will not exceed 18 months. In Israel, the Group is a party to agreements with a number of employment agencies for the supply of personnel services as required by the Group, for a limited period of up to 9 months (the maximum period permitted by law, for which employment agency workers may be employed). These agreements determine, inter alia, that no employment relationship shall exist between the workers of the employment agencies and the Group, and that the agencies shall bear the payment of wages and other social benefits to which these employees are entitled by law. According to the agreements, the Group will be indemnified and compensated by the employment agencies for damages or amounts which the Group is required to pay in any case where the agreement is construed in such manner that an employment relationship exists. The agreements with the employment agencies were drawn up in accordance with the provisions of the extension order in the manpower sector, with the goal of ensuring that the agencies will comply with the provisions of the extension order. The Group has crafted tools and control mechanisms to enforce the performance of the provisions of the extension order by the personnel agencies, which include, among other things, receipt of confirmation from the agencies' accountants that payment of employment rights has been properly made.

16.6 Officers and managers

16.6.1 Long-term equity-based compensation plan

For information on the senior officers' option plan of May 2003, see Note 23.1.1 to the Financial Statements of the Company as at December 31, 2020.

For information on a performance share units plan of July 2016, see Note 23.1.2 to the Financial Statements of the Company as at December 31, 2020.

16.6.2 Incentive for managers and senior employees

The yearly incentive for the Chairperson of the Board of Directors and the CEO is based on the accomplishment of financial budget objectives of the Group. The yearly incentive for other managers in Israel is based on the achievement of financial budget objectives of the Group or achievement of a combination of said objectives and financial budget objectives of the relevant operation, accomplishment of the manager's functional objectives, plus a discretionary incentive (which may, according to the remuneration policy for officers of the Company, alternatively be awarded to officers who are subordinated to the CEO on the basis of non-measurable criteria, considering the officer's contribution to the Company). In addition, in singular cases, a special bonus may also be awarded. For the provisions of the remuneration policy for officers of the Company, and among other things with respect to officers' incentives, see the Immediate Report of August 22, 2019 (reference no. 2019-01-072900). The incentive for managers in companies outside of Israel is based on the achievement of financial budget objectives of the relevant operation or a combination of said objectives and the Group's financial budget objectives, and on the achievement of the manager's functional targets.

16.6.3 Benefits and employment agreements

Officers and employees of the Group's senior management are employed under personal employment contracts, which include, among other things, pension coverage in various plans. Officers and senior management employees are entitled to an adjustment period, compensation arrangements and other special personal arrangements, as set forth in regulation 21 in the Additional Information on the Corporation report as at December 31, 2020. For information on insurance, exemption and indemnification arrangements for officers of the Company, see regulation 29a in the Additional Information on the Corporation report as at December 31, 2020.

17. Financing

General

The Group finances its business activities from its own sources, loans from banks and financial institutions and non-bank credit. For information on bank and non-bank loans of the Company and its subsidiaries, including debentures issued by the Company, see Note 20 to the Financial Statements of the Company as at December 31, 2020.

Following is the average interest rate and effective interest rate on bank and non-bank loans, which are not designated for special purposes by the Group, in effect during 2020, according to the Company's Management Reports, as defined in section 5 above:

Average and Effective Interest Rates			
	Short-Term Loans	**Long-Term Loans**	**Average Rate**
Group headquarters			
Bank sources (1)	0.94%	4.95%	3.84%
Non-bank sources(1) (2)	-	3.12%	3.12%
Strauss Israel			
Bank sources	-	-	-
Non-bank sources	-	1.90%	1.90%
Strauss Coffee			
Bank sources	4.91%	3.21%	4.12%
Non-bank sources	-	2.90%	2.90%
International Dips & Spreads			
Bank sources	1.79%	1.82%	1.81%
Strauss Water			
Non-bank sources	0.41%	1.96%	1.81%
Weighted average interest rate	4.14%	2.99%	3.12%

(1) For information on the early redemption of Series D debentures and prepayment of long-term loans from banks and financial institutions in 2020, see Note 20.7 to the Consolidated Financial Statements of the Group.
(2) Including Series D, E and F debentures and loans from financial institutions.

17.1 Reportable credit

For information on debentures (Series E) and debentures (Series F) issued by the Company, see Notes 20.3, 20.4 and 20.6 to the Financial Statements of the Company as at December 31, 2020.

For information on a loan to Strauss Coffee from an institutional entity, see Note 20.5 to the Financial Statements of the Company as at December 31, 2020.

For information on debt and financing expenses in its respect according to the Company's Management Reports as defined in section 5 above, see section 13 regarding an analysis of the Group's financial results in the Report of the Board of Directors of the Company as at December 31, 2020.

17.2 Restrictions applying to the receipt of credit

For information on limitations applying to dividend distribution, see section 4 above.

The Company has undertaken towards banks and institutional investors, which granted loans to the Company, and also within the framework of debentures issued by the Company, not to create any charges on its assets in favor of any third party without receiving the consent of the banks and other lenders in accordance in the terms and conditions of the letters of undertaking (other than the possibility of providing specific collateral to secure certain loans). For further information, see Notes 20.5 and 24.2.2 to the Financial Statements of the Company as at December 31, 2020.

For information on financial covenants, see Note 20.6 to the Financial Statements of the Company as at December 31, 2020, and also the Immediate Report of April 2, 2017 (reference no. 2017-029197).

For information on causes for the immediate repayment of debentures issued by the Company, see Note 20.4 to the Financial Statements of the Company as at December 31, 2020.

On the date of this report the Company is in compliance with all of its undertakings as described above.

17.3 Variable rate loans

The following table presents the Group's floating rate credit for 2020 according to the Management Reports, as defined in section 5 above:

Variable Interest Rate Loans				
	Change Mechanism	Interest Range	Amount of Credit as at December 31, 2020(1)	Interest Rate on or about the Date of the Report
Group HQ	Shekel – prime rate	0.8%-1.07%	-	-
Strauss Coffee	Brazilian Real	4.64%-5.62%	177	3.13%
Strauss Coffee	US dollar	2.44%-2.84%	141	2.52%
Strauss Coffee	Russian Ruble	6%-7%	24	6.12%
Strauss Coffee	Ukrainian Hryvna	7.25%-15%	5	7.5%
Strauss Coffee	Romanian Leu	3.22%-3.96%	-	-
International Dips & Spreads	US dollar - Libor	1.44%-3.24%	47	1.375%
International Dips & Spreads	Australian dollar - Libor	1.37%-2.2%	4	1.37%

(1) In NIS millions.

17.4 Credit rating

On April 2, 2020 the Company announced Standard & Poor's Maalot's reaffirmation of an 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 Midroog's reaffirmation of an Aa1.il rating with stable outlook for the Company's debentures (Series D) and (Series E). 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 had assigned an Aa1.il rating with stable outlook to the Company's debentures (Series F), 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 no. 2020-01-063184).

On July 5, 2020 the Company announced that Standard & Poor's Maalot had assigned an ilAA+ rating with stable outlook to the Company's debentures (Series F), 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 no. 2020-01-063196).

As of the date of this report, according to the Company's estimate, the Company or the Group companies may be required to raise additional funds for the operation of their current business, including debt recycling. The information in this section that the Company and/or the companies in the Group may raise additional funds is forward-looking information as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of various developments in market conditions and the Company's actual financing requirements, etc.

18. Taxation

18.1 Tax laws applying to the Group companies in and outside Israel

For information, see Notes 35.1 and 35.2 to the Financial Statements of the Company as at December 31, 2020.

18.2 Assessment proceedings for the Group companies in and outside Israel

For information, see Notes 35.3, 35.6 and 24.1.3.3 to the Financial Statements of the Company as at December 31, 2020.

18.3 Main benefits under the Encouragement of Capital Investments Laws and relevant laws in the countries where the Group operates

For information, see Note 35.1 to the Financial Statements of the Company as at December 31, 2020.

Tax benefits in countries outside Israel where the Group operates: In respect of its activity in northeast Brazil, Três Corações (JV)[107] is entitled to tax benefits: (1) a reduced corporate tax rate on part of the taxable income, up to the maximum amount determined by law; (2) tax rebates on tax collected. The tax benefits received by Três Corações (JV) in 2020 amounted to BRL 64 million (100%). Três Corações (JV)'s tax reports for part of the years in which Três Corações (JV) filed for tax rebates are being reviewed by the tax authorities. For information on claims from the tax authorities in Brazil, see Note 24 to the Financial Statements of the Company as at December 31, 2020.

18.4 The Company's primary tax rate compared to the effective tax rate

For information on the tax rate, see Note 35.8 to the Financial Statements of the Company as at December 31, 2020.

18.5 Unused losses for tax purposes and unused tax credits

For deferred taxes in respect of losses, see Note 35.9 to the Financial Statements of the Company as at December 31, 2020. For losses in which respect no deferred taxes were recorded, see Note 35.4 to the Financial Statements of the Company as at December 31, 2020.

[107] See Footnote # 5 above.

19. Environmental Risks and Their Management

Following is information on environmental risks and the methods for their management.

General environmental risks inherent in the Group's business activities, main provisions of law and material environmental incidents

19.1 In general, the Group's production plants, given the nature of their manufacturing processes, do not possess the potential for environmental risks which the Company assesses could materially affect the Group. At the same time, manufacturing processes in the Group's facilities are affected by a variety of environmental aspects, among others waste, wastewater and hazardous materials, where the uncontrolled use or treatment thereof is liable to induce environmental risks. The Group therefore applies the necessary means in order to mitigate such risks.

The Group's production sites are governed by local environmental provisions of law, according to the rules and laws of each particular country, and also by local municipal legislation. The plants in EU countries are subject to European directives applying to environmental quality standards which emphasize the obligation of routinely documenting and reporting environmental metrics, and particularly air pollution, waste and noise. In Brazil, national regulation is determined and enforced by two entities: CONAMA and IBAMA. In addition, the Group is subject to laws pertaining to waste treatment, laws applying to air pollution and to the contamination of water sources. Sabra's operations in the US are supervised by the US Environmental Protection Agency (EPA) and governed by its regulations.

The Group's activities in Israel are supervised by the Ministry of Environmental Protection and by environmental units in the local authorities. Additionally, as far as wastewater treatment is concerned, the plants are also governed by the requirements of the Water Authority and are subject to oversight by the Water and Sewerage Corporations and local councils, as well as oversight by the Ministry of Health.

The Group's plants outside of Israel are required to obtain a certificate of approval for the operation of the plant and the approval of the local ministry of the environment (similar to the Conditions for a Business License granted to plants in Israel by the Ministry of Environmental Protection). In Germany, the operating license issued by the Environment and Nature Ministry is conditional on the accomplishment of targets, and the Group accomplished the targets and received the Ministry's approval. In Romania, operating approval by the Environmental Protection Agency is subject to an annual inspection of the plant's compliance with environmental metrics (receipt of an "annual visa"), and in 2020 the Group was in compliance with those metrics. Further, the law requires payment to the environmental administrative fund for any deviation from the standards set forth in the law applying to packaging, electrical and electronic equipment waste and batteries. In Russia, a fee prescribed by law is imposed on business activity that has a negative effect on the environment (calculated according to the degree of deviation from the standards prescribed by law, and for 2020, the Group is expected to pay the minimum fee (USD 254).

Many of the factories require a permit to hold hazardous materials, and some of the factories abroad require a permit to use well water.

Packaging laws apply to the Group's plants in Israel, in the various European countries and in Brazil, requiring the plant to treat the various packaging materials through local recycling corporations.

Following are the major environmental issues, the main provisions of law and material environmental incidents which occurred in the Group's plants in 2020:

19.1.1 Wastewater treatment

Considerable amounts of water and detergents are used in the Group's production sites, creating wastewater that contains, among other things, organic substances, oils and sodium, which are liable to increase the pollutant concentration in wastewater and to cause odor and sanitary nuisances. This wastewater is required to be treated, inter alia, due to the policy of recycling wastewater for irrigation in Israel, which necessitates high-quality purification of wastewater to render it fit for use in irrigation. The Businesses Licensing Regulations (Salt Concentrations in Industrial Sewage), 2003 determine permissible values for the concentration of polluting salts in wastewater transferred from a production site to a purification plant and define a mechanism for the grant of mitigations in salt concentrations. Strauss Dairies and the Strauss Salads plant were granted mitigation for the sodium concentration in wastewater under these regulations. The Water Regulations (Prevention of Water Pollution) (pH Values of Industrial Sewage), 2003 define the permissible pH values in wastewater to be discharged to the sewage system. The Water and Sewerage Corporations Law, 2001 and the rules promulgated thereunder, including the Rules of the Water and Sewerage Corporations (Plant Wastewater Discharged into the Sewage System), 2014, regulate the manner of treatment and removal of plant wastewater and define a mechanism for granting approval to discharge "anomalous wastewater" (pollutant concentrations in wastewater that exceed the values in the Rules of the Water and Sewage Corporations, which the regional treatment facility is capable of reducing to the level required by law). In the Achihud Dairy there is a deviation in the Kjeldahl nitrogen concentration, defined as anomalous wastewater. An application to approve the deviation was refused. The construction of a supplementary treatment facility is planned in order to reduce the Kjeldahl nitrogen concentration in the wastewater. In the salty snacks manufacturing site in Sderot there is a deviation in the organic load in the wastewater (high COD – chemical oxygen demand), and the plant plans to build a new wastewater treatment facility that uses biological treatment technology to ensure compliance with the required values. The Rules of the Water and Sewerage Corporations (Tariffs of Water and Sewage Services and the Construction of Water or Sewage Systems), 2009 prescribe tariffs payable for the anomalous wastewater. The Group's plants in Israel observe these rules.

In sites around the world there are a number of local laws as well as EU directives that regulate the issue of wastewater treatment. The main ones are Directive 15/98[108], which addresses the treatment of urban wastewater, Directive EEC/86/278, which addresses sludge in wastewater, and Directive 118/2006, which deals with the protection of groundwater from contamination. The sites in Europe and Brazil operate in accordance with the national water law and Federal Decision 92/08, which define criteria and procedures for the protection and conservation of water and groundwater in Brazil. The site in Germany also operates under the Water Management Act (Wasserhaushaltsgesetz – WHG), with continuous monitoring and daily sampling of wastewater performed by an outside laboratory retained by the

[108] Directive 15/98 replaced Directive 27/91.

Company. The Company pays for the treatment of discharges of anomalous wastewater as required by law.

19.1.2 Air pollution

In the course of the Group's activities pollutants are emitted into the air due to the consumption of energy, fuels burned in ovens, use of steam vats, transportation of products and the use of Freon and ammonia refrigerant fluids in part of Group's units. Instructions with regard to the emission of pollutants into the air are included, where necessary, in the business licenses of the Group's plants. In recent years the Group in Israel has taken action to replace the R-22 Freon cooling systems with systems based on green refrigerant gases. As at the reporting date, approximately 90% of the refrigerant gases have been replaced. The dairies in Achihud and Yotvata use biogas produced by treating the plants' wastewater as fuel for the steam vats.

The sites around the world operate according to a number of local laws as well as EU directives that regulate the issue of air pollution. The main directive is Directive 50/2008, which presents the framework principles of the EU for dealing with air pollution. Additionally, the sites in Brazil operate under Federal Decision 8/90, which determines the maximum emission limits for pollutants created as a result of burning fuel in industrial manufacturing processes.

19.1.3 Soil pollution and contamination of water sources

Some of the Group's sites use and store hazardous materials for the purpose of cleaning and treating wastewater. Leakage of hazardous materials is liable to pollute the land and water sources. The potential for the pollution of rivers and streams is also inherent in the operation of the units abroad (especially in production sites located on river banks).

The Hazardous Substances Law, 1993 regulates the manner of handling poisons and harmful chemicals, and governs the grant of toxins permits to the plants. All of the Group's sites keeping hazardous materials that require a toxins permit are in possession of a valid toxins permit.

In the sites around the world there are a number of local laws as well as EU directives. The main directive is the Seveso II Directive[109], which addresses the methods for preventing, preparing for and responding to hazardous materials incidents. In Brazil, the sites operate in accordance with Federal Order 240/19, which regulates all activities involving chemicals, which are controlled by the federal police (purchase, sale, export and import, transportation, storage, use and disposal).

19.1.4 Waste of natural resources (energy and water resources)

Uncontrolled industrial activity causes excess use of energy and water resources, which leads to damage to the ecological balance, the waste of natural resources and the emission of greenhouse gases. This problem is common to all the Group's sites worldwide.

The Energy Resources Regulations (Monitoring Energy Consumption Efficiency), 1993 and the Energy Resources Regulations (Combustion Efficiency Test for Liquid Fuel or Gas Heaters), 2004 define measures

[109] Directive 96/82/EC.

that are required to be applied for the furtherance of efficient consumption. A cross-organizational energy team in Strauss Israel works to improve energy efficiency in the company.

Israeli Standard SI 6464 – "Industrial fuel-consuming appliances – requirements for appliance application, workplace environment, approval and inspection" defines the requirements for connecting industrial factories to the natural gas supply system and the requirements for the use of natural gas in industry. The Strauss Frito-Lay production site in Sderot began receiving natural gas in January 2018. In mid-2018, Strauss Dairies began to receive compressed natural gas in tankers, as an alternative to LPG. The rest of the Group's plants in Israel are making the necessary preparations to receive natural gas in accordance with the national schedules of the natural gas distribution network.

In the sites around the world there are a number of local laws as well as EU directives that regulate the issue of the waste of natural resources. The main ones are Directive 60/2000, which determines new working frameworks for the thorough and comprehensive treatment of the water resource with the aim of achieving a significant improvement in the quality of bodies of water, protecting the water and the water environment in all EU member states; Energy Efficiency Directive 27/2012, which requires EU member states to impose the obligation of efficiency enhancement (or any other policy tool with a similar effect as chosen by each country) on manufacturers and energy suppliers; and Directive 28/2009, which promotes the use of renewable energy. At the site in Romania, in the past two years solar panels were installed on the roof of one of the buildings and on another surface in the plant area. In other sites, implementation of solar panel projects is being reviewed. The sites in Brazil operate under the National Environmental Policy (NEP[110]), the goal of which is to set standards that enable sustainable development through mechanisms and tools that lead to the protection of the environment.

19.1.5 Waste treatment

By nature, industrial operations generate considerable amounts of waste. The Packaging Management Law, 2011 (the "Packaging Law") defines the manufacturers' responsibility for the treatment of packaging waste. In addition, the Company is a member of board of directors of the packaging recycling corporation, Tamir. In Strauss Israel, in 2020 long-term targets were set and work plans crafted to increase the percentage of recyclable packaging. On the date of preparation of this report, 76% of packaging in Strauss Israel is recyclable. The coffee plants outside Israel collect packaging for recycling according to the requirements of local regulation. In Brazil, the company achieved a target of collecting 22% of the waste it produced in 2020. In Germany, the plant has three agreements with other companies for the joint disposal of waste and the recycling of packaging. It is noted that most of the Group's sites outside Israel are subject to local regulation applying to the recycling of packaging.

In the sites around the world there are a number of local laws as well as EU directives that regulate the issue of waste treatment and the treatment of packaging waste in particular. The main directives are Directive 98/2008, which determines the legislative framework for the handling of waste of all kinds in EU member states; Directive 31/1999, which is intended to reduce harm to the environment caused by landfills; and Directive 62/94, which is intended to create a separate mechanism for the collection and treatment of packaging waste as well as to define recycling and reclamation targets. In Brazil, the sites operate under Federal Law 12305/10, which outlines the national solid waste policy and defines

[110] National Environmental Policy

applicable principles, targets, policy tools and economic tools. The law contains reference to the recycling and reuse of packaging waste.

19.2 The Group's environmental risk management policy

The Group's environmental management system defines the Group's commitment to improving its environmental performance and to reducing negative effects on the environment.

In Israel, the Group applies a methodology for keeping abreast of environmental legal requirements, for conducting comprehensive compliance tests and rectifying failures. The Group's plants outside of Israel are accompanied by local external consultants specializing in environmental quality and operate in accordance with environmental risk management policy. In Germany, Poland, Serbia and Romania, the policy was devised according to international standards (ISO), which set environmental standards for the management of business operations. Sabra has adopted an environmental management plan (EMP), which includes dedicated preventive plans for the various environmental spheres, as well as a risk management plan that is filed with the EPA.

The Group invests resources in the management of its environmental aspects. This is reflected in investments in equipment and technology, in source reduction, in improved wastewater treatment and in means for enhancing energy efficiency. In 2020, the Group's investments in equipment and technology totaled NIS 12.6 million. Approximately NIS 28.5 million was invested in 2020 in regular day-to-day management, which includes, among others, the costs of wastewater treatment and disposal, waste disposal costs, management costs and payment to packaging recycling corporations in the various countries.

It is not the Group's practice to separate the costs invested by the companies in the Group with respect to environmental issues, and these costs are immaterial. On the basis of the information in the Company's possession on the date of the report pertaining to its sites and to environmental requirements, the Group does not plan any material investments in 2021.

The information in this section regarding the intention not to make material investments in order to comply with environmental requirements in 2021 is forward-looking information, as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated. In practice, material deviations in the Group's production sites may be detected or regulatory requirements may change, which would require substantial additional investments.

As at the date of the report, the Company or a senior officer therein is not a party to material legal or administrative proceedings on environmental matters. Furthermore, the Company was not a party to such a proceeding during the reporting year and did not incur any costs in respect of legal actions relating to environmental issues.

20. Restrictions and Oversight of the Group's Activity

20.1 Legislation in the food and beverage industry and consumer legislation

In Israel, the Group's food and beverage products are subject to laws, regulations and orders pertaining, among other things, to the definition of quality standards, cleanliness and health in production processes, processing, trade and storage of food and beverages, the definition of standards and directives relating to the packaging, labeling and identification of the products and their ingredients, including their nutritional value and expiry dates, the definition of quality and health standards for food additives, etc. (such as the Public Health Ordinance (Food) [New Version], 1983, the Supervision of Prices of Services and Goods Law, 1996 and the Standards Law, 1953). The Group has developed and operates in accordance with a manual for the uniform labeling of its products. Moreover, the Group's activities are subject to various consumer provisions, which deal, inter alia, with prohibitions on misleading consumers and the obligation to present them with complete information, and with the compensation of consumers in respect of bodily harm caused as a result of a product defect (such as under the Consumer Protection Law, 1981 and the Defective Products Liability Law, 1980).

In January 2020 the Protection of Public Health Regulations (Food) (Nutritional Labeling) 2017 entered into effect. For further information, see section 10 in the Report of the Board of Directors of the Company as at December 31, 2020.

For legal provisions relating to the environment which apply to the Group, see section 19.1 above.

Outside Israel, the Group's activities are subject to regulatory directives in the different countries, which generally regulate issues similar to those regulated in Israel and prescribe rules and instructions, among others, relating to the production, distribution, storage and transportation and import of food and beverage products; and also prescribe standards, among others, relating to the quality, cleanliness, packaging and labeling of the products. As countries where the Group is active join the European Union, they may also become subject to relevant regulatory directives which apply in EU member states.

For provisions of law pertaining to the Israel Operation, the Coffee Operation, the International Dips & Spreads segment and Other Operations, see sections 9.2.12, 8.3.13, 8.2.13 and 8.1.5 above.

20.2 Control over product prices

a. The Supervision of Prices of Services and Goods Law, 1996 enables the minister in charge, inter alia, to apply the provisions of this law by imposing an order on a certain product or service, for which justification of price control exists in the law (among others, a product or service that is essential and its price must be controlled for considerations of the public good, or in which respect a monopoly has been declared). In cases where the law has been applied in an order regarding a particular product or service, the law allows for a supervisor to be appointed over the prices of that product or service and also to determine in an order, following consultation with the Price Committee as defined in the law, the price, maximum price or minimum price for the product or service. For the Group's price-controlled products, see sections 8.2.13 and 8.3.13 above.

b. On March 28, 2011 the Knesset approved the Milk Sector Planning Law, 2011. The purposes of the law are, inter alia, to guarantee fair prices for the farmers, the dairies and the public; see section 8.2.13 above.

c. On January 15, 2015 the Promotion of Competition in the Food Sector Law, 2014 (above and below – the "Food Law") entered into effect. The Food Law is intended to increase competitiveness in the food and consumer products sector in order to lower retail prices through the imposition of prohibitions and restrictions with respect to actions and arrangements between various entities operating in the market. For further information, see section 13 above.

20.3 Operating licenses

In general, the Group's operations require licenses and permits according to the legislation in each country, such as a business license, manufacturer's license and licenses to hold hazardous/poisonous substances. Some of the licenses and permits are given permanently, but most of them are given for fixed periods and require renewal at the end of the term of the license. As at the date of the Periodic Report, the above licenses are valid or the Group is taking action for their renewal.

20.4 Competition laws

20.4.1 Declarations as a monopoly

For declarations of the Company as a monopoly and the Competition Commissioner's instructions in this regard, see section 8.2.13.1 – dairy desserts; section 8.3.13 – chocolate tablets and section 9.2.12– instant coffee and cocoa powder for domestic consumption. For information on a hearing prior to declaring the Company a monopoly, see section 8.2.13 above and for further information, see section 29z below.

20.4.2 Consensual decrees pursuant to the Economic Competition Law

For consensual decrees with respect to chocolates and confectionery and the announcement of the merger with Elite Coffee, see section 9.2.12 above.

20.5 Kosher certification

The Group's products that are manufactured or marketed in Israel and other countries are under the supervision of the relevant local rabbinate, in addition to other kosher certifications which are approved by the Chief Rabbinate of Israel; imported products marketed by Strauss are approved by the Chief Rabbinate of Israel. The salty snack products and a considerable part of the confectionery and bakery products are kosher certified by Badatz Eda Haredit. Most of the ready salads and dairy products ("Strauss Mehadrin") are kosher le'mehadrin and also marketed to the Haredi market under the supervision of Rabbi Rubin and "She'erit Israel". The kashrut certificates are given for defined periods, and at the end of each period the Group handles their renewal.

20.6 Authorized Supplier to the Ministry of Defense

The Company and part of its subsidiaries in Israel are an Authorized Supplier to the Ministry of Defense.

20.7 Standardization

The Group manufactures its products in accordance with various regulations, orders and standards that are relevant to its areas of business, both in Israel and in countries where it is active, where relevant standards exist. In Israel, standards are issued from time to time under the Standards Law, 1953. The standards specify technical requirements applying to different products manufactured by the Group as well as various properties of these products with respect to the production process, operations, labeling, packaging, etc. Additionally, most of the Group's manufacturing sites in Israel and some of its sites abroad are ISO 9001 (Quality Management) certified, as well as certified under the food safety control standard, HACCP (Hazard Analysis & Critical Control Points), the ISO 22000 standard and other elective standards such as ISO 14001. The Group has internal enforcement processes in place to ensure compliance with the standards and regulations with respect to food, the environment and safety. Most of the Company's plants have received the GMP permit from the Ministry of Health, allowing the Company to label products as "gluten-free".

20.8 Quality management

The Group performs routine quality control tests in its plants. Quality processes are based on planning and risk analysis throughout the stages of the value chain for the early detection of failures, in order to achieve a product that is high-quality and safe for consumers. Quality control is in place in the production sites, which is based on control applied by the production workers themselves and by the quality management system, together with testing in the plant laboratories and outside laboratories. The plants have an experienced team of tasters. The Group measures, on a monthly basis, the number of consumer complaints as well as the satisfaction of consumers contacting customer service, and takes action to reduce complaints and increase consumer satisfaction with the products and service.

21. Material Agreements

In addition to the material agreements described in each operating segment, following are material agreements outside the ordinary course of business:

21.1 Provisions regarding the use of the "Strauss" name and brand, non-competition and indemnification

The merger agreement of 2004 between the Company and Strauss Holdings (pursuant to which Strauss Holdings sold and transferred to the Company all of its shares in Strauss Health and in Strauss Fresh Foods, jointly: the "Transferee Companies") prescribed provisions relating to the use of the name and brand "Strauss", non-competition and an undertaking to indemnification, as described below.

The agreement determines, inter alia, that commencing on the closing date (March 22, 2004), the "Strauss Family Members" (Mr. Michael Strauss OBM, Ms. Raya Ben Dror, Ms. Ofra Strauss, Mr. Adi Strauss, Ms. Irit Strauss, Ms. Nava Michael, Mr. Gil Midyan and Mr. Ran Midyan), Strauss Holdings and the companies it controls (excluding the Company and its subsidiaries and the Transferee Companies and their subsidiaries, as defined in the agreement) will not be entitled, directly or indirectly, to make use of the "Strauss" name, including its various inflections (the "Strauss Name"), as well as of all intellectual property (including trademarks and including the trademark owned by Strauss Holdings) (the "Strauss Brand") for any purpose relating to import, production, marketing, sale, services or distribution in the food or beverage industries (including the dairy product category or the various salads) (the "Food Category").

The obligation of each of the Strauss Family Members will expire in his/her respect after three years have elapsed from the later of the date on which he/she ceased to hold, directly or indirectly, shares of the Company or the date on which he/she ceased to serve as an officer of the Company or its subsidiaries (if he/she serves in such office) (the "Termination Date"), exclusively with respect to segments in the Food Category in which the Company (or any of its subsidiaries) did not engage on the closing date, whereas with respect to segments in the Food Category in which the Company (or any of its subsidiaries) engaged on the Termination Date, the abovementioned obligation will expire only after fifty years have passed since the closing date.

After three years have elapsed from the closing date or after the end of the fifty-year period, as the case may be, the Strauss Family Members will be entitled to make use of the Strauss Name themselves and also to grant the right of use of the Strauss Name to corporations under their control on the date the right of use is granted. Strauss Holdings, as the owner of the Strauss Brand, granted the Company and its subsidiaries, from the closing date and for no additional consideration, an irrevocable and exclusive right to make use of the Strauss Name and the Strauss Brand for any purpose relating to import, manufacture, marketing, sale, services or distribution in the Food Category. It is noted that in 2007 the Company received Strauss Holdings' consent to register the Company's new logo as its trademark.

Strauss Holdings and the companies it controls and the Strauss Family Members are not prevented from making any use of the Strauss Name, including its various inflections, for any purpose relating to any category that is not included in the Food Category. However, it was agreed that in any such use, Strauss Holdings or any of the Strauss Family Members will not create a logo for the Strauss Name that resembles, to the point of being misleading, the Strauss Brand, in a manner that may cause a person to mistakenly think that an asset or service of Strauss Holdings or such that is related to any of the Strauss Family Members is an asset or service of the Company.

The Company declared in the agreement that it is aware that notwithstanding the foregoing, in the framework of the Unilever agreement (of 1995 between the international Unilever corporation, Strauss Ice Cream and others), Strauss Holdings granted certain rights to the Strauss Brand to Strauss Ice Cream (including the registered trademarks, the numbers whereof are enumerated in the agreement) with respect to the manufacture, marketing and sale of ice cream, popsicles, frozen yogurt, "Krembo" and frozen desserts containing one or more of the above. The agreement clarifies that in any case of contradiction between the provisions of the agreement and those provisions of the Unilever agreement relating to the license granted to Strauss Ice Cream to use the Strauss Brand, the provisions of the Unilever agreement will prevail and the Company will be subject to their contents, including – whenever the provisions of the Unilever agreement contain a prohibition or limitation imposed on Strauss Holdings in granting a license to make any use of the name and registered trademarks of Strauss Holdings, the permission granted to the Company and its subsidiaries will be deemed subject to such prohibition or limitation and will be restricted accordingly.

In the merger agreement, Strauss Holdings undertook, subject to no statute of limitations, to indemnify the Company in respect of a number of claims or demands for indemnification, the cause whereof preceded the closing date, including in respect of a claim or cause relating to the breach of Strauss Holdings' obligation to grant the Company an exclusive right to use the Strauss Name or the Strauss Brand and Strauss Holdings' non-compete obligation (all as provided in the agreement).

The agreement further determines that for as long as any of the Strauss Family Members holds, directly or indirectly, shares of the Company or serves as an officer in the Company or its subsidiaries, that Strauss Family Member will refrain from competing with the Company.

22. Legal proceedings

For information on legal proceedings against the Company, see Notes 24.1.1, 24.1.2 and 24.1.3 to the Financial Statements of the Company as at December 31, 2020.

23. Objectives and Business Strategy

It is the Group's practice to review its strategic plans from time to time and to revise its goals according to developments occurring among its consumers, changes in the competition map and in the retail environment, and macroeconomic influences. The Group practices a strategic planning process that aims to tailor the Group's activity to the changing markets and to empower and boost strengths that will create a competitive advantage for it. At the reporting date, a process of reviewing the Group's mission and strategic directions is underway.

In the coming years, the Group intends to focus on strengthening its home base in Israel, which includes a variety of categories, while expanding their variety and strengthening their competitive position. In addition, the Group intends to continue to place emphasis on and to revisit its portfolio of companies, their focus and interfaces. The Group also intends to place emphasis on its innovation activity in order to create new growth engines for the Group in the future and to strengthen its competitive position.

The Group's investment in its international growth drivers includes Strauss Coffee, with emphasis on the coffee market in Brazil, which is the second-largest coffee market in the world; Strauss Water, with emphasis on the Chinese water market, which is the world's largest POU market; and the international dips and spreads business in partnership with PepsiCo, with an emphasis on the US.

The Group also aims to increase consumer value through a variety of tools: product innovation aligned with consumer trends, improvement of nutritional values, improvement of quality and performance in food safety, and by leveraging digital platforms. In parallel, the Group is working to improve its cost structure and execute moves to maintain its financial flexibility.

In the next few years Group management plans to continue to execute moves aimed at improving managerial and business capabilities in various spheres in order to improve the performance of its business units. It is noted that in light of the prolongation of the COVID-19 crisis, the Group will review the need to revise its goals and strategy as described in this section, if and to the extent necessary.

23.1 Strauss Israel

Among the major goals the Group has set for coming years are to maintain its position as one of the leading food companies in Israel, while investing in innovation and accelerated growth with the aim of providing a response to the needs of consumers and the various communities, connecting with consumes via different channels and a variety of solutions in the Company's core business areas, and augmenting its investment in processes designed to support the Israeli industrial community.

In the next few years the Group intends to continue to improve its competitive position in Israel by penetrating new product categories, through product innovation – the development of products and solutions with unique added value for consumers, alongside the development of top-quality products, brand empowerment, placing focus on sales and contending with the growing strength of local and international rivals, in alignment with changes in the barcoded retail market and non-barcoded markets.

In addition to growth targets, the Group intends to focus on the improvement of capacity and productivity, development of the operational excellence of the various systems in the Company, efficiency enhancement and savings, including automation and efficiency enhancement, as well as actions designed to leverage manufacturing, logistics, distribution and sales infrastructure. Placing emphasis on these spheres is intended, among other things, to allow for the continued reduction of the prices of the Company's products and investment in its human capital. Besides the growth and productivity targets, the Company in Israel has a number of additional strategic objectives in terms of formalizing the Group's business and cultural character for the years to come.

The business in Israel serves as the Group's home base and as such, the Company in Israel is responsible for preserving the unique business culture, for developing generations of managers for the Group, for advancing and developing corporate governance and social responsibility, and for serving as a major source of groundbreaking innovation with clear competitive advantages, which the Group will be able to implement in international markets.

23.2 Strauss Coffee

Strauss Coffee's strategy is growth-oriented and aims to improve its competitive status in markets where it is active, while providing a response to long-term trends in the industry and promoting the coffee culture in target markets.

In order to realize this strategy, the company operates on several levels. It develops its brands, tailoring them so that they can lead and shape the coffee culture trend among consumers. The company is expanding its operations in single-portion coffee capsules and roasted coffee beans and is developing new products and categories that will influence and promote the coffee culture. In addition, the company invests in new technologies that support innovation in products that have substantial added value for consumers and is establishing direct connections with coffee consumers via current and new channels, including digital channels. Furthermore, the company is working to enhance the expertise of all employees in the coffee business, in the understanding that expertise and a passion for coffee increase its attractiveness to consumers. In addition, the company is persevering in the continuous improvement of operational excellence processes and supply chain and manufacturing processes as well as the enhancement of business process excellence in sales, and continues to explore acquisition possibilities.

23.3 Chilled dips and spreads – Sabra and Obela

The global chilled dips and spreads market, particularly hummus, has high market potential. Moreover, the category is compatible with numerous consumer trends. This operation is one of the Group's main growth drivers.

The Group, through Sabra and Obela, has led the freshness revolution in this global market (world leader in hummus dips and spreads) thanks to its knowhow and experience in fresh foods and the wealth of experience brought to the venture by both partners.

The partnership with PepsiCo in Sabra in the US and Canada, and in Obela in Mexico, Australia and Western Europe, is an important strategic step in the development of the Group's business outside of Israel in general and the US in particular. The connection between the Group's capabilities in innovation and product development and its expertise in fresh foods, coupled with PepsiCo's capabilities, infrastructure and excellence in general and in the North American market in particular, have enabled the partnership to continue to develop and lead the market and category, and to realize the great potential inherent in this activity. Additionally, possibilities for expanding the business are being explored.

23.4 Strauss Water

As part of realizing the Group's vision to improve its consumers' quality of life, in 2007 the Company decided to enter a venture in the drinking water business, which had been identified as a significant business opportunity with the potential for creating another international foothold for the Group.

Strauss Water views the development of technology for quality drinking water solutions at home and away-from-home as a way to improve the quality of life of families in Israel. Strauss Water developed an innovative technology for household water purification by means of its water bars, technology that integrates breakthrough developments in engineering and physics with innovative developments in chemistry and microbiology, some of which have been registered as patents.

At present, Strauss Water is market leader in Israel and with Haier, is one of the world's leading companies in China in the development, manufacture and marketing of systems for the filtration, heating and cooling and carbonation of drinking water, particularly for the home market.

Strauss Water intends to retain its status as a leading company in POU water filtration systems in Israel through innovation and continued improvement in the level of service. Outside of Israel, the main focus of the water company is its activity in China, where the company strives to achieve a significant pace of growth and to improve market share by entering interfacing categories, through innovation and by deepening its e-commerce activities. On the date of this report, HSW's products are manufactured through subcontractors. In March 2020, the board of directors of the HSW joint venture approved an investment of approximately CNY 375 million (approximately NIS 190 million) for the construction of a facility for the production and assembly of HSW products sold in China. HSW estimates that construction of the manufacturing site will improve its competitive position, as independent manufacturing capabilities allow for greater flexibility in the development and production of unique, innovative products, shorter time-to-market and the launch of high-quality products. Such capabilities carry significant weight in leveraging a competitive position in a growing and developing market. It is noted that the majority of significant players in the market have independent manufacturing capabilities.

To support the realization of HSW's strategy and its ongoing activities, the subsidiary Strauss Water granted a shareholder loan of approximately NIS 49 million, in accordance with its share in the partnership.

The information contained in this section, the date of the plant's construction, including the estimates that its establishment 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 available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual events may differ materially from those anticipated, among other things as a result of market developments and the impact of the spread of COVID-19. See also section 3, "Changes in the Economic Environment", in the Report of the Board of Directors of the Company as at December 31, 2020.

23.5 Implementation of the Company's strategy

The successful implementation of the Company's strategy depends on an experienced and skilled management team and employees on all levels. The Group will continue to encourage excellence among its employees and will seek to assimilate among them the values it champions: responsibility, daring, caring, motivation and teamwork. The Group will continue to invest in the development of its human capital and will continue to improve its managerial qualities.

The Group's strategic plans, as described above, reflect its policy as at the date of the Periodic Report and are based on current evaluations of its business areas. The Group's plans may change, in whole or in part, from time to time. There is no certainty as regards the realization of the Group's intentions or of this strategy. It is possible that the objectives described above will not be accomplished in the future, or that the Group will decide not to implement the abovementioned strategy, in whole or in part, for the following reasons among others: changes in the macroeconomic trends that affect the economic situation; the circumstances in the food and beverage industry in Israel and worldwide, notably in light of the COVID-19 crisis and its present and future implications; capital market conditions in Israel and worldwide; changes in economic feasibility; changes in competitive conditions in the market and changes in the markets themselves; regulatory changes; as well as due to other risk factors affecting the Group's activity, as set forth in section 25 below.

24. Financial Information on Geographical Regions

For information on the geographical regions where the Group is active, see Note 27.4 to the Financial Statements of the Company as at December 31, 2020.

For explanations on developments occurring in income and assets in each geographical region, see the Company's explanations in the Report of the Board of Directors of the Company as at December 31, 2020.

24.1 Risk exposure arising from operations in a variety of geographical regions

The large number of geographical regions in which the Group operates leads to exposure to a variety of risks, including instability (fiscal and monetary) of the local economy in each country of operations, sensitivity of the regimes to political changes, gaps in business culture, large international competitors that are already present or may join the competition in these countries, frequent changes to regulation, etc. At the same time, the Group's activity in diverse countries is a mitigating factor, since it contributes to spreading the risk and reduces dependency on the Company's activity in a particular country. For details regarding macro-economic risks, see Note 28, paragraphs 1-4 to the Financial Statements of the Company as at December 31, 2020.

25. Discussion of Risk Factors and the Methods for Their Management

25.1 Mapping of risk factors and the extent of their effect on the Group's operations

The Group has several risk factors arising from its general environment, from the industry and from the unique characteristics of its activity. Materialization of a number of risks simultaneously is liable to have a material impact on the Company's business operations and its reported results.

The following table presents the risk factors, which shall be described below, distinguishing between macro risks, industry risks and risks that are unique to the Group. These risk factors were ranked according to the effect of the risk, which is the result of two elements – the magnitude of the impact, should the risk materialize, and the likelihood of its materialization, based on the estimates of Group management and taking into consideration its risk management activities:

Effect of Risk Factors on the Activity of the Group as a Whole			
Macro risks			
a.	Natural disasters, pandemics and security situation	↑	High
b.	Financial crisis and/or economic downturn in the global and Israeli markets	→	Medium
c.	Economic instability in local markets	→	Medium
d.	Political instability	→	Medium
Industry risk factors			
e.	Fluctuations in raw material prices and their availability	→	High
f.	Compliance and regulatory developments	↓	High
g.	Exposure to class actions	↓	High
h.	Safety and quality of products and services	↓	Medium
i.	Price of raw milk	↓	Medium
j.	Private labels and retail	↓	Medium
k.	Changes in consumer trends and innovation	↓	Medium
l.	Downward pressure on profit margins in the food and beverage industry	↓	Medium
m.	Environmental quality and sustainability	→	Medium
n.	Operating in a competitive market	→	Medium
o.	Nutritional labeling of food products	→	Medium
p.	Customer credit	→	Low
q.	Kashrut	→	Low
r.	Customs duty in countries where the Group operates	→	Low
Unique risk factors			
s.	Dependency on branding	↑	High
t.	Cybersecurity risks and privacy protection	↑	High
u.	Protection of data and trade secrets	→	High
v.	Dependency on key customers	→	Medium
w.	Dependency on suppliers	↑	Medium
x.	Dependency on products	↑	Medium
y.	Licenses and franchises	↑	Medium
z.	Monopoly holder and its obligations	↑	Medium
aa.	Change of control of the Company	↑	Medium
ab.	New business models	↑	Medium

ac.	Failure to implement strategy	→	**Medium**
ad.	Complexity in managing partnerships and joint ventures	→	**Medium**
ae.	Restrictions on the transfer or sale of the Company's share in joint ventures and in subsidiaries	→	**Medium**
af.	Financial debt	→	**Medium**
ag.	Recruiting, retaining and developing human capital	→	**Medium**
ah.	Limitation of production capacity	→	**Low**
ai.	Restrictions in agreements signed with strategic partners	→	**Low**
aj.	Tax liability and critical tax estimates	→	**Low**

Following is information on the main risk factors presented above.

25.2 Macroeconomic risk factors

a. **Natural disasters, pandemics and security situation** – a significant part of the Group's activity is concentrated in a limited number of sites across the globe, including sub-contractors' sites. Natural disasters or any other damage caused to these sites (flooding, fires, epidemics, earthquakes, etc.) may have a material impact on the Group's operations to the point of a shutdown of manufacturing and logistics processes in extreme cases, leading to loss of earnings and/or assets. In addition, most of the Company's plants in Israel are located close to areas of security conflict and are therefore exposed to damage of various kinds. Over the past few years, the salty products plant in Sderot, the cut vegetables factory in Sde Nitzan and the Strauss Yad Mordechai plant at Kibbutz Yad Mordechai have been exposed to ongoing rocket fire from the Gaza Strip. Military conflicts between Israel and its neighbors and acts of hostility may also have an adverse impact on the Company's sales volumes, impair the ability to collect debts from customers experiencing financial difficulties, harm the ability to supply raw materials, cause the absence of essential workers, and lead to a possible economic slowdown in the Israeli economy as a whole.

   For information on the current spread of the COVID-19 pandemic, see section 3 in the Report of the Board of Directors of the Company as at December 31, 2020.

b. **Financial crisis and/or economic downturn in the global and Israeli markets** – should a financial crisis affect the world economy, it could seriously hurt financial institutions, lead to a reduction in available world sources of capital and credit and cause liquidity problems, which in turn may cause national upheavals. Economic slowdown and uncertainty lead to a drop in private consumption and to a preference for inexpensive products. Generally, an economic slowdown could impair the growth of the Group, which focuses on branded products, impede the realization of its strategy and impair its profitability.

c. **Economic instability in domestic markets** – the Group's activity in Brazil, China and Central and Eastern European countries is directly affected by the instability of the economic system in those countries. This instability affects activity in a variety of channels, such as heightened volatility in exchange rates, with most of the cash flow exposure being to the US dollar against local currencies (in Israel, also to the euro and the pound sterling), since the appreciation of the purchasing currency is liable to lead to a rise in the purchase prices of materials and erodes the Group's profitability and cash flows. On the other hand, revaluation of the shekel against the functional currencies of the Group's overseas operations is liable to erode the reported profit in shekels and the Group's equity, and also to increase competition posed by imported goods. In addition, economic instability may result in an increase in the interest rate and/or inflation that exposes the Group to harm to its business results due to an increase in financing expenses, a rise in the cost of new loans if taken, financial difficulties among customers with high leverage and even changes in the consumption habits and purchasing power of the end consumer. For further information on foreign exchange volatility, see section 6 in the Report of the Board of Directors of the Company as at December 31, 2020.

d. **Political instability and social unrest** – the Group's activity in some emerging markets is exposed to risks arising from the type and structure of the regimes in those countries. Autocratic and/or unstable regimes that are sensitive to political change may lead to instability of the entire business system in the country, among other things through fiscal or monetary expansion or contraction of the economies, frequent changes in economic legislation (e.g. pertaining to taxation), restrictions on the movement of capital and foreign currency, various restrictions on foreign companies, which could prevent or limit the Group's ability to withdraw profits from the local company and even be subject to nationalization or expropriation of assets. In addition, as a global player, the Group is exposed to risks arising from regional and global political crises that may develop into trade wars in general and the boycott of Israeli products or goods in particular. Differences in the business culture in some countries of operations are liable to expose the Group to modes of action that are inconsistent with its values and the culture of corporate governance it wishes to adopt. Political instability and social unrest are liable to also be expressed in public protests against manufacturers and retailers with the goal of lowering product prices. A prolonged public protest that includes consumer boycotts and/or economic reforms in various spheres is liable to erode the Company's profitability and harm its business results.

25.3 Industry risk factors

e. **Fluctuations in raw material prices and their availability** – raw materials are a substantial component of manufacturing inputs for the Group's products. A considerable part of the raw materials are agricultural commodities whose prices and availability depend on factors such as climate, natural disasters, outbreaks of epidemics in the crop environment and political stability in the countries of origin. In addition, a substantial portion of the raw materials used by the Group is traded in the global commodities market (coffee, cocoa and sugar) and is therefore exposed to fluctuations in prices in response to market forces. These changes in price may erode the Group's profitability due to the fact that the Group is limited in its ability to adjust the sales prices of its products. It is the Group's practice to purchase financial derivatives in order to partially hedge the risk of an increase in raw material prices. As these derivatives are measured at fair value on a current basis, the reported accounting profit (loss) is subject to substantial volatility. At the same time, some agricultural products, such as sesame, are not traded on the world commodities market and therefore cannot be hedged through the use of financial derivatives. Additionally, the price of these commodities is liable to be adversely affected as a result of collaborations between suppliers. For further information on raw material prices, see section 4 in the Report of the Board of Directors of the Company as at December 31, 2020.

f. **Compliance and regulatory developments** – the Group's activity is exposed to various regulatory limitations, including under competition laws, laws relating to food safety, import laws, securities laws, companies laws, anti-corruption and anti-bribery laws and the Protection of Privacy Law (see also section u). Changes in legislation or standardization in Israel and other countries and the enforcement of stricter regulation in spheres related to the Company are liable to reduce and/or limit the Group's activity and impact its business results. The changes referred to are such that relate to the market in general, including the spheres of food engineering, food safety, environmental quality, oversight, product labeling, etc. Tightening of the regulation in the regions where the Company is active is liable to have a negative impact on both the product offering and product demand, as well as on the costs involved in manufacturing the products, and passing these costs on to consumers by raising prices is liable to be damaging to the Company's sales volumes, revenue, profit and reputation.

g. **Exposure to class actions** – in view of the large number of consumers of the Group's products, the Group is exposed to class actions by consumers. For information on motions to certify claims against Group companies as class actions, see Note 24.1 to the Financial Statements of the Company as at December 31, 2020.

h. **Safety and quality of products and services** – the nature of activity in the food and beverage industry exposes the Company's business to harm in the case of a fault in the production process or a defect in the quality of the raw materials, in the quality of the products themselves (manufactured by or for the Group) or in the quality of service directly provided to the Group's customers. These flaws, whether or not they are beyond the Company's control or whether they occurred in good faith or deliberately, raise concerns of illness, damage to health and other harm, and consequently expose the Company to lawsuits brought by consumers who are affected (if any). In addition, some of the Group's products may contain foreign bodies or components (such as nuts or gluten) that cause certain people allergic reactions and harm their health, which is liable to result in lawsuits, damage to income and profit and damage to the Group's reputation. To mitigate this exposure, the Group may be forced to recall defective products by removing them from the shelf or collecting them from consumers' homes, whether as a result of regulation or voluntarily. Additionally, publications regarding impaired quality of rival or supplementary products are also liable to adversely affect the scope of the Group's sales and profit, regardless of the credibility of these publications.

i. **The price of raw milk** – the price of unprocessed milk, a major raw material in the manufacture of dairy products and milk drinks, and activity in the milk sector in Israel, are determined according to various arrangements. Any change in the price of raw milk without adjusting the prices of the relevant products may impair the Group's profitability. Liquid milk is purchased from various dairy farmers, and the Group is obliged to accept the full milk quota produced by the manufacturer from which it purchases. Changes in the arrangements in the milk sector are liable to increase fluctuations in milk prices and in the Group's profit.

j. **Private labels and retail** – the growing strength of retail chains in Israel and globally has led to the development of private labels that compete with the product brands manufactured and marketed by various vendors, including the Group. The continued development of private labels by the food chains is liable to pose a threat to the Group's market shares in some of its product categories. Additionally, expansion of the range of services offered by retail chains such as cash & carry, deliveries via neighborhood logistics centers and other services to the general public are liable to reduce the Group's customer base and thus harm its revenues.

k. **Changes in consumer trends and innovation** – the Group's success is conditional to a large extent on its ability to anticipate emerging trends in consumer preferences, including changing tastes, changes in consumption habits, in the manner of consumption and in the shopping experience, and on its ability to adapt its products to varying demand. On the strategy level, the Group works to adapt its product range and technological capabilities in order to respond to changing consumption trends. Failure in this regard is liable to lead to a drop in demand for the Group's products, and consequently, to a negative impact on sales turnovers.

l. **Downward pressure on profit margins in the food and beverage industry** – the prices of some of the Group's products are subject to downward pressure. As a result, the Group's ability to adjust the prices of its products for an increase in raw material and input prices may be limited. In recent years, we have witnessed events in Israel and other countries where great consumer pressure was applied, including active protests by consumers against food manufacturers and retailers as well as changes in the customer structure in the industry. Due to the 2020 economic crisis that resulted from efforts to cope with the COVID-19 pandemic, these consumer protests are liable to increase in coming years, and could be expressed in demonstrations, social media activity, and in articles and coverage in the media. Even when the pressure is directed at retailers, in many cases this in turn leads to pressure by retailers on the manufacturers. A consumer protest is also liable to be a catalyst for regulatory action and reforms intended to bring about a change in the economic environment, which could erode the Company's profitability and be damaging to its financial results.

m. **Environmental quality and sustainability** – the activities of the Company's manufacturing plants and the urban development of cities around them are liable to lead to the Group's exposure to environmental lawsuits and to the danger of closure of a plant that harms the environment. In addition, the sustainability trend is gaining momentum in the business world. Sustainability, in general, is a doctrine that holds that the essence of a business organization is not merely to generate profits for its shareholders, but to also create value for all stakeholders: customers, employees, suppliers, investors, the community and the environment. Growing public awareness of the concept of sustainability is likely to affect consumer preferences such as reduced consumption of meat, a shift to consumption of organic and natural foods and consumption of products packed in biodegradable and recyclable packaging. Should the Group fail to invest sufficiently in sustainability it is liable, in extreme cases, to be exposed to a drop in demand for its products, and as a result – to a drop in revenues and profits.

n. **Operating in a competitive market** – the food and beverage industry is highly competitive. Some of the Group's rivals in the markets where it is active are large multinational corporations that possess greater financial resources than the Group. The entry of additional competitors to certain categories, including the trend of consolidation between large multinational corporations, the growing trend of private labels and the lowering of barriers to entry by additional brands are liable to intensify the competition and harm the Company's business results. To compete effectively, the Group is required to maintain an efficient cost structure, make growing investments in technology, and invest continuous efforts in the sale and marketing of existing products and the development of new products. Additionally, some of the Group's customers have become active in distribution, including distribution of the Group's products, in different sales channels. A significant increase in this activity by the Group's customers is liable to adversely affect the Group's profitability.

o. **Nutritional labeling of food products** – in January 2020 the Public Health Protection Regulations entered into effect in Israel. The regulations are intended to provide consumers with clear information on the nutritional value of packaged foods, including through the use of symbols informing consumers that the food contains large quantities of sodium, sugar or saturated fatty acids, to enable them to make informed food choices for the benefit of their health. Implementation of these labeling regulations as well as similar labeling regulations that may be published in the future outside of Israel, is liable to have a negative effect on the results of the Company's operations due to possible changes in consumption habits of food and beverage products, including decreased demand for the Company's products. Furthermore, the labeling is liable to lead to negative publicity (whether or not based on scientific fact) or to influence consumer perceptions. The Company has worked for years, and continues to work, on improving the nutritional value of its products through adaptation and product innovation, and thus delivers a response to emerging regulation as well as to consumer health trends.

p. **Customer credit** – the Group's sales to its customers (including distributors) in Israel and abroad are generally made on credit, in line with the customary market practice. Part of the credit to retail customers in the private market in Israel is secured by credit insurance (including a deductible) and various sureties, whereas the balance of credit to the private market that is not covered by guarantees is at risk, particularly in recession periods. However, the broad spread of the Group's customers in the private market mitigates this risk. Credit to the large retail chains in Israel is partially secured and is concentrated in a small number of customers that account for a large part of the Group's sales; therefore, non-payment of this credit by any of the large retail customers could have a material impact on the Group's cash flows and business results in the short term. The bulk of credit granted to customers overseas is secured, excluding Brazil. Additionally, in Strauss Water payment for the service is made on a monthly basis over the term of the service 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.

q. **Kashrut** – the Group is obliged to comply with kashrut requirements. Any doubt as to the kosher certification of a product, a product ingredient or a change in the conditions for kashrut is liable to harm the Group's sales.

r. **Customs duties in countries where the Group operates** – in most countries where the Group is active, imported food and beverages are subject to customs duties that are higher on finished goods than on imports of raw materials. A decrease in customs duties on finished goods is likely to facilitate the entry of additional competitors to these countries and thus hurt the Group's competitive position. Conversely, when customs rates are high or rise in those countries the Company's import costs increase, thus adversely affecting its ability to compete with local or foreign manufacturers which are not subject to the same customs rates.

25.4 Unique risk factors

s. **Dependency on branding** – the Group has a broad variety of branded food and beverage products that enjoy a longstanding reputation. Damage to this reputation by various publications or other means (e.g. social media) could have a material impact on the Group's sales and profitability, regardless of the accuracy of these publications. Additionally, a defect in a particular product, including products that are not Strauss products but bear the brand name (for example, Strauss Ice Cream), could cause damage to the umbrella brand under which it is marketed, as well as to the entire product family marketed under that brand. The Group takes care to protect its brands and reputation, among other things by being especially meticulous about the quality of the raw materials used in manufacturing the products, production processes, finished goods and marketing messages.

t. **Cybersecurity risks and privacy protection** – substantial damage to the availability of computer and communication systems or to data reliability and integrity, malicious (cyberattack) or unintentional (technical failure or human error), is liable to cause the Group significant difficulties, including the exposure of trade secrets and the substantial disruption of various core processes. An incident of this kind that continues for a significant length of time is liable to be damaging to the Company's business results. The risk has increased in light of the growing use by the Group's employees and managers of a variety of digital end appliances and the continuing trend of automation in the companies. Some of the Company's main infrastructures, which support critical business processes, were designed to support various failure scenarios and were built in a manner that will enable redundancy and availability of critical systems. For infrastructure and systems defined as critical, there is a secondary site that provides a response by replicating systems and information for disaster recovery. The Company operates a backup system at the various sites and has a variety of controls in place, aimed at ensuring the effectiveness of the backup system and the ability to restore the systems and information when necessary. Backups are stored on the main site and replicated to the secondary site each day. In addition, a cybersecurity incident is liable to lead to information leakage, including personal information from the Group companies' databases and information on the Company's employees. Strauss Group is committed to compliance with the protection of privacy laws in the various territories in which it operates, such as the Protection of Privacy Regulations (Information Security) 2017, which entered into effect in May 2018. Information leakage incidents and/or non-compliance with relevant regulation to the protection of privacy laws is liable to expose the Company to legal proceedings, including civil suits, class actions and administrative and/or criminal enforcement proceedings, including fines. The Group invests considerable efforts and resources to reduce to the minimum the possibility of the occurrence of an information leak of this kind by applying customary cybersecurity controls, in accordance with the directives of the Privacy Protection Authority.

u. **Protection of data and trade secrets** – some of the recipes for the Group's products and other products manufactured by the Group, their manufacture and various processes relating to production such as business projects, are trade secrets. The Group relies on customer confidentiality, patent registration, non-competition and non-disclosure clauses in employment contracts with Group managers and other employees who take part in R&D. However, according to law, the Group could be in a situation that prevents it from enforcing the non-competition clauses, in whole or in part, which will make it difficult to prevent the Group's competitors from benefiting from the expertise of former employees. Moreover, a third party could argue that certain information is not defined as a trade secret according to law. Additionally, the Group cannot ensure that these security measures are effective against unauthorized copying of product recipes and/or databases, their production or any other use thereof. Any infringement of the protection of title to trademarks and breach of confidential information could hurt the Group's businesses. In order to contend with this risk, the Company operates various mechanisms, processes and technology. Access to information and systems is backed up by authorization procedures and periodic controls in accordance with the Company's procedures. Employee permissions are validated at the various stations of the employee's life cycle (induction, mobility and departure). Company employees sign a confidentiality agreement in the induction process, and there are additional clauses in employment agreements and termination letters relating to information security requirements when working with the Company's computer systems. The Company has a procedure for working with classified documents, in addition to assimilating supporting technologies to classify the documents and prevent information leakage by means of a data leakage prevention system that has been used by the Company for several years.

v. **Dependency on key customers** – concentration in the retail market in some of the countries of operations creates dependency on a small number of large customers, which account for a significant part of the share of sales and therefore expose the Group to a certain shortfall in sales and/or profitability in the short term if a material customer is lost. Moreover, due to the small number of large customers, the Company is subject to potential pressure and bargaining by these customers regarding commercial terms, which may worsen as the retail chains continue to grow stronger and reduce their dependency on the Company's products.

w. Dependency on suppliers – some of the Group companies are dependent on a small number of key external suppliers as part of production processes and the supply chain. Immediate and unexpected termination of contracts with these suppliers, goods or services may impair the Group's ability to continue manufacturing some of its products in the required quantity and quality in the short term, and as a result, adversely affect its business results. It is the Group's practice to maintain a broad supplier base and update it from time to time in order to provide alternatives and minimize dependency on key suppliers.

x. Dependency on products – some of the Group companies may be dependent on a limited number of products, particularly upon the launch of new products that replace older ones. In these cases, there is a risk that some consumers may not be happy with the new products, which could be damaging to the Group's revenues and profit. The Group has a broad product portfolio, and thus reduces dependency on a limited number of products.

y. Licenses and franchises – The Group is a party to licensing agreements with the owners of main brands, including the Danone brands, PepsiCo brands, Virgin brands and Haier brands, the use of which, as a rule, is conditional on certain terms and conditions, the breach of which could impair usage rights (with the exception of Haier). Additionally, the continued success of the brands depends on the strategic partners' business results and their brand reputation, and on their ability to preserve the reputation of those brands. Damage to the reputation of one of the brands could lead to damage to the Group's brands.

z. Monopoly holder and its obligations – in light of changes made to the Economic Competition Law in 2020, in each product category in which the Company holds a market share of more than 50% of all supplies or purchases of certain services or products and/or in cases where it has "significant market power" pertaining to the supply or purchase of certain assets or services, it is liable to be considered a "monopoly holder" with respect to that category. A company that is considered a monopoly holder is required to comply with the laws applying to a monopoly in Israel, by virtue of which various business restrictions are imposed, such as prohibition on the abuse of monopoly power (including with regard to retail prices), definition of different terms and conditions when contracting in similar transactions, prohibition on unreasonable refusal to supply products or unreasonable stipulation thereof. A corporation that violates the competition laws, including the monopoly laws, is exposed to criminal sanctions, to the imposition of financial sanctions and to civil suits, including class actions.

Additionally, as part of the statutory tools defined in the economic competition laws, the Competition Commissioner is granted the right to intervene in issues that are liable to significantly harm competition or the public by issuing instructions and directives to the corporation. These limitations, if and insofar as they are imposed, are liable to impact the results of the activity segment in question.

The Company has been declared a monopoly by the Competition Authority in dairy desserts, chocolate tablets, instant coffee and cocoa powder for domestic consumption, and is presently undergoing a hearing prior to being declared a monopoly in several products. With regard to the hearing, see section 8.2.13.1 above.

aa. Change of control of the Company – in the event of a change of control in the Company such that the Strauss family ceases to be the controlling shareholder, the Company could be forced to sell its holdings to the partners in Três Corações (JV)[111] in Brazil and in Strauss Frito-Lay, pursuant to the provisions and mechanisms set forth in the shareholders' agreements with these partners. The combined sales turnover of these companies, after intercompany eliminations, in the years 2019 and 2020 in the Management Reports was NIS 2,072 million and NIS 1,763 million, respectively (according to the Company's relative holding (50%)). In addition, some of the liabilities to financial institutions include a prepayment clause on the grounds of a change of control in the Group, which is accompanied by downgrading to below a certain rating, as follows: if control of the Group is transferred such that as a result, the rating of the Series E debentures is downgraded to less than (AA-)il (on Standard & Poor's Maalot's rating scale) or (Aa3)il (on Midroog's rating scale), and the transfer was not approved in advance in the meeting of debenture holders in an ordinary resolution.

ab. New business models – the business environment in which the Company operates evolves rapidly and is dynamic, innovative and competitive. The Company contends with rapidly changing trends, technological changes and changes in preferences and consumption habits. To compete successfully and deliver a response to new business models, the Company is required to foresee developments, to be innovative and to deliver the right products through the relevant sales channels at the right time. The emergence of new business models implemented by third parties, which disrupt the value chain in the food and beverage industry, is liable to have a material impact on the realization of the Company's strategy and the results of its operations by weakening its competitive position and relevance in the eyes of some consumers. This exposure is liable to increase if the Company does not succeed in foreseeing the emergence of these disruptive business models and/or is unable to make the necessary investments and strategic adjustments to maintain its relevance to consumers.

ac. Failure to implement strategy – the Group's expansion strategy through mergers and acquisitions requires the successful integration of the acquired companies and their merger into the Group, including the realization of growth and profitability forecasts and certain market and competitive conditions. Unsuccessful integration of the acquired businesses and non-realization of the forecasts are liable to undermine the achievement of the anticipated added value in these acquisitions and even lead to the impairment of intangible and tangible assets included in the mergers and acquisitions.

ad. Complexity in managing partnerships and joint ventures – the Group has a wide geographical spread of business operations in a broad variety of businesses, some of which are jointly owned with entities that are not part of the Group. Differences between the shareholders and key partners with regard to strategic vision, as well as differences in tactical approach, could cause delays and complex decision-making processes to the point of paralyzing the business and dissolving a partnership in an unplanned manner.

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[111] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**").

ae. Restrictions on the transfer or sale of the Company's holding in joint ventures and subsidiaries – the Company has material investments and a number of agreements with partners in joint ventures and subsidiaries (Três Corações (JV)[112], Strauss Health, Strauss Frito-Lay, Yotvata, Sabra, Haier and Virgin), which contain provisions pertaining to the transfer or sale of the Company's holding in these joint ventures. These provisions include, inter alia, a tagalong right and right of first refusal, which are liable to prevent the Company from realizing its investment, postpone the sale or cause it to sell at a low price. Additionally, in a number of joint ventures and subsidiaries in which the Company has partners, the partners have a put option which, if exercised, will require the Company to buy the partners' interests in the joint venture or subsidiary.

af. Financial debt – the Group has debts to different financial institutions, which are partially backed by an undertaking to comply with covenants. The amortization schedule was constructed such that the debt is repaid gradually over many years. In order to service the debt each year, the Group is required to generate a sufficient amount of free cash flows or to refinance the debt. The Company's ability to refinance the debt is liable to be affected by exogenic factors such as an economic crisis, which will lead to a credit crunch, or by internal factors such as damage to business, leading to the violation of covenants or a credit rating downgrade, and as a result, the Group may be forced to divert resources that were intended for real investments to service the debt, thus preventing future growth.

ag. Recruiting, retaining and developing human capital – the Group's success depends on its ability to recruit, retain and develop high-quality human capital in a range of professional and managerial fields and to manage succession planning. Failure by the Company in this respect could impair its ability to cope with current and future challenges and as result, its business results and its ability to meet its targets could be compromised.

ah. Limitation of production capacity – in certain cases, there is a risk that the Group is liable not to manufacture a sufficient quantity of products to meet consumer demand due to limited physical space in its plants and limited storage space. To deal with this risk, the Group regularly monitors current and future market demand in relation to its production and storage capacity, and if necessary, increases its production and storage space by purchasing and/or leasing additional space.

ai. Restrictions in agreements signed with strategic partners – as part of the Company's agreements with strategic partners, the Company agreed to restrictions relating to its businesses. For example, the Company is precluded from competing with Três Corações (JV)[113] in Brazil for a five-year period after it ceases to be a shareholder. These restrictions could prevent the Company from developing its business in the desired direction.

aj. Tax liability and critical tax estimates – the multiplicity of geographical regions in which the Group operates leads to complex tax liability due to the large number of countries and the variance in tax structure between these countries. Any change in the tax liability following an increase in tax rates, the addition of new taxes, transfer prices, dividend distributions, deduction of financing expenses and the like is liable to increase tax expenses (and payment) and harm the Group's business results.

[112] See Footnote #112 above.

[113] See Footnote #112 above.

Moreover, the use of tax estimates to estimate the tax obligation exposes the Company, in the short term, to the over- or under-recording of tax expenses (and payment) if these estimates are not consistent with the actual obligation as a result of changes in tax regulations and other regulatory changes made by the local tax authorities in the countries of operations, including a different interpretation of these regulations by the Group's employees or by the tax authorities. For information on the tax liability and critical tax estimates, see Note 35 to the Financial Statements of the Company as at December 31, 2020.

Name and title of signatories:

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Strauss Group Ltd.

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Chief Executive Officer

Date: March 21, 2021

Strauss Group LTD.

Board of Directors' Report to the Shareholders

as at December 31 ,2020

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EXPLANATIONS BY THE BOARD OF DIRECTORS REGARDING THE COMPANY'S BUSINESS POSITION

1. General

The Board of Directors of Strauss Group Ltd. respectfully submits herewith the Board of Directors' Report for the year ended December 31, 2020 and the three-month period then ended in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

The financial data and results of the Group's operations are affected by the financial data and results of operations of the Group's investee companies. In certain cases, details reviewing events that occurred after the date of the financial statements and proximate to the date whereon the report was published are presented, with a statement to this effect presented alongside them, or other information and data pertaining to the Company only. The materiality of the information contained in this report has been tested from Group's perspective. In some cases, an additional, detailed description is provided with the aim of presenting a comprehensive picture of the subject being described, which is, in the Group's opinion, material for purposes of this report.

2. Principal Information form the Description of the Company's Business

2.1 Overview of the operating segments in 2020

In 2020 Strauss Group continued to focus on the food and beverage industry, which is the key industry in the fast moving consumer goods (FMCG) sector and among the most competitive and mature industries in Israel and globally. It is a dynamic industry that responds to the needs, demands and variety of changing tastes of the consumer public worldwide. Several critical success factors can be identified that are common to all areas of the Group's activity, which are also a positive factor that influences the Group's competitive position: brand strength, branded products that deliver an experience and added value to the consumer, a broad and diverse product range in each operating segment, which caters to different population groups on different consumption opportunities. Other factors that are highly important in the changing markets are: continuous innovation that is deeply connected to the consumer, including health issues, meticulous attention to quality, a large-scale distribution system providing for high product availability at a large number of points of sale, collaboration with prominent international entities in the industry, social objectives, protecting the environment, credibility, reliability and transparency.

The Group is engaged in six key areas of activity that are reported as segments, as described in Note 27 to the Financial Statements of the Company as at December 31, 2020. Four of these areas of activity are concentrated under two main frameworks: the Israel Operation and the Coffee

Operation[1]. For further information, see section 2 in the chapter Description of the Company's Business.

2.2 Summary of developments in the reporting period and thereafter

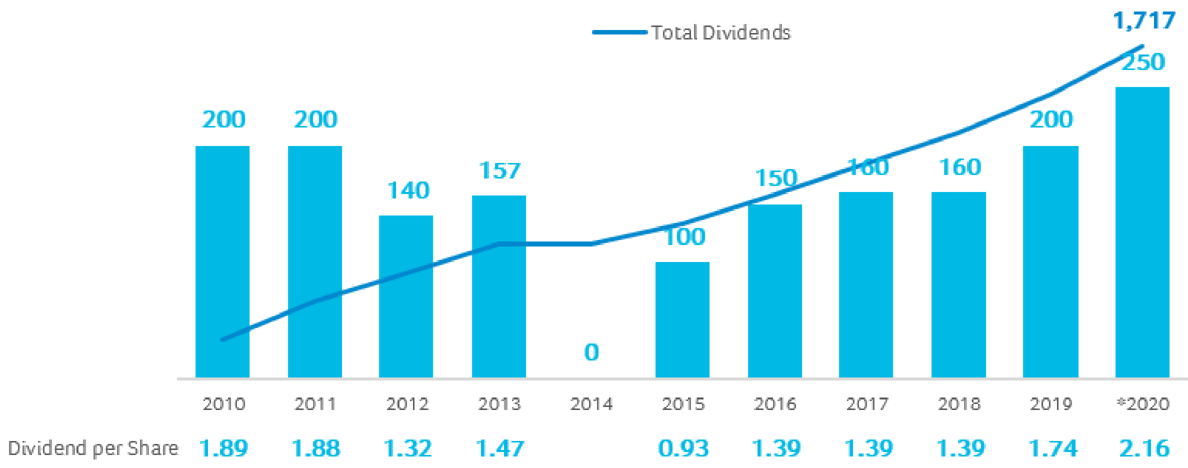
- Acquisition of 100% of the shares of Mitsui Alimentos Ltda. (hereinafter: "Mitsui"), the fifth largest coffee company in Brazil. The transaction was closed on July 31, 2020.
- Commencement of exclusive distribution of Alpro products in Israel.
- Relocation of the Fresh Vegetables Division to a state-of-the-art, modern production site at Kibbutz Bror Hayil.
- Construction of a plant for the manufacture and assembly of HSW products in China, to be completed in the second half of 2021.
- Inauguration of a modern distribution center in Ukraine.

2.3 Dividends

Decisions regarding the payment of dividends are made by the Company's Board of Directors. The frequency and amount of distributions are based on the Group's business results and according to its needs.

Since 2010 through to the present, the Company has distributed dividends amounting to more than NIS 1,700 million. Following are data on dividends paid in recent years:

Dividend Payouts, Annual and Total, in 2010-2020



* Figures are in NIS millions. NIS 70 million declared in 2020 and paid on January 14, 2021

[1] In addition to the operating segments described above, the Group has various activities that are immaterial to its business, which fall short of the quantitative threshold for presentation in the Financial Statements of the Company as reportable segments or the criteria for aggregation and separate presentation as a reportable segment; these are included in the Financial Statements as at December 31, 2020 as the "Other Operations" segment.

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 1.554 per share), which was paid on April 14, 2020.

On December 23, 2020 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 70 million (approximately NIS 0.603 per share), which was paid on January 14, 2021.

On March 21, 2021 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 270 million (approximately NIS 2.3 per share), which will be paid on April 13, 2021.

For information on distributions of cash dividends by Strauss in 2019 and 2020, see Note 26.3 to the Financial Statements of the Company as at December 31, 2020. The balance of retained earnings on the date of the Statement of Financial Position is NIS 3,111 million.

For information on the Company's operations and a description of the development of its businesses - see section 1 in the chapter Description of the Company's Business.

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

CHANGES IN THE ECONOMIC ENVIRONMENT

3. Update on the Impacts of 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. As at the date of this report and throughout the past quarter as well, the Company's manufacturing facilities in all countries of operations have continued to operate normally. The Group has and 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 fourth quarter, including steps to increase production capacity and maximize the availability of products and services.

In the fourth quarter of 2020 the Group continued to take action to preserve financial stability and flexibility and ensure adequate liquidity in all geographies. The Company has also continued to invest in the establishment of new manufacturing facilities in Israel and other countries, in advanced technology, in reviewing mergers and acquisitions, in the development of brands, categories and segments with growth potential, including various dairy substitutes, health products, fresh foods, coffee capsules, and deepening its penetration of the point of entry (POE) market in China. The Group is also continuing to explore various business opportunities and preparing for possible challenges.

The pace of vaccination in the various geographies is expected to dictate the manner and pace of emerging from the lockdown routine and gradually resuming activities, particularly in the institutional market and AFH channels.

3.1 Impacts of the COVID-19 outbreak on the Group's business and business results in the fourth quarter, through to the date of this report

The impacts of the outbreak 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 timing and scope of vaccination campaigns, the restrictions imposed on businesses and their effect on consumer behavior. The fourth quarter was marked by continuing efforts to cope with the pandemic and by entry and emergence from new lockdowns in the various geographies where the Group operates. Additionally, in some geographies, vaccination campaigns for the population have begun. Following are the main occurrences observed in this period:

<u>Consumer behavior</u> – in the fourth quarter a number of behavioral characteristics that emerged when the pandemic broke out continued. These include, among others, continued growth in at-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 and other portable 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 fourth quarter, growth in the Group's sales in Israel remained higher than the average growth levels observed in the past few years in most categories, except for sales of impulse products (snacks and candies), 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. However, a gradual improvement in this sales channel has been observed since the pandemic broke out. Growth was due, among other things, to greater at-home food consumption following the lockdowns imposed on consumers and the closure of most AFH entertainment and dining venues. In the US, increased demand for products for at-home consumption continued, but the hummus category dropped in the fourth quarter and the Company's sales were also harmed by the continuing weakness in AFH sales channels and the drop in sales of portable products intended for AFH consumption. Sabra's sales weakened in the fourth quarter compared to the third quarter of the year as a result of a drop in demand, as well as challenges in maintaining supply chain continuity due to the outbreak of the pandemic. In Eastern Europe, local currency sales decreased compared to the corresponding period last year in all countries of operations following a drop in sales prices, an increase in discounts and a drop in quantities sold. In Brazil, local currency sales increased. In China and the UK, sales of water bars increased in local currency.

Product categories – in the fourth quarter, growth in demand for the Group's products for at-home consumption in Israel was evident, particularly: dairy products, salads and dips and spreads, chocolate tablets and Yad Mordechai products. Conversely, sales in the sweet snack impulse category, products that serve for AFH consumption, remained weak. In the US, sales of single-serve packs of Sabra products, which mainly serve for AFH consumption such as on-the-go, at work and at school, continued to fall.

Sales channels – in the fourth 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 in 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 2020, and the continuation of the partial lockdown throughout the entire fourth quarter, demand for dairy products, salads, confectionery and snacks for at-home consumption remained high, whereas demand for impulse snacks, mainly consumed away-from-home, remained weak. 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). Online (e-tail) sales, mainly via the various retail platforms on which the Company's products are sold, grew significantly and accounted for about 7% of sales. In the fourth quarter and thereafter (through to the reporting date), demand for the Group's products has remained high, but has slowed in relation to the demand observed during the outbreak and first lockdown in March 2020. 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 all 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 outbreak 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. Due to the high percentage of people who have been vaccinated in Israel, there is cautious optimism as to a gradual emergence from the lockdown routine and a slow reopening of AFH and institutional market channels. Supply chain and manufacturing costs continued to rise compared to costs prior to the outbreak due to the continuing growth in sales and rising costs of international shipping, 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.

<u>Strauss Water</u> – <u>In Israel</u> – The fourth quarter witnessed increased sales of water bars, as well as growth in the company's customer base. In addition, the company's costs continued to rise as a result of the COVID-19 outbreak, with the increase recorded in both COGS and operating expenses.

<u>In China</u> – In the fourth quarter, the company's sales and profit in local currency continued to recover.

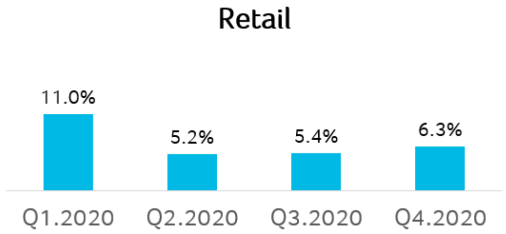
<u>In the UK</u> – In the fourth quarter the company's sales grew compared to the corresponding period last year; however, the third lockdown somewhat slowed the pace of growth.

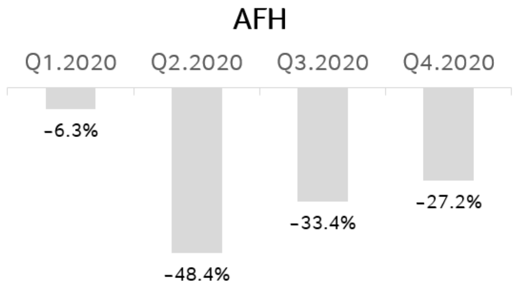
<u>Strauss Coffee</u> – In the reporting period the impact on the coffee business was mixed, according to the different sales channels - Sales to the retail market rose moderately in the fourth quarter as a result of an increase in coffee consumption at home in most countries of operations in basic coffee brands, coffee beans and capsules for home consumption, which in Israel grew by about 31% (according to StoreNext figures). Growth was also observed in online sales. In the institutional and AFH channel, after a recovery in the summer months, commencing at the end of September and throughout the fourth quarter sales dropped significantly, mainly as a result of discontinuation of the activities of hotels, cafés, restaurants and offices in the countries of operations as well as the points of sale of the Elite Café chain in Israel (coffee sales to the institutional market 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 as well a rise in transportation costs. 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.

<u>International Dips & Spreads</u> – in the fourth quarter Sabra's sales declined compared to the third quarter as a result of decreasing demand and continued supply chain challenges. Additionally, the harm to sales in the AFH market and sales of products consumed away from home in all channels continued, as has the growth in wage costs 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. Obela experienced a drop in sales of dip products due to the harm to AFH channels and an increase in operating costs as a result of the impacts of the COVID-19 outbreak.

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





* Excluding the translation differences effect

Liquidity, financial position and sources of finance – on December 31, 2020 the balance of cash and cash equivalents and deposits on the Group's financial statements was approximately NIS 491 million. Additionally, to allow for flexibility and to ensure financial stability, in the first half of 2020 the Group contracted in a number of agreements with banks and a financial institution to establish secure credit facilities for its regular activities. On the date of approval of this report, the Group's underwritten credit facilities are NIS 100 million for a period of approximately one year and NIS 200 million for a period of approximately two years. All of the lines of credit are unused.

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 debentures were issued as 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 22.7 in this report below and see also Note 20 to the Financial Statements of the Company as at December 31, 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.

3.2 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 and the profitability of the coffee business as a result of the depreciation. Notwithstanding the foregoing and in light of the great uncertainty with regard to the period in which the event will persist and due to the implications of the COVID-19 outbreak, 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 continue to 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 evolution crisis and as it evolves, higher sales levels than usual will be maintained as a result of increased at-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. As economies gradually open up and with the reopening of restaurants, cafés, hotels, etc., a gradual resumption of activities in the institutional market and AFH sales channels is possible.

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 of 2020.

The information contained in this report with respect to the COVID-19 outbreak, including the Company's estimates that no material impact on its financial statements is expected, as well as the intention to close the gaps in production and with regard to the scenarios of future effects, the Company's ability to maintain financial stability and flexibility and persevere in activities such as reviewing M&A, brand development, etc., is forward-looking information as defined in the Securities Law, which is based on the information available to the Company on the date of the 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, including the state of the markets in which the Company operates, changes in consumption habits, etc., as described above.

4. 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 2020 there were changes in the average market prices of part of the Group's raw materials. On the one hand, the prices of Arabica green coffee rose, as did the prices of green coffee in Brazil, sugar and seeds, while on the other, the prices of Robusta green coffee, cocoa, sesame, raw milk, olive oil, polystyrene and plastic bottles (packaging materials) dropped. In the fourth quarter the average market prices of green coffee in Brazil, sugar and seeds rose compared to the corresponding period last year, whereas the prices of cocoa, sesame, raw milk, tahini, honey, olive oil, polystyrene and plastic bottles (packaging materials) dropped. At the beginning of the first quarter of 2021 the price of raw milk ("target price") was revised upward by approximately 2.3% for the months January-March 2021, following a decrease of approximately 1% in 2020. Further, proximate to the date of publication of the report, since the beginning of the year green coffee prices in Brazil have risen, as well as the prices of sugar and some of the prices of seeds.

The Group applies measures to reduce the impacts of commodity price volatility, including hedging, making changes in the raw materials mix in its products and operational efficiency enhancement.

The Company's green coffee procurement center in Switzerland provides for all companies in the Group (except for the operation in Brazil). To manage exposure to market risks, the Group uses transactions in derivatives traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the COO of Strauss Coffee and convenes from time to time according to established procedures.

The procurement of green coffee in Brazil is carried out by the local management of Três Corações (JV)[2] according to internal procedures determined by Três Corações (JV)'s board of directors, and is the responsibility of the procurement, export and financial managers of Três Corações (JV).

The Group also has a committee for the management of commodity 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.

5. Energy Prices

In 2020 and in the fourth quarter of the year the average prices of Brent oil were approximately 33% and 27% lower than the average prices in the corresponding periods last year. However, since the beginning of 2021 through to proximate to the date of the report, its price has increased by approximately 25%.

6. Exchange Rate Fluctuations

The impact of the revaluation of the Shekel on the basis of average exchange rates against most of the Group's functional currencies in 2020 compared to 2019, and against most of the functional currencies in the fourth quarter of the year compared to the corresponding period last year, particularly the Brazilian Real and Russian Ruble, led to material negative translation differences on the income statement in 2020 and in the fourth quarter of the year. In terms of changes in exchange rates in 2020 (based on closing prices) the Shekel appreciated against most of the functional currencies, particularly against the Brazilian Real and the Russian Ruble, with a negative effect on the Group's equity in the reporting year. In the fourth quarter the Shekel appreciated against the Dollar, whereas the Brazilian Real and Russian Ruble appreciated slightly against the Shekel (based on closing prices), and the overall effect on the Group's equity in the fourth quarter was negative. In 2020 most of the currencies (excluding the Serbian Dinar and the Shekel) weakened against the US Dollar compared to the corresponding period, whereas in the fourth quarter the average

[2] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

exchange rates of part of the functional currencies appreciated against the Dollar while the Brazilian Real, Russian Ruble and Ukrainian Hryvnia depreciated.

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

Average Exchange Rates Against the Shekel							
Currency		Average Exchange Rate in the Year		% change	Average Exchange Rate in the Fourth Quarter		% change
		2020	2019		2020	2019	
United States Dollar	USD	3.441	3.564	(3.5%)	3.333	3.491	(4.5%)
Euro	EUR	3.923	3.992	(1.7%)	3.974	3.866	2.8%
Ukrainian Hryvnia	UAH	0.128	0.138	(7.3%)	0.118	0.144	(18.1%)
Russian Ruble	RUB	0.048	0.055	(12.9%)	0.044	0.055	(20.2%)
Serbian Dinar	RSD	0.033	0.034	(1.5%)	0.034	0.033	2.8%
Romanian Leu	RON	0.811	0.841	(3.6%)	0.816	0.811	0.6%
Polish Zloty	PLN	0.883	0.929	(4.9%)	0.882	0.902	(2.2%)
Brazilian Real	BRL	0.674	0.906	(25.5%)	0.617	0.849	(27.2%)
Chinese Renminbi	CNY	0.498	0.516	(3.5%)	0.502	0.496	1.3%
Canadian Dollar	CAD	2.566	2.686	(4.5%)	2.557	2.645	(3.3%)
Australian Dollar	AUD	2.375	2.479	(4.2%)	2.444	2.386	2.4%
Mexican Peso	MXN	0.161	0.185	(13.0%)	0.163	0.181	(10.3%)
Pound Sterling	GBP	4.415	4.552	(3.0%)	4.402	4.495	(2.1%)

The following table presents the average exchange rates against the Dollar in 2020 and in the fourth quarter of the year compared to the corresponding periods last year:

Average Exchange Rates Against the Dollar							
Currency		Average Exchange Rate in the Year		% change	Average Exchange Rate in the Fourth Quarter		% change
		2020	2019		2020	2019	
New Israeli Shekel	ILS	0.291	0.281	3.6%	0.300	0.286	4.8%
Ukrainian Hryvnia	UAH	0.037	0.039	(4.1%)	0.035	0.041	(14.2%)
Russian Ruble	RUB	0.014	0.015	(9.8%)	0.013	0.016	(16.4%)
Serbian Dinar	RSD	0.010	0.010	2.1%	0.010	0.009	7.6%
Romanian Leu	RON	0.236	0.236	(0.0%)	0.245	0.232	5.4%
Polish Zloty	PLN	0.257	0.261	(1.4%)	0.265	0.258	2.5%
Brazilian Real	BRL	0.196	0.254	(22.8%)	0.185	0.243	(23.7%)
Chinese Renminbi	CNY	0.145	0.145	0.0%	0.151	0.142	6.2%
Pound Sterling	GBP	1.284	1.277	0.5%	1.321	1.288	2.6%

Since the beginning of 2021 through to proximate to the date of publication of the report, the Shekel depreciated by approximately 2.5% against the Dollar and Russian Ruble. By contrast, the Shekel appreciated by approximately 3% against the Brazilian Real.

7. Inflation

In 2020 inflation in Israel was negative (0.7% deflation), compared to 0.6% inflation in 2019. In Brazil, the CPI rose by 4.5% compared to an increase of 4.3% last year, and in Russia, the CPI rose by 4.9% in 2020 compared to an increase of 3% last year. At year end, following the full prepayment of all linked loans, the Group had no CPI-linked liabilities in Shekels (bank loans and loans from institutional bodies).

The Company has long-term liabilities, primarily in Shekels, partly Index-linked and partly at fixed interest rates, and foreign currency denominated loans, part of which are at floating interest rates, and is exposed to future cash flows in currencies that differ from the functional currencies of the subsidiaries. To protect the Company from exposure to fluctuations in foreign currency exchange rates and interest rates, the Company occasionally executes hedging transactions for partial coverage using forward contracts, futures contracts on Index rates, and futures contracts and option contracts on interest rates and the various currency exchange rates.

The Company's policy is to match, to the greatest extent possible, assets and liabilities in the same currency, using financial derivatives when they are available and advantageous. In its international operations the Company does not regularly hedge the measurement basis of the results of its operations or its statement of financial position against changes arising from the various currency exchange rates against the Shekel. The Group has committees that manage the risks related to interest rates, currency exposure, financial investments, etc., in which all the relevant professional people in the Company participate.

Hedging and investment activities are performed by the Finance Department in Group Headquarters and are the responsibility of Strauss Coffee's CFO in all aspects relating to the coffee business, of Strauss Water's CFO with respect to the water business, and of the Group EVP Finance in regard to the business of the Group as a whole.

8. Interest

The Bank of Israel interest rate remained unchanged at 0.1%. In Brazil, interest dropped from 4.5% at the end of 2019 to 2% at the end of 2020, and proximate to the publication date of this report, to 2.75%. In Russia, the interest rate dropped from 6.25% at the end of 2019 to 4.25% at the end of 2020, and proximate to the publication date of this report, to 4.25%. In the Group's other major countries of operations, the interest rate was single-digit and on a decreasing trend proximate to the publication date of the report. In 2020 the US Federal Reserve lowered the interest rate on the Dollar to 0.25% from 1.75% in the wake of the COVID-19 outbreak.

The Group has floating interest loans, mainly in the Real and Dollar. The Group has Shekel and other short-term bank deposits, earmarked for current use. It is noted that in the future, changes in interest rates are likely to continue to have a positive or negative effect on the Group's business and financial results, according to their trend. The extent of the effect, if any, depends, among other things, on the intensity of the changes, their scope, duration and the Group's ability to contend with them. For further information, see also Note 28.2 to the Financial Statements as at December 31, 2020.

9. Regulatory Developments in Input Prices

The Group is influenced by regulatory changes applying from time to time to wages and the price of raw milk, which account for a major part of its inputs.

In January 2021 the Ministries of Finance and Agriculture signed a sectoral agreement that regulates policy for the local production and import of dairy products to Israel in the coming years. The agreement determines that the raw milk price mechanism (the "target price") will remain unchanged in the next three years, after which the Ministers of Finance and Agriculture will be given the possibility of deciding whether to extend the mechanism for a further two years, until 2026. The agreement further determines that an exemption from customs duties will be granted on the import of cheeses, yogurts and desserts containing up to 5% fat, and customs-exempt quotas for the import of yellow cheese will be raised to 65% over a 5-year period. In the Company's estimate, as at the date of this report, the agreement does not have a material effect on its business results.

10. Business Regulation and Changes in the Food Sector

In January 2020 the Public Health Regulations (Food) (Nutritional Labeling), 2017 entered into 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 for sodium, sugars and saturated fat, above which the obligation of affixing a red label on the front-of-pack is binding, were determined in two stages, the first of which has been in effect since January 2020, and the second entered into effect in 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 December 2020 the Ministry of Health published a revised recommendation paper to food manufacturers, importers and marketers to label foods that are healthy and recommended for consumption and satisfy the defined criteria with a green symbol.

In the Company's estimate, implementation of the second stage of the regulations, similar to the first stage, will have a moderate effect on the Company's business results.

The information contained in this section, that implementation of the second stage of the regulations will have a moderate effect on the Company's business results, is forward-looking information as this term is defined in the Securities Law, 1968, which is based on the information available to the Company on the date of the report and includes the Company's estimates on the reporting date. There can be no assurance that these estimates will, in fact, occur, among other things as a result of various developments in the state of the economy, including the impacts of the outbreak of COVID-19 on the markets in which the Company is active.

11.Price Control

In 2020 Strauss Health began to import Danish butter under the Lurpak brand. The Company received approval from the Supervisor of Prices that Lurpak butter is not a similar product to ordinary price-controlled butter due to the addition of lactic culture and its different nutritional values, and therefore, the Company may sell the product at a price that differs from the controlled price. Similar approval was also granted to other importers of butter such as Willi-Food, Neto and others. In December, a petition was filed with the High Court of Justice against the Minister of Finance, the Minister of Agriculture, the Supervisor of Prices and the Price Committee under the argument that the Supervisor's decision was made without authority. The butter importers were joined as respondents.

In the Company's estimate, due to the relatively small scope of butter imports by Strauss Health, the exposure is immaterial.

12. Qualitative Report on Exposure to Market Risks and the Means for Their Management

The Company operates in business areas that are by nature basic and stable; however, there are several factors and trends that are liable to influence both the scope and profitability of the Company's business. For a description of the market risks to which the Group is exposed, see section 25 in the chapter Description of the Company's Business as at December 31, 2020 (discussion of risk factors).

RESULTS OF BUSINESS OPERATIONS

13. Overview of the Results of Business Operations

The Group has a number of joint ventures in which the Company and/or subsidiaries hold 50%: Três Corações (JV)[3] (the coffee business in Brazil), Sabra Dipping Company (an investee company active in dips and spreads in North America), Strauss Frito-Lay Ltd. (the salty snack business in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, "Obela"). To clarify, the above companies are included in the Management (non-GAAP) Reports of the Company (as defined below) according to the holdings of the Company and/or the subsidiaries therein (50%).

According to generally accepted accounting principles, the financial statements of the company, the statements of income and statements pertaining to financial position, comprehensive income, changes in shareholders' equity and cash flows of businesses which are jointly controlled by the companies in the Group and other partners are presented in a separate row ("Profit of equity-accounted investees", and in other reports in the relevant section) (hereinafter: the "Financial Statements").

Notwithstanding the foregoing and in light of the method in which Group Management measures the results of the subsidiaries and jointly owned 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 entities (50%) as well as other adjustments described below (hereinafter: the "Management (Non-GAAP) Reports", the "Management 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 and the various adjustments made by the Company in making the transition from the Company's Financial Statements to its Non-GAAP Reports.

[3] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (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 twelve months ended December 31, 2020 and 2019 (in NIS millions):

Condensed Results of Business Operations				
	Year			Explanation
	2020	**2019**	**% change**	
Sales	**8,350**	**8,536**	**(2.2%)**	The drop in sales mainly originated in the International Coffee segment due to negative translation differences, primarily as a result of the depreciation of the 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 following the weakening of the Dollar, and the drop in sales to the AFH market in the US following the COVID-19 outbreak. By contrast, growth was recorded in sales by the Strauss Israel segments in most categories following high growth in at-home consumption and increased demand due to the pandemic, and in Strauss Water as a result of growth in the customer base. For further information, see section 17 below.
Organic growth excluding foreign currency effect	4.6%	2.6%		
Cost of sales	5,122	5,157	(0.7%)	The drop in gross profit is primarily the result of a drop in sales as mentioned. The drop in the gross profit margin is mainly the result of a rise in green coffee prices in Brazil in the International Coffee segment, and a change in the sales mix and increased at-home consumption in the International Dips & Spreads segment following the COVID-19 outbreak. For further information, see section 18 below.
Gross profit – non-GAAP	**3,228**	**3,379**	**(4.5%)**	
% of sales	38.7%	39.6%		
Selling and marketing expenses	1,808	1,922	(5.9%)	There was no substantial change in the percentage of selling and marketing expenses in relation to total sales. The decrease in selling and marketing expenses mainly originated in the International Coffee segment as well as the drop in the business of Elite Café and translation differences, primarily due to the depreciation of the Brazilian Real, and in the International Dips & Spreads segment.
General and administrative expenses	544	552	(1.6%)	There was no substantial change in the percentage of general and administrative expenses in relation to total sales. Most of the decrease is due to savings in consultation, travel and business entertainment expenses following the COVID-19 outbreak and to translation differences, mainly as a result of the depreciation of the Real, and was partially offset by an increase in donations and support for the community.
Total operating expenses	**2,352**	**2,474**		
Company's share of profit of equity-accounted investees	48	28	71.5%	The increase is primarily the result of growth in the profits of Haier Strauss Water (HSW) following improved profit margins and a regional development grant of approximately NIS 11 million (the Company's share) received by HSW in the second quarter of the year.
Operating profit – non-GAAP	**924**	**933**	**(1.0%)**	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. Growth in the operating profit margin in 2020 is the result of operational efficiency enhancement, process improvement and savings in consultation, travel and business entertainment expenses due to the lockdowns and restrictions following the COVID-19 outbreak, and was partially offset by the drop in the gross profit margin. For further information, see section 19 below.
% of sales	11.1%	10.9%		
Financing expenses, net	(146)	(128)	14.2%	The increase in financing expenses compared to the corresponding period is mainly the result of a loss on the prepayment of long-term loans and debentures. See Note 20.7 to the Consolidated Financial Statements of the Group.
Income before taxes – non-GAAP	**778**	**805**	**(3.4%)**	
Income tax	(161)	(201)	(19.9%)	The decrease in the effective tax rate in 2020 is mainly due to the revision of the deferred tax reserve in respect of the profits of certain foreign companies which have not yet been distributed, and the profit mix for tax purposes between the companies in the different countries.
Effective tax rate	20.8%	25.0%		
Income for the period – non-GAAP	**617**	**604**	**2.1%**	The change is primarily attributed to a decrease in tax expenses, which was offset in part by a decrease in operating profit and an increase in financing expenses.
Attributable to the Company's shareholders	**551**	**547**	**0.7%**	
% of sales	**6.6%**	**6.4%**		
Attributable to non-controlling interests	66	57	15.3%	
EPS (NIS)	4.75	4.73	0.5%	

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

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

Condensed Results of Business Operations

	Fourth Quarter			Explanation
	2020	**2019**	**% change**	
Sales	**2,070**	**2,114**	**(2.1%)**	The drop in sales mainly originated in the International Coffee segment due to negative translation differences, primarily as a result of the depreciation of the Real, and in the International Dips & Spreads segment due to negative translation differences following the weakening of the Dollar and the drop in sales to the AFH market in the US following the COVID-19 outbreak. By contrast, growth was recorded in sales by the Strauss Israel segments in most categories following high growth in at-home consumption and increased demand due to the pandemic, and in Strauss Water as a result of growth in the customer base. For further information, see section 17 below.
Organic growth excluding foreign currency effect	4.8%	2.7%		
Cost of sales	1,287	1,289	(0.1%)	The drop in gross profit is primarily the result of a drop in sales as mentioned. The drop in the gross profit margin is mainly the result of a rise in green coffee prices in Brazil in the International Coffee segment, a change in the sales mix in the International Dips & Spreads segment, and an increase in manufacturing costs following the COVID-19 outbreak. For further information, see section 18 below.
Gross profit – non-GAAP	**783**	**825**	**(5.2%)**	
% of sales	37.8%	39.0%		
Selling and marketing expenses	469	496	(5.3%)	There was no substantial change in the percentage of selling and marketing expenses in relation to total sales. The decrease in selling and marketing expenses mainly originated in the International Coffee segment as well as the drop in the business of the Elite Café chain and translation differences, primarily due to the depreciation of the Brazilian Real and the Russian Ruble.
tGeneral and administrative expenses	149	154	(4.0%)	There was no substantial change in the percentage of general and administrative expenses in relation to total sales. Most of the decrease is due to savings in consultation, travel and business entertainment expenses following the COVID-19 outbreak and to translation differences, mainly as a result of the depreciation of the Brazilian Real, and was partially offset by an increase in donations and support for the community.
Total operating expenses	**618**	**650**		
Company's share of profit of equity-accounted investees	18	6	186.2%	The change is primarily the result of growth in the profits of Haier Strauss Water (HSW) and gains recognized following a decrease in the holding of equity-accounted investees active in Strauss's incubator.
Operating profit – non-GAAP	**183**	**181**	**1.1%**	The increase in operating profit mainly originated in the Strauss Israel segment following growth in sales volumes, and was partially offset by the International Coffee segment due to negative translation differences, mainly as a result of the depreciation of the Brazilian Real as well as the closure of Elite Café points of sale, and the International Dips & Spreads segment following the drop in sales to the AFH market in the US. In addition, growth in the operating profit margin in the fourth quarter of the year is the result of gains recognized on a decrease in holdings in companies active in Strauss's incubator, operational efficiency enhancement, process improvement and savings in consultation, travel and business entertainment expenses due to the lockdowns and restrictions following the COVID-19 outbreak, and was partially offset by the drop in the gross profit margin. For further information, see section 19 below.
% of sales	8.8%	8.6%		
Financing expenses, net	(57)	(21)	174.4%	The increase in financing expenses is the result of expenses recorded in respect of foreign currency derivatives and exchange rate differences mainly due to the weakening of the Dollar and Euro compared to the corresponding period last year, as well as a loss on the early redemption of the Series D Debentures. See Note 20.7 to the Consolidated Financial Statements of the Group.
Income before taxes – non-GAAP	**126**	**160**	**(21.7%)**	
Income tax	(26)	(43)	(40.0%)	The decrease in the effective tax rate in the fourth quarter is mainly the result of the profit mix for tax purposes between the companies in the various countries.
Effective tax rate	21.0%	27.4%		
Income for the period – non-GAAP	**100**	**117**	**(14.7%)**	Most of the decrease is attributed to an increase in financing expenses, which was partially offset by an increase in operating profit and a decrease in tax expenses.
Attributable to the Company's shareholders	**87**	**101**	**(14.1%)**	
% of sales	**4.2%**	**4.8%**		
Attributable to on-controlling interests	13	16	(19.1%)	
EPS (NIS)	0.74	0.87	(14.3%)	

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 years and quarters ended December 31, 2020 and 2019 (in NIS millions):

Condensed Results of Business Operations by Operating Segment						
	Year			Fourth Quarter		
	2020	2019	% change	2020	2019	% change
Israel						
Net sales	3,681	3,411	7.9%	894	832	7.5%
Operating profit	418	370	12.8%	90	80	11.2%
Coffee						
Net sales	3,279	3,726	(12.0%)	834	933	(10.7%)
Operating profit	354	424	(16.4%)	71	86	(16.5%)
International Dips & Spreads						
Net sales	722	771	(6.3%)	161	188	(13.9%)
Operating profit	56	71	(21.3%)	2	9	(76.6%)
Water						
Net sales	668	628	6.4%	181	161	13.0%
Operating profit	91	75	21.4%	21	20	5.3%
Other						
Operating profit	5	(7)	190.2%	(1)	(14)	96.4%
Total						
Net sales	**8,350**	**8,536**	**(2.2%)**	**2,070**	**2,114**	**(2.1%)**
Operating profit	**924**	**933**	**(1.0%)**	**183**	**181**	**1.1%**

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

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

Condensed GAAP Statements of Income						
	Year			Fourth Quarter		
	2020	2019	% change	2020	2019	% change
Sales	5,873	5,695	3.1%	1,454	1,423	2.2%
Cost of sales excluding impact of commodity hedges	3,489	3,362	3.8%	866	850	2.0%
Adjustments for commodity hedges(1)	(4)	(15)		(3)	(18)	
Cost of sales	3,485	3,347	4.1%	863	832	3.7%
Gross profit	**2,388**	**2,348**	**1.7%**	**591**	**591**	**0.0%**
% of sales	40.7%	41.2%		40.7%	41.5%	
Selling and marketing expenses	1,316	1,320	(0.3%)	344	341	1.2%
General and administrative expenses	420	416	1.0%	119	119	(0.2%)
Total expenses	**1,736**	**1,736**		**463**	**460**	
Share of profit of equity-accounted investees	235	270	(12.8%)	53	52	3.2%
Operating profit before other expenses	**887**	**882**	**0.6%**	**181**	**183**	**(1.1%)**
% of sales	15.1%	15.5%		12.4%	12.8%	
Other expenses, net	(1)	(4)		(1)	(1)	
Operating profit after other expenses	**886**	**878**	**1.0%**	**180**	**182**	**(0.7%)**
Financing expenses, net	(138)	(116)	19.5%	(56)	(20)	178.9%
Income before tax	**748**	**762**	**(1.8%)**	**124**	**162**	**(23.3%)**
Income tax	(149)	(168)	(11.2%)	(28)	(37)	(24.0%)
Effective tax rate	19.9%	22.0%		22.6%	22.8%	
Income for the period	**599**	**594**	**0.8%**	**96**	**125**	**(23.1%)**
Attributable to: The Company's shareholders	**533**	**537**	**(0.8%)**	**83**	**109**	**(23.8%)**
Non-controlling interests	66	57	16.3%	13	16	(18.2%)

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

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

14. Condensed Statement of Financial Position

Following is the condensed financial accounting (GAAP) statement of financial position as at December 31, 2020 and 2019 (in NIS millions):

Condensed GAAP Statement of Financial Position				
	December 31			Explanation
	2020	2019	% change	
Total current assets	2,192	2,203	(0.5%)	The change is primarily the result of a decrease in cash and cash equivalents, which was offset in part by an increase in the inventory and income tax items.
Of which: Cash and cash equivalents balance	491	525	(6.4%)	For information on the change in the cash and cash equivalents item, see section 22 below. According to Company policy, these assets are mainly held in liquid deposits.
Total non-current assets	4,222	4,387	(3.8%)	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 a decrease in investment in associates due to negative translation differences, of which around NIS 208 million are the result of the depreciation of the Brazilian Real against the Shekel, which were set off against the profits of investees.
Total assets	**6,414**	**6,590**	**(2.7%)**	
Total current liabilities	1,833	1,960	(6.5%)	The change is primarily due to a decrease in loans and short-term credit, which was partially offset by a dividend declared and paid after the reporting date.
Total non-current liabilities	2,149	2,200	(2.3%)	The change is primarily the result of a decrease in long-term loans and credit following prepayment and in lease liabilities, and was offset by an increase in debentures following the issue of the Series F Debentures.
Total equity attributable to the Company's shareholders	2,260	2,277	(0.7%)	Most of the change is due to an increase in the profit of the Company attributable to the majority shareholders, which was offset by negative translation differences, mainly following the depreciation of the Brazilian Real against the Shekel based on exchange rates at period end, and dividends paid and declared in the period.
Total equity attributable to non-controlling interests	172	153	12.6%	The change is primarily the result of an increase in the profit of investees, which was offset by a dividend paid in the period.

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

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

Outstanding Debt				
	December 31			Explanation
	2020	2019	Change	
Gross debt – Non-GAAP Reports	2,639	2,852	(213)	The decrease in debt is mainly the result of free cash flow, a decrease in short- and long-term loans and credit (inter alia, as a result of prepayment of long-term loans and early redemption of Series D Debentures – see Note 20.7 to the Consolidated Financial Statements) and lease liabilities, and was partially offset by the issue of the Series F Debentures.
Gross debt – Financial Statements	2,198	2,419	(221)	
Net debt – Non-GAAP Reports	1,878	2,023	(145)	
Net debt – Financial Statements	1,707	1,894	(187)	

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

15. Adjustments to the Management (Non-GAAP) Reports

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 internal Management Reports):

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

Adjustments to the Management (Non-GAAP) Reports – Yearly Comparison	2020			2019		
	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method
Sales	5,873	2,477	8,350	5,695	2,841	8,536
Cost of sales excluding impact of commodity hedges	3,489	1,633	5,122	3,362	1,795	5,157
Adjustments for commodity hedges (1)	(4)	-	(4)	(15)	-	(15)
Cost of sales	3,485	1,633	5,118	3,347	1,795	5,142
Gross profit	**2,388**	**844**	**3,232**	**2,348**	**1,046**	**3,394**
% of sales	40.7%		38.7%	41.2%		39.8%
Selling and marketing expenses	1,316	492	1,808	1,320	602	1,922
General and administrative expenses	420	141	561	416	156	572
Company's share of profit of equity-accounted investees	235	(187)	48	270	(242)	28
Operating profit before other expenses	**887**	**24**	**911**	**882**	**46**	**928**
% of sales	15.1%		10.9%	15.5%		10.9%
Other income (expenses), net	(1)	(3)	(4)	(4)	2	(2)
Operating profit after other expenses	**886**	**21**	**907**	**878**	**48**	**926**
Financing expenses, net	(138)	(8)	(146)	(116)	(12)	(128)
Income before tax	**748**	**13**	**761**	**762**	**36**	**798**
Income tax	(149)	(13)	(162)	(168)	(36)	(204)
Effective tax rate	19.9%		21.3%	22.0%		25.5%
Income for the period	599	-	599	594	-	594
Attributable to: The Company's shareholders	**533**	**-**	**533**	**537**	**-**	**537**
Non-controlling interests	66	-	66	57	-	57

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

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

Adjustments to the Management (Non-GAAP) Reports – Fourth Quarter

	2020			2019		
	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method
Sales	1,454	616	2,070	1,423	691	2,114
Cost of sales excluding impact of commodity hedges	866	421	1,287	850	439	1,289
Adjustments for commodity hedges (1)	(3)	-	(3)	(18)	-	(18)
Cost of sales	863	421	1,284	832	439	1,271
Gross profit	**591**	**195**	**786**	**591**	**252**	**843**
% of sales	40.7%		38.0%	41.5%		39.9%
Selling and marketing expenses	344	125	469	341	155	496
General and administrative expenses	119	34	153	119	41	160
Company's share of profit of equity-accounted investees	53	(35)	18	52	(46)	6
Operating profit before other expenses	**181**	**1**	**182**	**183**	**10**	**193**
% of sales	12.4%		8.8%	12.8%		9.1%
Other income (expenses), net	(1)	-	(1)	(1)	1	-
Operating profit after other expenses	**180**	**1**	**181**	**182**	**11**	**193**
Financing expenses, net	(56)	(1)	(57)	(20)	(1)	(21)
Income before tax	**124**	**-**	**124**	**162**	**10**	**172**
Income tax	(28)	-	(28)	(37)	(10)	(47)
Effective tax rate	22.6%		22.2%	22.8%		27.2%
Income for the period	96	-	96	125	-	125
Attributable to: The Company's shareholders	**83**	**-**	**83**	**109**	**-**	**109**
Non-controlling interests	13	-	13	16	-	16

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

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

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

Additional Adjustments to the Management (Non-GAAP) Reports	Year			Fourth Quarter		
	2020	2019	% change	2020	2019	% change
Operating profit (according to the proportionate consolidation method) after other expenses	**907**	**926**	**(2.0%)**	**181**	**193**	**(5.9%)**
Share-based payment	17	20		4	6	
Adjustments for commodity hedges	(4)	(15)		(3)	(18)	
Other expenses, net	4	2		1	–	
Operating profit – non-GAAP	**924**	**933**	**(1.0%)**	**183**	**181**	**1.1%**
Financing expenses, net	(146)	(128)		(57)	(21)	
Income tax	(162)	(204)		(28)	(47)	
Taxes in respect of adjustments to the above non-GAAP operating profit	1	3		2	4	
Income for the period – non-GAAP	**617**	**604**	**2.1%**	**100**	**117**	**(14.7%)**
Attributable to: The Company's shareholders	**551**	**547**	**0.7%**	**87**	**101**	**(14.1%)**
Non-controlling interests	**66**	**57**	**15.3%**	**13**	**16**	**(19.1%)**

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

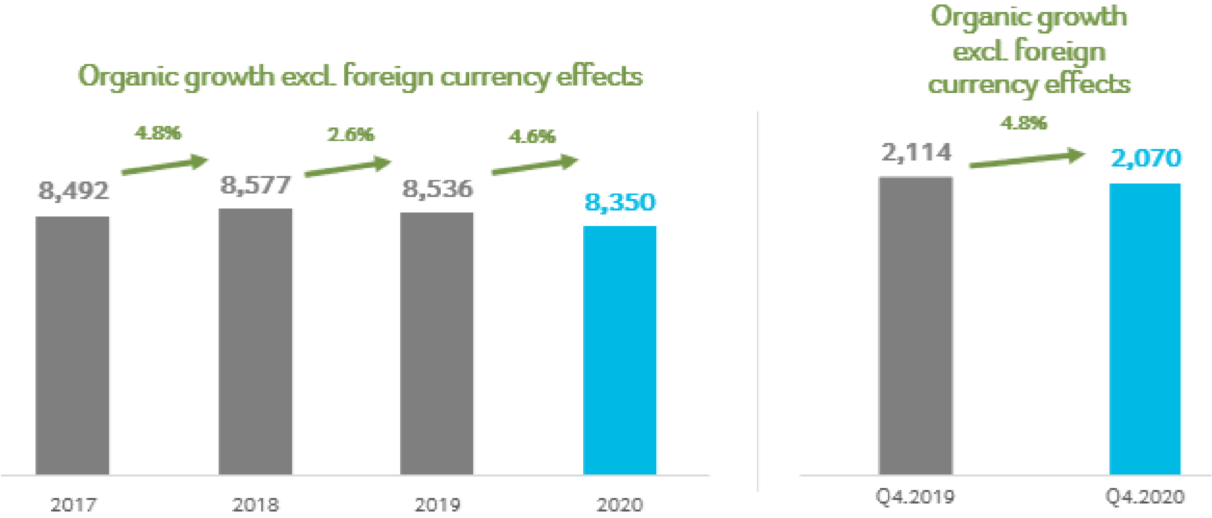
(3) Reflects mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices, and all adjustments necessary to delay recognition of most of the gains or losses arising from commodity derivatives until the date when the inventory is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

16. Key Comparative Financial Data According to the Non-GAAP Reports

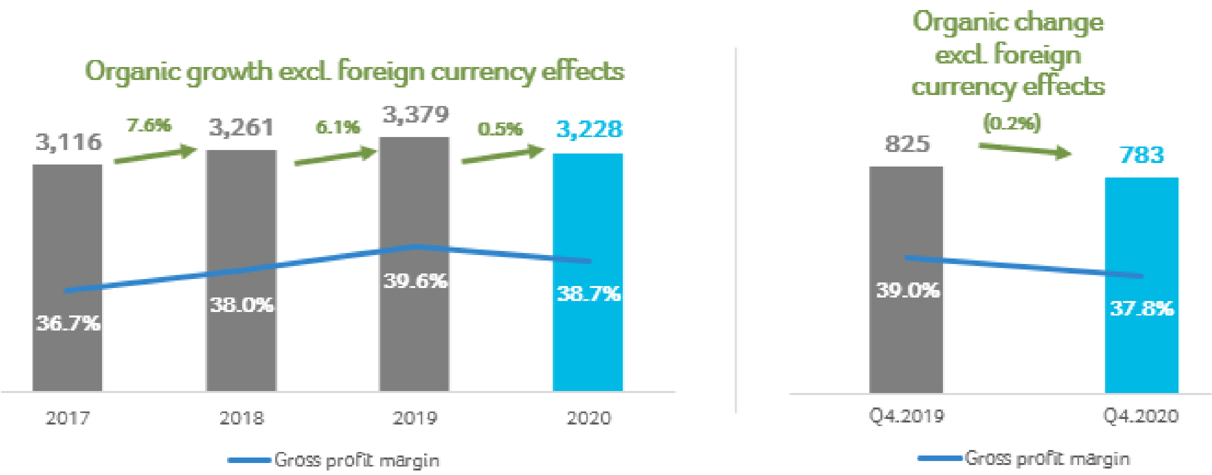
All data in this section are from the Company's Management (Non-GAAP) Reports.

Following are key financial data presented in a quarterly and multiyear comparison, according to the Management (Non-GAAP) Reports:

Net Sales

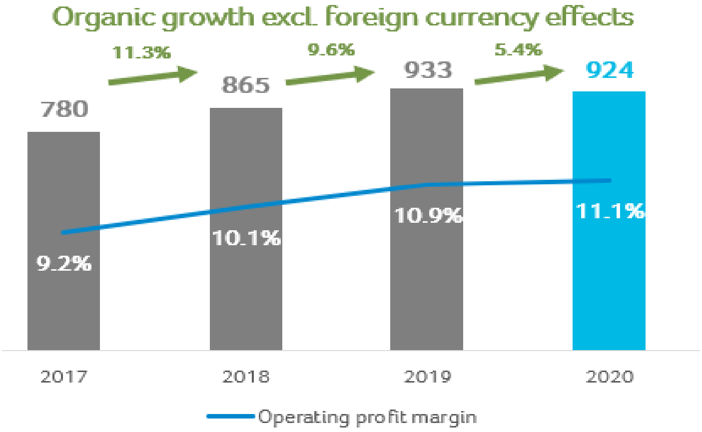


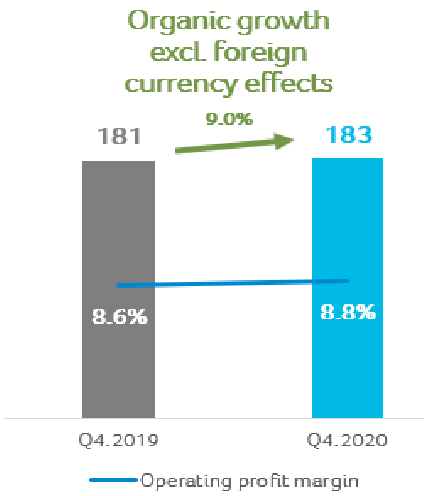
Gross Profit and Gross Profit Margin



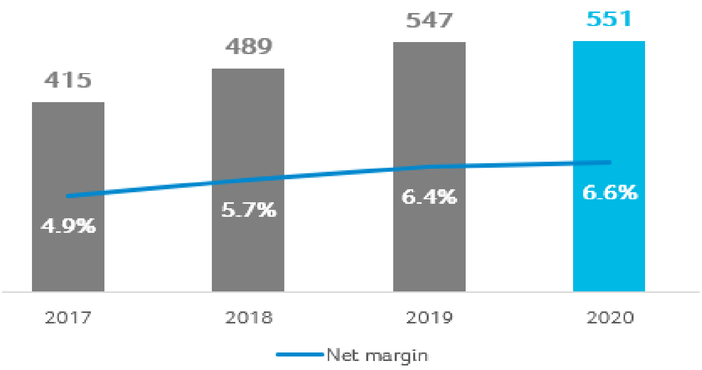
Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

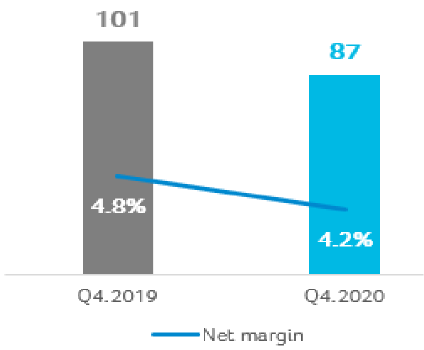
Operating Profit and Operating Profit Margin



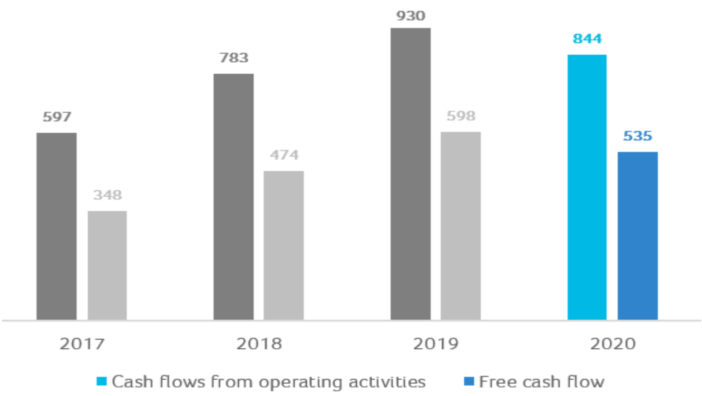


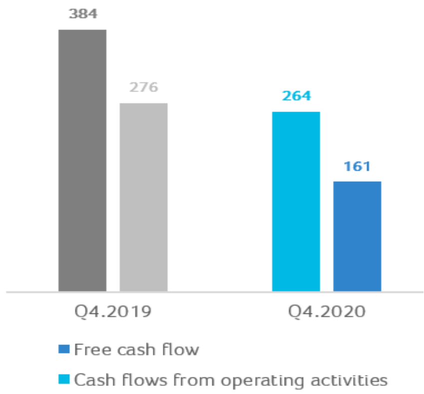
Net Profit and Profit Margin





Cash Flows from Operating Activities and Free Cash Flow

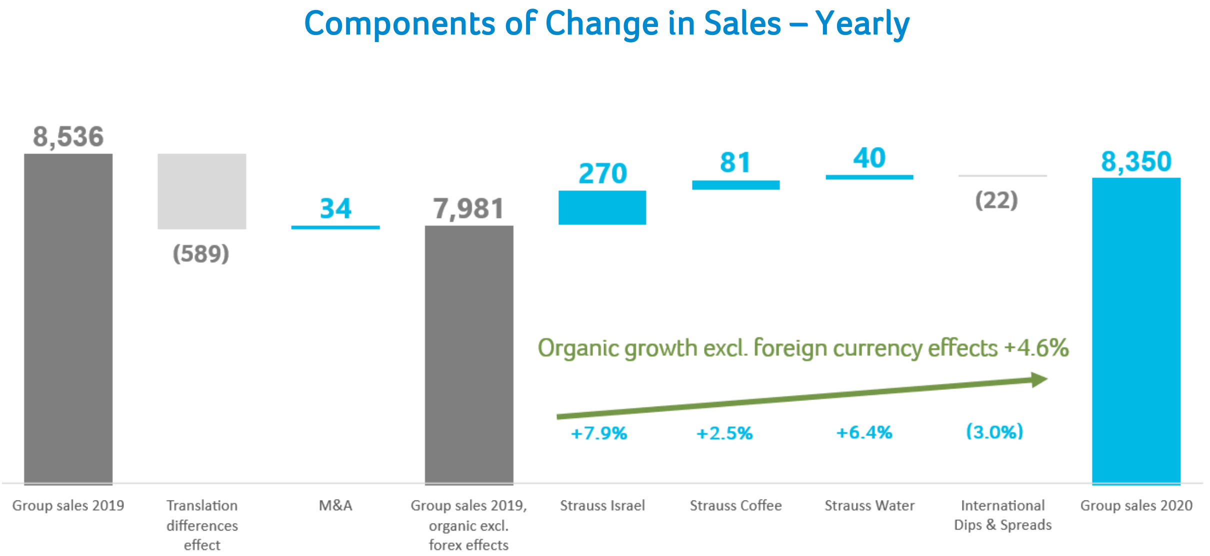


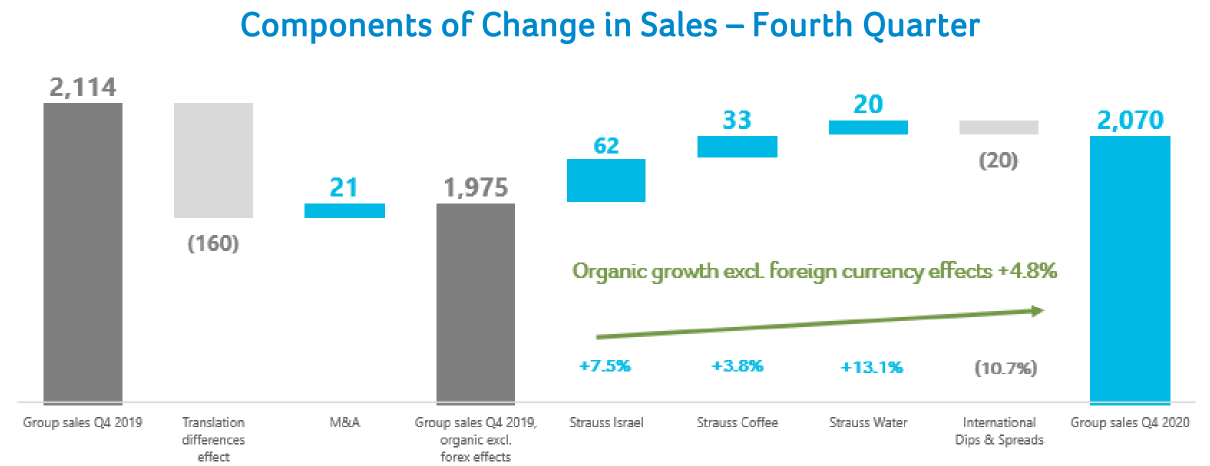


Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

17. Sales – Non-GAAP

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





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

The Group's sales in 2020 were impacted by negative translation differences amounting to approximately NIS 589 million, of which NIS 472 million are due to the depreciation of the Brazilian Real against the Shekel compared to the corresponding period last year.

The Group's sales in the fourth quarter of the year were impacted by negative translation differences amounting to approximately NIS 160 million, of which NIS 121 million are due to the depreciation of the Brazilian Real against the Shekel (see also the foreign exchange rate table in section 6 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 (an increase of approximately NIS 34 million and NIS 21 million in 2020 and the fourth quarter of the year, respectively. compared to the corresponding periods last year), as a result of the acquisition 100% of the shares of Mitsui in Brazil on July 31, 2020 (for further information, see section 21.2.2 below).
- See section 20.1 below for further explanations on organic growth in sales by the Strauss Israel segment.
- See section 21.2 below for further explanations on organic growth in sales by the Strauss Coffee segment.
- See section 21.3 below for further explanations on organic growth in sales by the International Dips & Spreads segment.
- See section 21.4 below for further explanations on organic growth in sales by the Strauss Water segment.

18. Gross Profit – Non-GAAP

Gross Profit – Non-GAAP								
	Year				Fourth Quarter			
	2020	2019	% change	% organic change less translation differences effect	2020	2019	% change	% organic change less translation differences effect
Gross profit	3,228	3,379	(4.5%)	0.5%	783	825	(5.2%)	(0.2%)
Gross profit margin	38.7%	39.6%			37.8%	39.0%		

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

The Group's non-GAAP gross profit in 2020 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 176 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 141 million). In the fourth quarter gross profit was negatively impacted by translation differences into Shekels amounting to approximately NIS 46 million, with most of the translation differences arising from the depreciation of the Brazilian Real against the Shekel compared to the corresponding period in 2019 (approximately NIS 36 million) (see also the exchange rate table in section 6 in this report).

The Group's non-GAAP gross profit in the year and fourth quarter of 2020 dropped by approximately NIS 151 million and NIS 42 million, respectively, compared to the corresponding periods last year:

- See section 21.1 below for further explanations on the change in gross profit in the Strauss Israel segment.
- See section 21.2 below for further explanations on the change in gross profit in the Strauss Coffee segment.
- See section 21.3 below for further explanations on the change in gross profit in the International Dips & Spreads segment.
- See section 21.4 below for further explanations on the change in gross profit in the Strauss Water segment.

19. Operating Profit Before Other Expenses – Non-GAAP

Operating Profit Before Other Expenses – NON-GAAP								
	Year				Fourth Quarter			
	2020	2019	% change	% organic change less translation differences effect	2020	2019	% change	% organic change less translation differences effect
Operating profit (EBIT)	924	933	(1.0%)	5.4%	183	181	1.1%	9.0%
Operating profit margin	11.1%	10.9%			8.8%	8.6%		

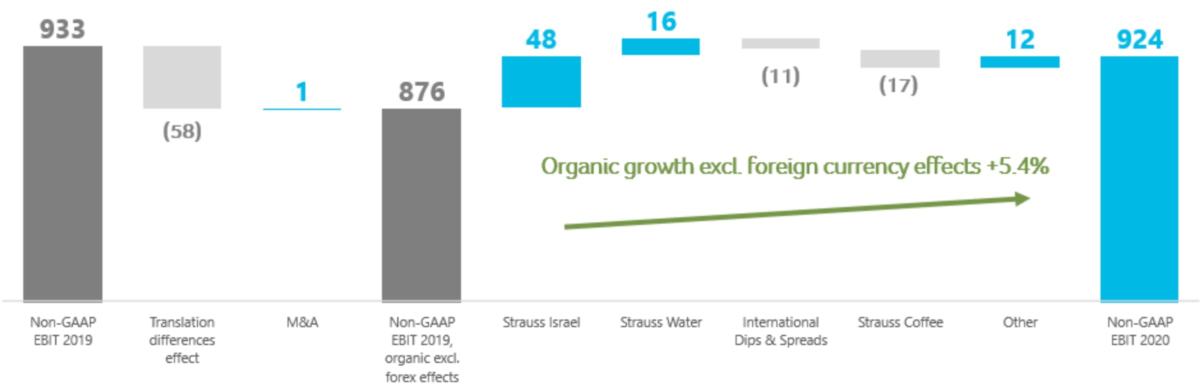
Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

The Group's non-GAAP operating profit (EBIT) in 2020 decreased by approximately NIS 9 million and was adversely affected by negative translation differences into Shekels, which amounted to approximately NIS 58 million (see also the exchange rate table in section 6 in this report).

The Group's non-GAAP operating profit (EBIT) in the fourth quarter of the year rose by approximately NIS 2 million and was adversely affected by negative translation differences into Shekels, amounting to approximately NIS 16 million (see also the exchange rate table in section 6 in this report).

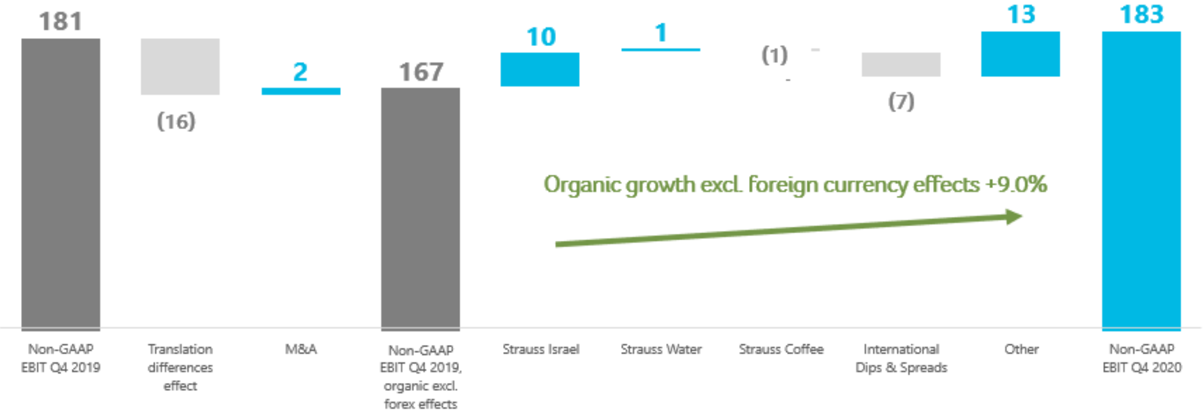
Following are the components of the change in operating profit compared to the corresponding periods last year, according to the Company's major activity segments:

Components of Change in Operating Profit – Yearly



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

Components of Change in Operating Profit – Fourth Quarter



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 year and fourth quarter of 2020 was the result of the following:

- See section 21.1 below for further explanations on the change in operating profit in the Strauss Israel segment.
- See section 21.2 below for further explanations on the change in operating profit in the Strauss Coffee segment.
- See section 21.3 below for further explanations on the change in operating profit in the International Dips & Spreads segment.
- See section 21.4 below for further explanations on the change in operating profit in the Strauss Water segment.
- Growth of approximately NIS 12 million and NIS 13 million in the profit of the Other Operations segment in the year and fourth quarter of 2020, respectively, compared to the corresponding periods last year, due to a decrease in the holding of equity-accounted investees active in Strauss's incubator as well as savings in consultation, travel and business entertainment expenses following the COVID-19 outbreak.

20. Comprehensive Income for the Period (According to the Financial Statements

In 2020 the GAAP comprehensive income amounted to approximately NIS 284 million, compared to comprehensive income of NIS 430 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 315 million compared to foreign currency translation losses of NIS 164 million in the corresponding period.

Foreign currency translation losses in the year are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 208 million are the result of the depreciation of the Brazilian Real against the Shekel compared to exchange rates at the end of 2019.

21.Analysis of the Business Results of the Group's Major Business Units

21.1 The Group's activity in Israel

Strauss Group is the second-largest company in the Israeli food market, and in 2020, according to StoreNext[4] figures, held a 12.0% share of the total domestic retail food and beverage market in value terms (compared to 12.1% in the corresponding period last year), a decrease of 0.1% compared to the corresponding period, which is explained by growth in categories in which the Group is not active. In the market categories that are relevant to its products, the Group outpaced market growth.

The Israeli market is the Group's home market, where it is active in various categories.

The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew by 7.9% in value terms, whereas according to StoreNext, in 2020 the Israeli food and beverage market rose by 9.3% in value.

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

Condensed Results of Strauss Group's Operations in Israel

Information on Strauss Group's Sales in Israel							
	Year			Fourth Quarter			Explanation
	2020	2019	% change	2020	2019	% change	
The Group's sales in Israel	5,029	4,766	5.5%	1,235	1,156	6.8%	Sales growth in 2020 compared to the corresponding period was the result of high at-home consumption and increased demand following the COVID-19 outbreak. Most of the growth was in the Health & Wellness segment in the dairy, yogurt and packaged salads categories and in Yad Mordechai products, as well as in the Strauss Water segment following growth in the customer base. The growth was partially offset by a drop in sales by the Elite Café chain following the closure of points of sale during the lockdowns.

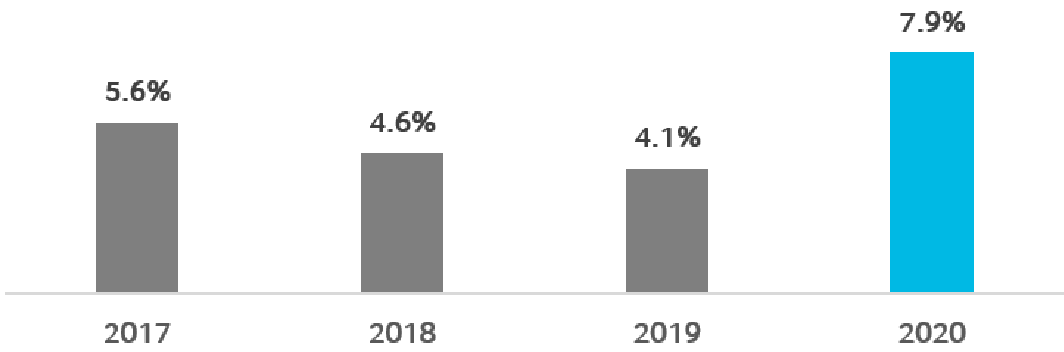
Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

On May 5, 2020 the distribution agreement signed between Strauss Health and Alpro entered into effect. The agreement grants Strauss Health exclusive distribution rights for Alpro products in Israel. Distribution to the retail market began in July 2020, and distribution to the AFH market began in January 2021. The Group is also preparing for the construction of a new production plant that will manufacture plant-based dairy substitutes.

In July 2020 the vegetable production plant relocated from Sde Nitzan to a new factory at Kibbutz Bror Hayil.

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

Organic Sales Growth Excluding Foreign Currency Effects



Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of the Israel Operation by activity segment for the years and quarters ended December 31, 2020 and 2019:

Condensed Results of Business Operations – the Israel Operation

	Year			Fourth Quarter			Explanation
	2020	2019	% change	2020	2019	% change	
Net sales	3,681	3,411	7.9%	894	832	7.5%	Sales growth in 2020 and in the fourth quarter of the year reflects volume growth, which originated mainly in the Health & Wellness segment due to the increase in at-home consumption and demand following the COVID-19 outbreak. Most of the growth in was in the yogurt, dairy and packaged salads categories and in Yad Mordechai products, together with the start of distribution of Alpro products.
Gross profit	1,476	1,354	9.0%	364	330	10.2%	The improvement in gross profit and the gross profit margin in 2020 and in the fourth quarter is the result of sales growth and a drop in the prices of key raw and packaging materials, as well as the depreciation of major currencies of procurement.
% gross profit	40.1%	39.7%		40.7%	39.6%		
Operating profit	418	370	12.8%	90	80	11.2%	The increase in operating profit and the operating profit margin mainly reflects growth in sales volumes compared to the corresponding period last year, an improvement in the gross profit margin and an increase in productivity thanks to the improvement of production, distribution and marketing processes in 2020.
% operating profit	11.3%	10.8%		10.0%	9.7%		

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

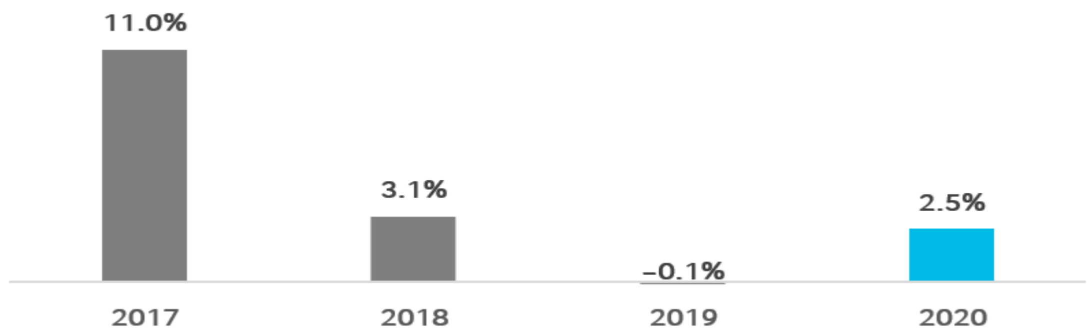
Condensed Results by Segment

Condensed Results of Business Operations by Segment – the Israel Operation	Year			Fourth Quarter			Explanation
	2020	2019	% change	2020	2019	% change	
Health & Wellness							
Net sales	2,537	2,277	11.4%	626	565	10.7%	Sales growth in 2020 and the fourth quarter reflects volume growth, mainly as a result of growth in at-home consumption and demand following the COVID-19 outbreak. Most of the growth originated in the yogurt, dairy and packaged salads categories and in Yad Mordechai products, together with the start of distribution of Alpro products in Israel. The improvement in gross profit and the gross profit margin in 2020 is the result of sales growth, a drop in the prices of key raw and packaging materials and the depreciation of major currencies of procurement.
Operating profit	307	251	22.3%	72	62	14.5%	
% operating profit	12.1%	11.0%		11.4%	11.0%		
Fun & Indulgence							
Net sales	1,144	1,134	0.9%	268	267	0.7%	Sales growth in the Fun & Indulgence segment in 2020 is the result of growth in sales to the retail market, offset by a drop in sales of candy and individual snack bars mainly consumed away from home, a drop in sales of impulse products and consumers refraining from social gatherings due to the COVID-19 outbreak. The drop in the profit margin was mainly due to a change in the category sales mix.
Operating profit	111	119	(7.1%)	18	18	(0.1%)	
% operating profit	9.7%	10.5%		6.8%	6.8%		

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

21.2 The Coffee Operation

Organic Sales Growth Excluding Foreign Currency Effects



In the past decade, Strauss Coffee has become one of the world's five biggest coffee companies in terms of market share (according to Euromonitor[5]). The company's coffee brands hold leading positions in Israel and Brazil, and have a strong market presence (the company is ranked in first to third place) in Romania, Serbia and Ukraine.

Our flexible approach to providing a local response to consumer needs and supply chain management, coupled with our expertise in building partnerships and growth through acquisitions in emerging markets, have been the main drivers of this growth.

We are proud of our strong, local business people and partners who build robust brands supported by an efficient centralized management structure. This structure includes a green coffee procurement center located in Switzerland, as well as activity in Vietnam, a significant source of green coffee.

We also have a strong global R&D and innovation center in Israel, which focuses on a number of spheres such as flavor, aroma, freshness, quality and the improvement of production yields, as part of our belief in ensuring sustainable coffee production. In addition, the company supports local farmers around the world and collaborates with the C4 Association, which advocates the sustainability of green coffee.

In Brazil (through Três Corações (JV)[6]), Israel, Russia and Eastern European countries, the Group manufactures, markets and distributes a variety of coffee products - roast and ground (R&G) coffee, instant coffee, hot drink powders (such as chocolate and cappuccino powders) and cocoa powders for baking. The Group also markets and distributes coffee machines for home use in Brazil and in Israel. In addition, the Group markets and distributes coffee machines and coffee products for consumption away from home (AFH) at hotels, cafés, offices, etc.

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[5] Value market share, excluding mixes, including 100% of Três Corações (JV)'s market share.

[6] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

Furthermore, in Israel the Group is active (through the Elite Café chain) in the sale of coffee products, bakery products and soft drinks at some 65 points of sale countrywide, most of which cater to customers in public places. Additionally, as part of its activity in Brazil (through Três Corações (JV)[7]) the Group purchases, processes and sells green coffee, corn products, plant-based (cashew) dairy substitutes and juice powders.

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of the Coffee Operation by reportable segments for the years ended December 31, 2020 and 2019 (in NIS millions):

[7] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

Condensed Yearly Results of the Coffee Operation

Condensed Results of Business Operations – The Coffee Operation				
	Year			Explanation
	2020	2019	% change	
Israel Coffee				
Net sales	712	754	(5.6%)	The drop in sales in 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, which was partially offset by an increase in quantities sold to the retail market and online and in capsule sales.
Operating profit	158	143	10.7%	The increase in operating profit is the result of growth in sales volumes and savings in operating expenses as a result of the COVID-19 outbreak.
% operating profit	22.3%	19.0%		
International Coffee				
Net sales	2,567	2,972	(13.6%)	Coffee sales in 2020 were negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year. The increase in coffee sales in local currency mainly reflects growth in sales volumes in most geographies, particularly to the retail market, which was partially offset by a drop in sales to the AFH market due to the restrictions imposed following the COVID-19 outbreak. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 20.2.1 below.
Operating profit	196	281	(30.2%)	The change in the operating profit of the Coffee Operation in 2020 reflects: • A drop in the operating profit of Três Corações (JV)[8] in 2020 as a result of a rise in green coffee prices and a drop in sales prices, which was partially offset by growth in quantities sold. • A drop in operating profit in most CEE countries in 2020, excluding Russia, mainly as a result of a drop in sales prices and a rise in the cost of green coffee due to the depreciation of the functional currencies against the Dollar, which was partially offset by growth in quantities sold and savings in marketing expenses. Operating profit in 2020 was negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% operating profit	7.6%	9.4%		
Total Strauss Coffee				
Net sales	**3,279**	**3,726**	**(12.0%)**	In 2020 Strauss Coffee's sales dropped by approximately NIS 447 million compared to the corresponding period. Translation differences into Shekels in the year had a negative impact on sales by the Coffee Operation and amounted to NIS 562 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 472 million.
Organic growth excluding foreign currency effect	**2.5%**	**(0.1%)**		
Gross profit	**1,108**	**1,346**	**(17.7%)**	The decrease in the gross profit margin in 2020 is mainly the result of a drop in sales prices and a rise in green coffee prices, mainly in Brazil, which was partially offset by growth in volume. Gross profit in the year was adversely affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**33.8%**	**36.1%**		
Operating profit	**354**	**424**	**(16.4%)**	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 expenses and operational efficiency enhancement.
% operating profit	**10.8%**	**11.4%**		

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

[8] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (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 the Coffee Operation by reportable segments for the quarters ended December 31, 2020 and 2019 (in NIS millions):

Condensed Fourth Quarter Results of the Coffee Operation

Condensed Results of Business Operations – The Coffee Operation				
	Fourth Quarter			Explanation
	2020	2019	% change	
Israel Coffee				
Net sales	169	171	(1.7%)	The drop in sales in the fourth 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, which was partially offset by growth in sales volumes to the retail market and online.
Operating profit	32	15	118.4%	The Increase in operating profit in the fourth quarter is the result of growth in sales volumes and timing differences of marketing and selling expenses compared to the corresponding period last year, and savings in operating expenses following the COVID-19 outbreak and the lockdown in December.
% operating profit	19.4%	8.8%		
International Coffee				
Net sales	665	762	(12.8%)	Coffee sales in the fourth quarter were negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year. Positive growth in local currency coffee sales in the quarter mainly reflects volume growth in sales in all categories by Três Corações (JV)[9], which was offset by a decrease in sales in CEE countries, mainly as a result of a drop in sales prices. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 20.2.1 below.
Operating profit	39	71	(45.1%)	The change in the operating profit of the International Coffee segment in the fourth quarter reflects: • A decrease in the operating profit of Três Corações (JV)[12], mainly as a result of an increase in green coffee prices, which was partially offset by growth in volume. • A decrease in operating profit in most CEE countries in the fourth quarter, mainly as a result of the drop in sales as mentioned. Operating profit in the fourth quarter was negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% operating profit	5.8%	9.2%		
Total Strauss Coffee				
Net sales	**834**	**933**	**(10.7%)**	In the fourth quarter of 2020 Strauss Coffee's sales dropped by NIS 99 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 153 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 121 million.
Organic growth excluding foreign currency effect	**3.8%**	**(0.8%)**		
Gross profit	**264**	**324**	**(18.7%)**	The decrease in the gross profit margin in the fourth quarter of 2020 is mainly the result of an increase in green coffee prices. Gross profit in the fourth quarter was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**31.6%**	**34.7%**		
Operating profit	**71**	**86**	**(16.5%)**	The decrease in the operating profit margin is mainly the result of the drop in the gross profit margin as mentioned, which was partially offset by savings in marketing expenses.
% operating profit	**8.6%**	**9.1%**		

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

[9] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

21.2.1 Strauss Coffee sales by major geographical regions

Following are sales by the Coffee Operation in the major geographical regions (not including intercompany sales) and growth rates for the years ended December 31, 2020 and 2019 (in NIS millions):

<table>
<tr><th colspan="6">Sales by the Coffee Operation in Major Geographical Regions</th></tr>
<tr><th rowspan="2">Geographical region</th><th colspan="4">Year</th><th rowspan="2">Explanation</th></tr>
<tr><th>2020</th><th>2019</th><th>% change</th><th>% organic change in local currency[1]</th></tr>
<tr><td>Israel Coffee</td><td>712</td><td>754</td><td>(5.6%)</td><td>(5.6%)</td><td>Most of the drop in sales in 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, which was partially offset by growth in sales volumes to the retail market and online and in capsule sales.</td></tr>
<tr><td>International Coffee</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Brazil (Três Corações (JV)) [2] [3] - 50%</td><td>1,469</td><td>1,793</td><td>(18.1%)</td><td>8.4%</td><td>The growth in Três Corações (JV)’s local currency sales is due to growth in quantities sold in most categories, mainly green coffee exports, and completion of the acquisition of 100% of Mitsui Alimentos Ltda. on July 31. For further information, see section 20.2.2 below.</td></tr>
<tr><td>Russia and Ukraine</td><td>536</td><td>579</td><td>(7.4%)</td><td>5.1%</td><td>Most of the growth in local currency sales is the result of an increase in quantities sold in Russia, mainly to the retail market.
The Company’s sales in 2020 were adversely affected by the appreciation of the Shekel against the Russian Ruble and the Ukrainian Hryvnia, by approximately NIS 69 million compared to the corresponding period.</td></tr>
<tr><td>Poland</td><td>276</td><td>279</td><td>(1.2%)</td><td>3.7%</td><td>Most of the growth in local currency was the result of growth in sales volumes, particularly to the retail market, compared to the corresponding period last year.
The Company’s sales in 2020 were negatively affected by the depreciation of the Polish Zloty against the Shekel by approximately NIS 14 million compared to the corresponding period last year.</td></tr>
<tr><td>Romania</td><td>165</td><td>183</td><td>(9.5%)</td><td>(6.5%)</td><td>Most of the drop in local currency sales is the result of a drop in quantities sold, mainly in the AFH channel, and a drop in sales prices.
The Company’s sales in 2020 were negatively affected by the depreciation of the Romanian Leu against the Shekel by approximately NIS 6 million compared to the corresponding period last year.</td></tr>
<tr><td>Serbia</td><td>121</td><td>138</td><td>(12.1%)</td><td>(11.4%)</td><td>Most of the drop in local currency sales is the result of a decrease in quantities sold and in sales prices.
The Company’s sales in 2020 were negatively affected by the depreciation of the Serbian Dinar against the Shekel by approximately NIS 1 million compared to the corresponding period last year.</td></tr>
<tr><td>Total International Coffee</td><td>2,567</td><td>2,972</td><td>(13.6%)</td><td>5.0%</td><td></td></tr>
<tr><td>Total Coffee</td><td>3,279</td><td>3,726</td><td>(12.0%)</td><td>2.5%</td><td></td></tr>
</table>

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

(1) The growth rate in local currency neutralizes the effect of changes in foreign exchange rates in the different countries against the Shekel on the growth in the countries’ sales.

(2) Três Corações – Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. (Data reflect Strauss Coffee’s share (50%)).

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

Following are sales by the Coffee Operation in the major geographical regions (not including intercompany sales) and growth rates for the quarters ended December 31, 2020 and 2019 (in NIS millions):

Sales by the Coffee Operation in Major Geographical Regions

Geographical region	Fourth Quarter				Explanation
	2029	2019	% change	% organic change in local currency(1)	
Israel Coffee	**169**	**171**	**(1.7%)**	**(1.7%)**	Most of the drop in sales in the fourth quarter 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, which was partially offset by growth in sales volumes to the retail market and online.
International Coffee					
Brazil (Três Corações JV)) (2) (3) - 50%	385	437	(12.0%)	13.4%	Growth in Três Corações (JV)'s local currency sales is due to growth in quantities sold, mainly in green coffee and R&G, and completion of the acquisition of 100% of Mitsui on July 31. For further information, see section 20.2.2 below.
Russia and Ukraine	128	165	(22.1%)	(3.1%)	Most of the decrease in local currency sales is the result of a drop in sales volumes in Russia following high growth in the first three quarters of the year, which was partially offset by volume growth in sales in Ukraine. The Company's sales in 2020 were adversely affected by the appreciation of the Shekel against the Russian Ruble and the Ukrainian Hryvnia, by approximately NIS 31 million in the quarter compared to the corresponding period.
Poland	69	72	(5.7%)	(3.6%)	Most of the drop in local currency sales compared to the corresponding period last year is the result of a drop in quantities sold and in sales prices due to harshening competition and discounts granted to customers. The Company's sales in the fourth quarter of 2020 were negatively affected by the depreciation of the Polish Zloty against the Shekel by approximately NIS 2 million compared to the corresponding period last year..
Romania	45	48	(4.7%)	(5.2%)	Most of the drop in local currency sales is the result of a drop in sales prices, which was offset in part by an increase in quantities sold. The Company's sales in the fourth quarter of the year were not materially affected by exchange rates compared to the corresponding period.
Serbia	38	40	(5.3%)	(7.8%)	Most of the drop in local currency sales is the result of a decrease in quantities sold and in sales prices. The Company's sales in the fourth quarter were positively affected by the depreciation of the Shekel against the Serbian Dinar by approximately NIS 1 million compared to the corresponding period last year.
Total International Coffee	**665**	**762**	**(12.8%)**	**5.2%**	
Total Coffee	**834**	**933**	**(10.7%)**	**3.8%**	

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

(1) The growth rate in local currency neutralizes the effect of changes in foreign exchange rates in the different countries against the Shekel on the growth in the countries' sales.

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

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

21.2.2 Três Corações (JV) (Brazil) – 3C – a joint venture between the Group (50%) and São Miguel Group (50%); (Data reflect Strauss Coffee's share (50%))

In 2020 Três Corações (JV)'s[10] average value market share in roast and ground (R&G) coffee was approximately 31.2%, compared to 31.1% in the corresponding period last year. It is noted that market share includes growth following the acquisition of Mitsui, which contributed approximately 2.7%. Excluding the Mitsui acquisition, market share increased by approximately 0.4% (value market share reflecting 100% of Três Corações (JV)'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.

Following are selected data on Três Corações (JV)'s business, in BRL millions (data reflect the Group's holding (50%)):

Selected Financial Data on Três Corações (JV)'s business

	Year			Fourth Quarter			Explanation
	2020	2019	% change	2020	2019	% change	
Sales	2,217	1,995	11.1%	626	519	20.7%	Sales growth mainly reflects growth in sales of green coffee, R&G and capsules, as well as the acquisition of 100% of Mitsui, which was completed on July 31, 2020.
Organic growth	8.4%	(0.2%)		13.4%	(0.3%)		
Gross profit	571	598	(4.5%)	147	152	(3.1%)	The drop in gross profit and the gross profit margin mainly reflects an increase in green coffee prices.
Gross profit margin	25.8%	30.0%		23.5%	29.3%		
Operating profit before other income / expenses	148	185	(20.1%)	36	47	(25.0%)	The drop in operating profit is mainly due to the drop in gross profit and the gross profit margin.
Operating profit margin	6.7%	9.3%		5.7%	9.2%		

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

[10] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

Following are selected data on Três Corações (JV)'s business, **in NIS millions** (data reflect the Group's holding (50%)):

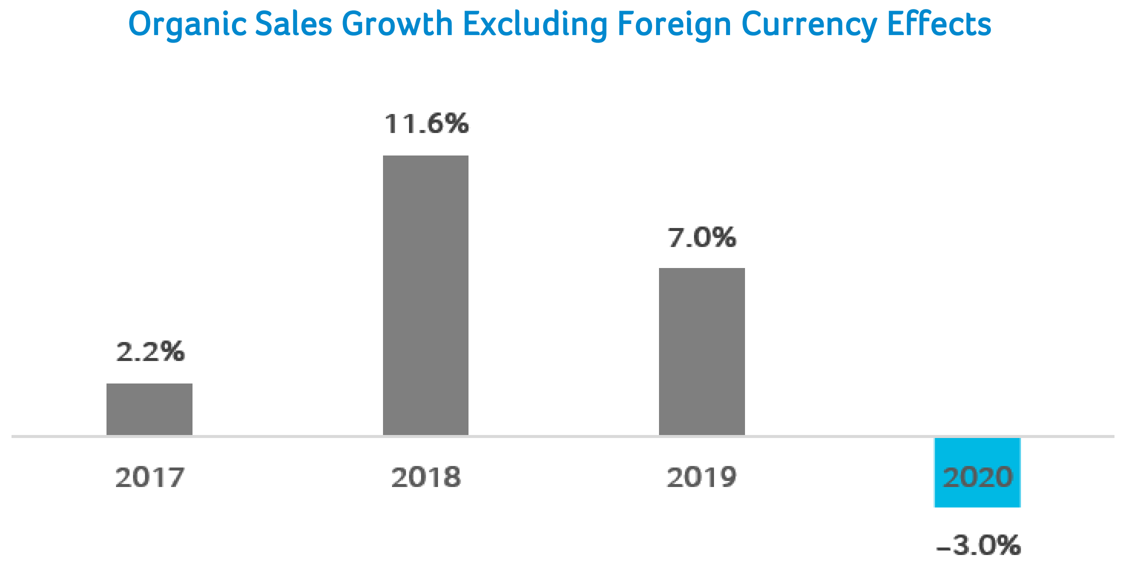
Selected Financial Data on Três Corações (JV)'s business						
	Year			Fourth Quarter		
	2020	2019	% change	2020	2019	% change
Sales	1,469	1,793	(18.1%)	385	437	(12.0%)
Gross profit	382	540	(29.2%)	91	129	(29.3%)
Gross profit margin	25.8%	30.0%		23.5%	29.3%	
Operating profit before other income / expenses	97	167	(41.6%)	22	41	(45.2%)
Operating profit margin	6.7%	9.3%		5.7%	9.2%	

In February 2020, Três Corações (JV)[11] formed 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 in Brazil 50% owned 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 in Brazil. The transaction was completed on July 31, 2020 following the satisfaction of all conditions precedent 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 265 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 23 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).

[11] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

21.3 The International Dips & Spreads Activity



The Group develops, manufactures, sells, markets and distributes refrigerated dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia, New Zealand and Western Europe, as well as under the Florentin brand. 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 52 weeks ended December 31, 2020 was 61.9% (Number 1 in the market), compared to 62.0% in the corresponding period last year.

21.3.1 Sabra

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

Condensed Results of Business Operations – Sabra							
	Year			Fourth Quarter			Explanation
	2020	2019	% organic change	2020	2019	% organic change	
Sales	372	384	(3.2%)	84	93	(9.8%)	Most of the drop in sales is the result of a drop in sales to the AFH market and a change in the sales mix, and an increase in at-home consumption following the COVID-19 outbreak in the US.
Operating profit before other expenses	36	44	(17.5%)	2	6	(59.0%)	The drop in EBIT and the EBIT margin is mainly the result of the drop in sales as mentioned, a negative change in the sales mix and increased manufacturing costs due to the COVID-19 outbreak.
% operating profit	9.8%	11.5%		2.9%	6.0%		

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

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

Condensed Results of Business Operations – Sabra						
	Year			Fourth Quarter		
	2020	2019	% change	2020	2019	% change
Sales	1,281	1,369	(6.4%)	280	326	(13.8%)
Operating profit after other expenses	126	157	(20.2%)	8	19	(58.1%)
% operating profit	9.8%	11.5%		2.9%	6.0%	

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

21.3.2 Obela

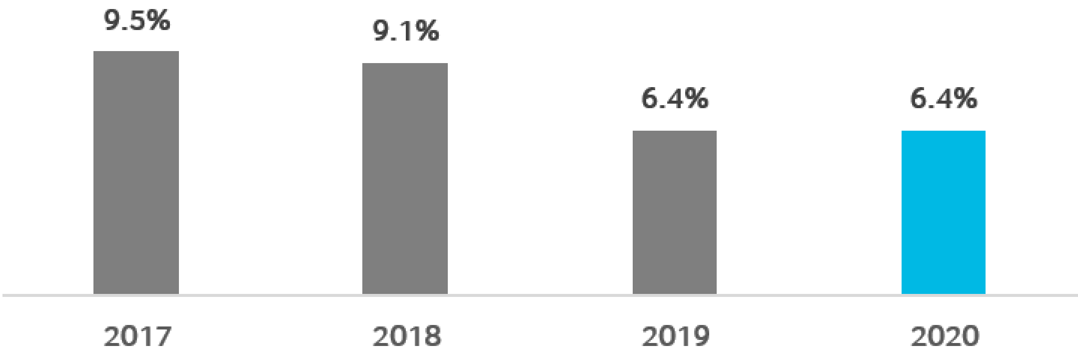
Following are selected financial data on Obela's business (in NIS millions, reflecting 100%):

Condensed Results of Business Operations – Obela						
	Year			Fourth Quarter		
	2020	2019	% change	2020	2019	% change
Sales	163	172	(5.3%)	43	50	(14.9%)
Organic growth excluding foreign currency effect	(1.2%)	11.3%		(16.1%)	10.9%	
Operating loss	(14)	(16)	9.5%	(4)	(2)	(154.0%)

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

21.4 Strauss Water

Organic Sales Growth Excluding Foreign Currency Effects



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 filtration and purification of drinking water in China.

In Israel, water filtration, purification and carbonation appliances are sold to end customers in combination with a service agreement for perishable components. In the framework of these service agreements Strauss Water provides a warranty for the duration of the term of the agreement, and the customer may terminate the 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 years and quarters ended December 31, 2020 and 2019 (in NIS millions):

Condensed Results of Business Operations – Strauss Water							
	Year			Fourth Quarter			Explanation
	2020	2019	% change	2020	2019	% change	
Net sales	668	628	6.4%	181	161	13.0%	Most of the growth in 2020 and the fourth quarter originated in the business in Israel, mainly due to growth in the customer base, an increase in the number of appliances sold, particularly in the fourth quarter, and growth in the business in the UK.
Operating profit	91	75	21.4%	21	20	5.3%	The increase in operating profit in the fourth quarter of 2020 compared to the corresponding period mainly reflects an increase in the Company's share of the profits of HSW following recognition of a regional development grant of approximately NIS 11 million received in the second quarter, and savings in operating expenses. Excluding the profits of the joint venture, in 2020 the operating profit fell by approximately NIS 3 million, and the EBIT margin fell by 0.7% and amounted to 6.1%. The drop in the operating profit margin was the result of additional costs incurred as a result of the COVID-19 outbreak. Excluding the profits of the joint venture, in the fourth quarter the operating profit fell by approximately NIS 4 million, and the EBIT margin fell by 3.1% and amounted to 3.5%. The decrease in the operating profit margin was the result of timing differences of marketing and selling expenses compared to the corresponding period last year.
% operating profit	13.6%	11.9%		11.3%	12.2%		

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

21.4.1 Results of Haier Strauss Water (HSW)

Following are selected financial data on HSW's business **in RMB millions** (data reflect 100% ownership):

Selected Financial Data on Haier Strauss Water's Business

Condensed Results of Business Operations – HSW							
	Year			Fourth Quarter			Explanation
	2020	2019	% organic change	2020	2019	% organic change	
Sales	1,158	1,164	(0.5%)	380	341	11.3%	The drop in sales in 2020 is mainly the result of the impact of the COVID-19 outbreak in China in the first quarter and recovery in subsequent quarters, with positive growth in the second half of the year.
Net profit	215	139	54.5%	61	40	53.9%	The increase in net profit in 2020 was mainly the result of an improvement in the EBIT margin, as well as recognition of a regional development grant of approximately RMB 45 million received in the second quarter.

Financial data were rounded to RMB millions. Percentages changes were calculated on the basis of the exact figures.

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

Condensed Results of Business Operations – HSW						
	Year			Fourth Quarter		
	2020	2019	% organic change	2020	2019	% organic change
Sales	577	599	(3.6%)	190	170	12.8%
Net profit	107	72	49.8%	30	20	55.9%

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

In March 2020, the board of directors of HSW approved an investment of approximately RMB 375 million (approximately NIS 190 million) for the construction of a facility for the production and assembly of HSW products sold in China. The planned site area is approximately 24 acres, and preparation of the land for construction began at the end of March 2020 and is planned to be completed by the second half of 2021. HSW estimates that construction of the manufacturing site will improve its competitive position, as in-house manufacturing capabilities allow for greater flexibility in the development and production of unique, innovative products, shorter time-to-market and the launch of high-quality products. Such capabilities carry significant weight in leveraging a competitive position in a growing and developing market. It is further noted that the majority of significant players in the market have in-house manufacturing capabilities. To support the realization of HSW's strategy and its ongoing activities, the subsidiary Strauss Water granted a shareholder loan of approximately NIS 49 million, in accordance with its share in the partnership.

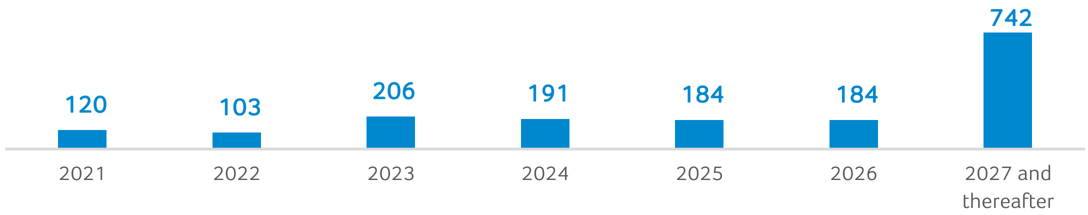
The information contained in this section, the date of construction of the manufacturing site, including estimates that its construction will enable HSW to improve its competitive position, is forward-looking information as this term is defined in the Securities Law, which is based on the information available to the Company on the date of this report and includes the Company's estimates on the reporting date. Actual results may differ materially from those anticipated, among other things as a result of market developments and the impacts of the COVID-19 outbreak. See also sections 3-12, "Changes in the Economic Environment".

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.

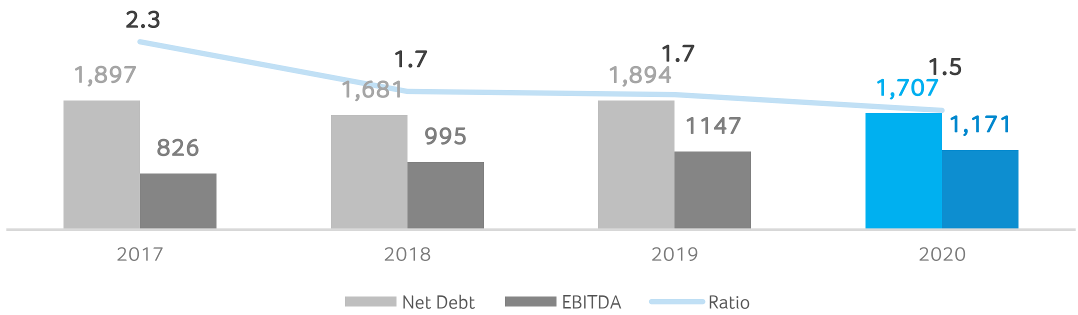
LIQUIDITY, SOURCES OF FINANCE AND FINANCIAL POSITION

Repayment Burden – Long-Term Loans and Debentures



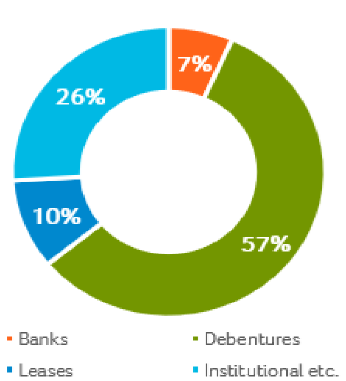
5.9	Aa1il	ilAA+	2,198	1,707
Average life	Moody's rating	S&P rating	Gross debt	Net debt

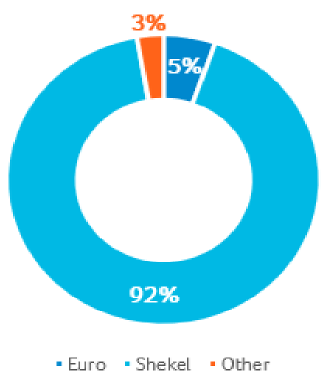
Net Debt-to-EBITDA Ratio

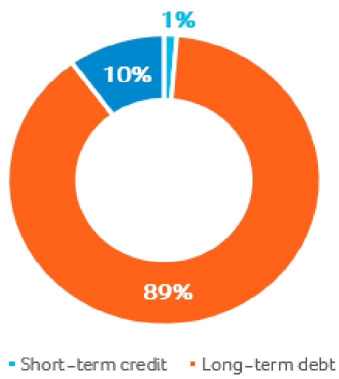


* IFRS 16 – Leases has been applied since 2019.

Debt Composition







Financial data are GAAP data in NIS millions. Percentages were calculated on the basis of the exact figures in NIS thousands.

22.Liquidity (According to the Financial Statements)

22.1 Credit rating

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

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

On July 5, 2020 the Company reported that Midroog had assigned an Aa1.il rating 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.

22.2 Cash flows

Following is information on cash flows from the Group's operating activities, which were used in investing and financing activities:

Cash Flows

	Year			Explanation
	2020	2019	Change	
Cash flows from operating activities	610	672	(62)	Most of the decrease is due to an increase in income tax paid and interest paid (including, inter alia, a loss on prepayment; see Note 20.7 to the Consolidated Financial Statements), which was partially offset by a positive change in working capital compared to the corresponding period last year.
Cash flows used in investing activities	(169)	(24)	(145)	Most of the decrease is due to encashment of a deposit in the corresponding period, as well as the grant of a long-term loan in the current period (for further information on the loan, see section 20.4.1).
Cash flows used in financing activities	(461)	(542)	81	Most of the change is the result of the consideration received for the issue of the Series F Debentures, and conversely, to repayment of a long-term loan and the redemption of debentures (including prepayment; for further information, see Note 20.7).

Financial data were rounded to NIS millions.

22.3 Average volume of loan liabilities and credit

Following is information on average credit volumes:

Average Credit Volume				
	Year			Explanation
	2020	2019	Change	
Average long-term credit volume according to the Non-GAAP Report	2,605	2,710	(105)	Growth in the average short-term credit volume is the result of utilization of a secure line of credit. The decrease in the average long-term credit volume is the result of a decrease in long-term loans and credit and in lease liabilities, which was partially offset by the issue of the Series F Debentures.
Average short-term credit volume according to the Non-GAAP Report	245	155	90	
Average long-term credit volume according to the Financial Statements	2,369	2,492	(123)	
Average short-term credit volume according to the Financial Statements	37	17	20	

Financial data were rounded to NIS millions.

22.4 Status of Liabilities Report according to payment dates

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

22.5 Net working capital

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

Change in Net Working Capital				
	Year		Fourth Quarter	
	2020	2019	2020	2019
Change in net working capital according to the Financial Statements	6	(57)	31	103
Change in net working capital according to the proportionate consolidation method	(7)	(128)	177	187

Financial data were rounded to NIS millions.

22.6 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.

22.7 Additional information on liquidity and operating cash flow based on the Financial Statements

Following is additional financial information with respect to the Company's liquidity:

Additional Information on the Company's Liquidity

Additional information		
	December 31, 2020	December 31, 2019
Liquidity ratio	1.20	1.12
Liabilities in respect of long-term loans and credit (including current maturities)	2,168	2,411
Short-term credit (excluding current maturities)	29	8
Supplier credit	755	732
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	35.2%	34.6%
Equity attributable to the shareholders of the Company	2,260	2,277

Financial data were rounded to NIS millions.

Following is information on the debenture trustees:

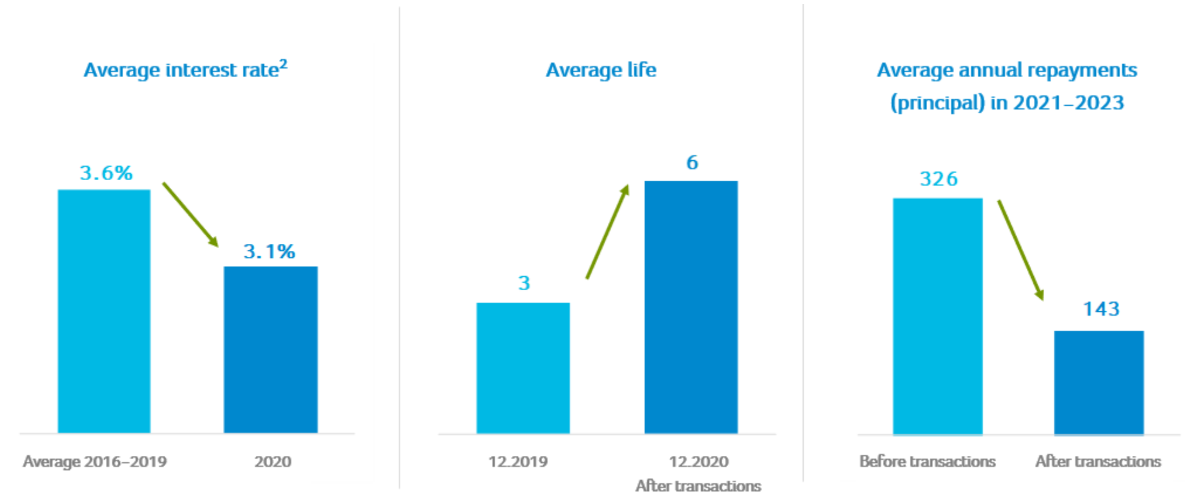
	Debentures E	Debentures E expansion	Debentures F
Trust company	Reznik Paz Nevo Trusts Ltd.		
Name of manager in trust company	Mr. Yossi Reznik		
Email	yossi@rpn.co.il		
Tel.	03-6389200		
Fax	03-6389222		
Address	14 Yad Harutzim Street, Tel Aviv		

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 covenants undertaken by the Company for as long as the Series F Debentures have not been redeemed in full, see Note 20.4 to the Consolidated Financial Statements as at December 31, 2020.

On December 31, 2020, equity attributable to the shareholders of the Company was NIS 2,260 million. The financial debt-to-EBITDA ratio according to the Financial Statements was 1.5, and the equity-to-assets ratio was 35.2%. As at December 31, 2020 the Company is in compliance with the required covenants.

Further to the issuance of the Series F Debentures as described above and at the date of this report, the Company effected an early redemption of Series D Debentures and prepayment of loans from institutional entities and banks at an amount of approximately NIS 725 million (of which payments of principal amounting to NIS 140 million were paid in accordance with the original payment date; for further information, see also Note 20.7 to the Consolidated Financial Statements as at December 31, 2020). 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 early redemption and prepayment have led 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 reduction of the future repayment burden, the collective purpose being to allow for stability and financial flexibility while maintaining a high credit rating.

Following is the effect of the transactions executed by the Company on the Group's major debt indices:



(1) The indices shown are calculated on the basis of the interest rates, average life and repayment dates (principal) of debentures issued by the Company 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, 2020).

(2) Calculated by dividing interest expenses for the period by the average outstanding debt for the period (not including losses on early redemption and prepayment; see Note 20.7 to the Consolidated Financial Statements of the Group).

Following is the distribution of EBITDA between the Group's operating segments, in NIS millions:

Distribution of EBITDA Between the Group's Operating Segments

	Year			Fourth Quarter		
	2020	2019	% change	2020	2019	% change
Strauss Israel	574	510	12.4%	131	117	10.9%
Strauss Coffee	466	535	(13.0%)	99	114	(13.4%)
International Dips & Spreads	83	97	(15.1%)	9	15	(43.2%)
Strauss Water	128	113	14.1%	32	30	7.6%
Other Operations	26	15	83.4%	4	(6)	171.7%
Total	**1,277**	**1,270**	**0.5%**	**275**	**270**	**1.7%**

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

23. Disclosure Relating to the Examination of Warning Signs in Respect of a Working Capital Deficiency Under Regulation 10(B)(14)(a)

In the Company's separate financial information ("solo report") for 2020 there is a working capital deficiency of approximately NIS 21 million. There is no such deficiency in the Consolidated Financial Statements of the Company for the year 2020. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 31 million. In light of the working capital deficiency in the solo report, on March 21, 2021 the Board of Directors of the Company examined the Company's liquidity as described below, and determined that said working capital deficiency is not indicative of a liquidity issue in the Company. This decision is based on a review, inter alia, of the Company's financial results as reported in the Financial Statements of the Company as at December 31, 2020, and is also based on data pertaining to the Company's projected cash flow for the next two years given the Company's existing and anticipated liabilities, including the Company's liabilities to the holders of its debentures (Series E and F) and to banking corporations and their maturity dates, and on an inspection of existing and anticipated sources for the repayment of these liabilities and the resources arising from the Company's holdings in its major investees, including the receipt of dividends, repayment of loans made available to investees, raising capital from banking corporations and/or other sources if necessary; as well as on the financial strength of the major investees of the Company and their leading competitive position in the markets where these companies operate. The Board of Directors also reviewed sensitivity analyses of the Company's projected cash flow, including the development and implications of the COVID-19 outbreak, for the next two years, and determined that the working capital deficiency is not indicative of a liquidity issue in the Company.

It is emphasized that the abovementioned assessment by the Board of Directors is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts and on its analysis of its actual cash flows in the period since the end of the year and its future cash flows, its existing and anticipated liabilities, its existing assets, its expectations as to future profits and dividend distributions by investees, etc. There can be no assurance that these assessments, in whole or in part, will, in fact, occur, or that they will not occur in a different form, including materially, than estimated, among other things as a result of market behavior and occurrence of the risk factors set forth in section 29 in the chapter Description of the Company's Business in the 2020 Periodic Report.

Sustainability, CSR, Social Investment and Contributions

24.Sustainability, CSR, Social Investment and Contributions

2020 was indelibly marked by the COVID-19 outbreak, which significantly affected the Group's sustainability activities. Part of the plans for improvements and changes were by necessity postponed in order to cope with the emergency routine, but despite the challenges, in some sites the Group succeeded in implementing changes for the benefit of protecting the environment, improving working conditions and making upgrades to create better production jobs that are more aligned with the future of employment. In parallel, Strauss Group, including its companies and units, significantly increased its community contribution and support for its employees.

In 2020 the Group's activities in the spheres of sustainability, CSR, social investment and contributions focused on the following:

a. Community activities and investments surrounding the COVID-19 outbreak

When the crisis broke out, the Group formulated an impact strategy to help its various stakeholders, focusing on the Company's employees, its suppliers and its ecosystem, senior citizens and medical staff at the forefront of the battle against the pandemic. The Group invested efforts in maintaining business continuity while meticulously protecting the health of its employees and crafted diverse plans to support people, which encompassed numerous circles based on moral commitment, coupled with the understanding that the social and economic resilience of the communities and countries in which the Group operates is a condition for the continuity and prosperity of its business in the future. Strauss Group supported suppliers with information and various aid mechanisms; enlarged its community support budget through contributions as well as other supportive means in diverse population groups coping with the fallout of the outbreak. The guiding concept adopted by the Group was that immediate actions designed to strengthen and provide support must be taken, and that a forward-looking perspective must be applied in order to implement action plans for rehabilitation, recovery and reconstruction when the situation permits. This concept has guided the Group in all sustainability spheres, such as retaining and boosting the material and mental resilience of its employees, increasing diversity and inclusion, strengthening the supply chain, and others. In 2020 the Group donated more than 80 thousand food parcels to families that had been harmed by the COVID-19 outbreak and to senior citizens suffering from the isolation and alienation from their nearest and dearest that had been imposed on them, as well as tens of thousands of parcels that were distributed to medical teams worldwide.

b. Refreshment of the Code of Ethics

In 2020 the Group completed the process of refreshing its ethics infrastructure, including implementation of a renewed Code of Ethics published in the Group's 11 working languages, a series of policy papers on subjects that are material to stakeholders, and a refresh of supporting work procedures in addition to updating the ethics hotline mechanism. The new, revised policy papers relate to human rights, diversity and inclusion, product safety, environmental sustainability, responsible marketing, sustainable raw materials, employee health and safety, community investment, animal welfare and an up to date anti-bribery and anti-corruption policy and privacy protection policy. The refresh was carried out on the basis of revisiting material subjects as part of a process of extensive strategic work, and examining the major changes that had occurred in the business and social environments and in the environment itself.

c. 2030 Sustainability Strategy

At the end of 2019 the Group embarked on a process of developing a new sustainability strategy that incorporates global and local perspectives, world trends, leading initiatives in the sector and other factors. Strauss Group views sustainability as a central layer in its activities alongside business strategy, and accordingly, formulated a long-term concept with the aim of proposing a leading, effective sustainability strategy for the next decade. The strategy sets ambitious goals to enable the Group to create a positive impact in environmental and social spheres. In the context of the new strategy, metrics were defined to examine the Group's performance and progress in alignment with its goals, which are presently in the process of final approval.

d. Advancement of diverse populations and equal opportunity

In 2020 the Group increased its activity for the advancement of equal opportunity among population groups and its employees, wrapping up the year with 45% of women in management positions and making stable progress toward the accomplishment of its target of 50%. In parallel, the Group has continued to advance people in population groups that are underrepresented in the workforce – minorities and people with disabilities – in its companies. Marketing teams have furthered mindful marketing, which presents diverse people from all parts of the population, breaking down stereotypes and social prejudices. In addition, a number of brands have begun working on a brand mission, accompanied by an expert consultant. The Group is promoting a project in the Social Economic Forum through a roundtable led by the CEO of Strauss Israel for the advancement of productivity in Arab society, and is a member of the steering committees for supplier and population diversity.

e. Joining global protests and social justice

In addition to the COVID-19 outbreak, the world has dealt with a rise in gender-based violence, a phenomenon that the UN has called a "pandemic within the pandemic". Women have been seriously harmed both in the workplace and in their personal lives, Strauss Group joined the global war on domestic and racial violence, taking action in the various territories to raise awareness through digital campaigns, in the traditional media and even by using trucks as mobile billboards, while increasing contributions to nonprofits that help and support victims as well as those working on prevention and research. Further, as part of the widespread Black Lives Matter discourse, Sabra's CEO issued a letter to all company employees, a steering committee was formed and a dialogue program launched.

f. Ongoing activity and achievements in various spheres to improve the Group's impact on its stakeholders

In 2020 the Group continued to invest efforts to improve its impact on its stakeholders in a number of areas:

- Management of the Company's business activities from the environmental aspect and reduction of its impacts in terms of energy consumption, greenhouse gas emissions, water consumption and waste production. In each of these areas goals were set, and the Group is working year by year to improve its performance while developing dedicated projects, as it perpetually aspires to do better and limit negative impacts on the environment. The Company's production plant in the US was LEED Gold certified, in Romania and Serbia solar energy systems were built and in Israel the construction of another plant conforming to the LEED standard was announced. In the past five years the Group has reduced its energy consumption per ton of product by 7%, GHG emissions per ton of product by 17% and water consumption per ton of product by 12%. 90% of Strauss Group's solid waste is treated in various forms of recycling and reuse.

- The Group continued to support women and communities in coffee production. Strauss Coffee's More Than a Cup program, which supports women working in coffee farms in some ten partnerships in eight countries was expanded, achieving a positive impact among more than 14,170 coffee farms and households, which Strauss Coffee supports through equipment and manpower, and a new partnership was launched in Congo with 500 households. In Brazil, Project Florada, which supports local women coffee growers, reached a record of 1,000 participants, and the Tribos project, designed to provide livelihoods for the indigenous tribes of the Amazon, was expanded further to its launch in 2019.

- The wellbeing of cows and environmental responsibility are of great importance to Strauss. Consequently, for the past two years the Group has advanced a unique, groundbreaking program for the furtherance of sustainability along the entire supply chain – from the cowshed to the bottle of milk on the consumer's table. This year, the Company launched the Sustainable Cowshed program that focuses on the welfare of the animals in the cowsheds. The program includes the formulation of rigorous criteria for everyday practices in the cowshed, which incorporate, among others, discontinuation of freeze branding, wastewater treatment, technological tools for monitoring and protecting the health of the cows and imparting mindful dairy farming norms designed to create a decent milking and living environment for the cows. In 2020, 92% of the cowsheds that work with Yotvata Dairies implemented the program parameters in full. Six parameters are applied in 100% of the cowsheds, such as generating electricity using solar energy and switching from preventive antibiotics to selective antibiotics, which are administered to the cows only when necessary.

- As a leading food company in Israel, the Company considers it its duty to donate quality food products and contribute to increasing nutrition security among the needy in Israel on a permanent basis all year round. At the same time, we consider ourselves responsible for food rescue and prevention of food waste. Strauss donates food products through the largest food bank in Israel, "Latet", which provides food to dozens of nonprofit organizations and to people in need all over the country. In 2020, more than NIS 10 million worth of food products were donated through "Latet". Additionally, at Sabra in the US over 360,000 boxes of food products were donated through the food rescue scheme. Thanks to changes in food rescue activities, this year Sabra succeeded in salvaging some 80% of their short shelf life products, compared to 13.9% in 2017.

- As a food company that looks ahead to the future of food and food security, the Group continued to invest in seeking out new paths to innovation in food and agriculture. This year, 142 tons of sugar were removed from products as well as 7.4 tons of salt from salty snacks. This year also saw the first harvest of sesame whose cultivation was tailored to industrial harvesting, which was planted, grown and harvested in Northern US. This has also reduced environmental implications arising from transportation. In addition, six new startups joined The Kitchen Hub, Strauss Group's FoodTech incubator. During the period of the COVID-19 outbreak a limited edition of Actimel (Danone) was introduced, containing Vitamin C and D, to strengthen the body's natural immunity.

g. Community involvement

In 2020 the Group continued to deepen its community investment activities, focusing on the promotion of a healthy lifestyle and mindful eating, in addition to the advancement and economic empowerment of diverse communities. In June the Group celebrated CSR week, Strauss CARE (Community, Activity, Responsibility to Engage), which brought all Strauss sites across the globe together to promote activities designed to help agriculture with harvesting and packing following the COVID-19 outbreak. This was accompanied by remote volunteering by those who were prevented from being active outside the home. Despite the social distancing directives and limitations on activity, Strauss employees donated more than 7,000 volunteer hours. In addition, in the context of its community relations activities and employee volunteering program, Strauss supports some fifty significant social organizations by donating employee volunteer hours and other contributions.

Besides its main social investment activities, the Group continues to support a variety of social causes in Israel and other countries where the Group operates. This year, the Group invested significantly in food donations to communities all over the world, with emphasis on the elderly, medical staff and families harmed as a result of the COVID-19 outbreak. Over 200 thousand food parcels were donated across the globe, and over one million products. Among other things, an innovative project, "Doing Good Together", was launched in Israel, in which some 12,000 families were given smart personal digital coupons for the purchase of Strauss products at the food chains.

Furthermore, protective equipment was donated, and Strauss tech teams developed and donated equipment for the war against the COVID-19 outbreak. The people at Strauss Water developed a sanitation machine based on the UV lamp of the water purification appliance. The machine is effective in sanitizing the personal protection equipment of medical staff, and some 100 machines were donated. In Brazil, the filter production plant was converted for the manufacture of masks, which were donated to medical teams.

In 2020 the Company invested approximately NIS 24.3 million in cash and in kind (food), and approximately NIS 1 million in the development of CSR, community involvement and the value of employee volunteer hours.

The following table presents the Group's contributions in excess of NIS 50,000, where a relationship exists between the recipient of the donation and the Company, a director, general manager, controlling shareholder of the Company or a controlling shareholder's relative:

Recipient	Value of the contribution (NIS)	Nature of the relationship between the recipient and the Company, a director, general manager, controlling shareholder or controlling shareholder's relative
The Association for the Advancement of Community Centers in Israel	265,696	• Dalia Narkys, a director of the Company, is a director of Hevrat Hamatnasim Community Center Company

ASPECTS OF CORPORATE GOVERNANCE

25.The Board of Directors and Its Committees

As at the date of publication of the report the Board of Directors comprises 12 members who possess different backgrounds and areas of expertise, including three external directors and one independent director.

On October 28, 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).

On December 31, 2020 Professor Arie Ovadia ceased to serve as a director of the Company. For further information, see the Immediate Report published by the Company on December 30, 2020 (reference number 2020-01-141828).

The directors do not fill other positions in the Company and are not employed by the Company, with the exception of Ms. Ofra Strauss, who actively serves as Chairperson of the Board. The Board has five standing committees which are active on a regular basis: the Audit Committee, the Financial Statements Review Committee, the Remuneration Committee, the Finance and Investment Committee and the Human Resources, Nominating and Corporate Governance Committee. Additionally, there is an ad-hoc risk management committee that convenes as needed.

25.1 Directors with accounting and financial skills

In the opinion of Board of Directors, the directors Ronit Haimovitch, Meir Shani ,Galia Maor ,Dalia Narkys, Professor Joshua Shemer, Dorit Salinger, Dalia Lev and Tzipi Ozer-Armon possess accounting and financial skills.

The Board of Directors of the Company has determined that the minimum number of directors with accounting and financial skills required by the Company is three. This assertion was made taking into consideration, among other things, the size of the Company, the scope of its activity, the number of members on its Board of Directors and the complexity of financial reporting in the Company. In the Company's opinion, the adequate minimum number determined as aforesaid will enable the Board of Directors to perform its duties according to the law and the Company's incorporation documents, particularly with respect to its responsibility for examining the financial position of the Company and for the preparation and approval of the financial statements. The names of the directors and the particulars by reason of which they are considered directors possessing accounting and financial skills are set forth in the chapter Additional Information on the Company in Regulation 26.

25.2 Independent directors

The Company has not adopted a provision regarding the percentage of independent directors in its Articles of Association. For further information, see Regulation 26 in the chapter Additional Information on the Company as at December 31, 2020 and the Company's Corporate Governance report in Chapter E below.

26.Risk Management

Strauss Group executes yearly and multiyear processes to map risks. Responsibility for risk management is based on the Three Lines of Defense model, which defines the business units as the first line of defense, the compliance and risk management function as the second line of defense, and the internal audit as the third line of defense.

Strauss Group's risk management routines include the identification, measurement and assessment of risks (which are performed through yearly and multiyear processes), monitoring, control and mitigation (performed on an ongoing basis), and reporting to Group Management and the Board of Directors on predefined dates. Additionally, the Company applies formal work methodologies designed to manage and solidify the risk management culture in the Group, with teams in place in the business units that analyze and assess the risks and propose appropriate precautionary measures. These subjects are handled by the managements of the business units and controlled by Group Headquarters, which also manages master risks on the Group level. The Group's head risk management function is the Group's CFO, Ariel Chetrit.

Every three years the Company performs an internal risk survey and revises the risk maps of the Group's operating segments. In the internal risk survey, the Group defines the probability of each risk and the extent of its severity based on a defined scale. Risk intensity is determined by multiplying the extent of the impact by the level of probability, taking risk velocity (how fast the exposure can impact the organization) into account. Intensity is assessed on three levels: low, medium and high, according to the Company's risk matrix. A mitigation plan is built for each risk identified in the overall risk management process that requires a response.

Reports on the development of risks and actions for their mitigation are furnished to Company Management on a half-yearly basis, and to Board of Directors on a yearly basis. Additionally, the Audit Committee receives periodic reports for the purpose of oversight and assessment of issues related to risk management in the Group, and executes dedicated risk surveys through the Internal Auditor in his capacity as the third line of defense. Additionally, an ad hoc Risk Management Committee convened several times during the year on an as-needed basis.

27.Information on the Internal Auditor of the Company

Internal Auditor of the Company: Shlomo Ben Shimol, CPA, CIA (Certified Internal Auditor) (hereinafter: the "Auditor"), has served as internal auditor since 1999. The Auditor does not hold securities of the corporation. Furthermore, the Auditor or the entity on behalf of which the Auditor acts has no business relations with the Group that may create a conflict of interest. The Auditor provides internal auditing services as an outsourcer on behalf of Deloitte Israel. The Auditor is a partner in the aforementioned firm. It is noted that Deloitte Israel also provides consulting services to the Group in various spheres, on an immaterial financial scale.

Manner of appointment: The Board of Directors and its Audit Committee approved the Auditor's appointment, noting his professional qualifications, auditing experience, and his knowledge of the Strauss Group's business. Additionally, the Chairman of the Audit Committee and the Audit Committee receive reports on the members of the Auditor's team and their professional qualifications.

The Auditor's supervisor in the Company: The Chairperson of the Board of Directors.

The work plan: The internal audit's yearly and multiyear (generally, three years) work plan is based on the risk surveys and their revisions performed in the Group, in order to build a risk-based plan. The work plan includes the activity of Group Headquarters and the subsidiaries operating in Israel and abroad.

The internal audit in Strauss Group revises the yearly and multiyear work plan on a regular basis. The internal audit's work plan is risk-focused and adapted according to changes in the Group's business activity.

The goal of the process of revising the risk-focused work plan is to examine, on a continuous and dynamic basis, changes in risk factors and exposure in Strauss Group's operations and to monitor the level of control and risk management in the various audited units, and in this manner, to examine, on a continuous basis, the alignment of the internal audit's work plan with the Group's needs.

Considerations in determining the subjects in the audit plan:

- The results of risk surveys performed in Strauss Group;
- Interviews with different managers in the Group;
- Analysis and mapping of the Group's organizational structure, assessment of the residual risk in each operating segment and determination of the frequency of the internal audit according to the risk;
- Regulatory requirements;
- Current audit findings;
- Financial statements, deliverables of the Company's ERM and ISOX;
- Hot trends in internal auditing;
- Emerging risks, such as test cases from Israel and other countries, court rulings, the press;
- Decisions of the Audit Committee and requests by the Group CEO.

The subjects under examination are tested in sub-processes from operational and financial reporting aspects and in terms of compliance with the provisions of the law and Strauss Group's procedures.

The multiyear and yearly work plan is prepared by the Internal Auditor and forwarded to the CEO, and is also submitted for approval by the Audit Committee. After receiving the recommendations of the Audit Committee, the work plan is submitted to the Board of Directors of the Company for approval.

Audits abroad or audits of investee companies: The audit plan encompasses all companies in Strauss Group. In Três Corações (JV)[12], which is active in Brazil, and in Haier Strauss Water, which is active in China, most of the internal audit work is performed by employees who are directly employed by those companies, and the Auditor reviews the fairness of their internal audit; in Sabra, which is active in the US, the internal audit is performed alternatively each year by the Auditor and by PepsiCo's internal control.

Scope of engagement: In 2020, 7,646 hours were invested in the internal audit in the Group (compared to 8,500 hours in 2019). Additionally, in Três Corações (JV) and in HSW, approximately 16,000 hours were invested in the internal audit work.

Performing the audit: The internal audit is performed according to the accepted professional standards for internal audits, professional guidelines and briefings, as approved and published by the International Institute of Internal Auditors (IIA). According to these guidelines, the Auditor performs quality control in order to review the audit work processes applied by the team of internal audit employees, and also executes a quality assurance plan designed by the Internal Audit unit in Strauss Group.

In the Board of Directors' opinion, based on the Auditor's report, the internal audit work was performed in accordance with accepted professional standards for internal audits.

Access to information: The Internal Auditor has free, continuous and direct access to the information systems of the corporation, including financial and other data, in Israel and abroad.

Auditor's report: The Auditor's reports are submitted in writing on a regular basis throughout the year. In 2020, twenty-one reports were submitted. The reports are submitted to the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, and the CEO and managers of the audited business. In 2020 eight meetings of the Audit Committee were held (not including the audit committee of Três Corações (JV)[13] and of Sabra). The meetings take place on a regular basis throughout the year. Furthermore, the Auditor holds regular and periodic meetings with the Chairperson of the Board of Directors, the Chairman of the Audit Committee, the Group CEO, and senior Group Management.

The Board of Directors' evaluation of the Internal Auditor's work: In the opinion of the Board of Directors, the scope of the internal auditing work, its continuous performance and the Auditor's work plan are satisfactory and sufficient in order to accomplish the purposes of internal audits in the Group. The Audit Committee, in conjunction with Group Management and the Auditor, examines the adequacy of the scope of the Group's internal audit on an annual basis.

[12] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise**).**

[13] Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

Compensation: The financial compensation paid for the work of the Auditor and his staff is based on an agreed tariff per work hour. In 2020 the Auditor was paid an amount of approximately NIS 1,785 thousand. In the opinion of the Board of Directors, the compensation paid to the Auditor is reasonable and has no influence on his professional judgment.

28.Auditors' Fees

Following is information on the fees paid to the auditors of the material companies in the Group:

Auditors' Fees - 2020

		For the Year Ended December 31, 2020					
Company	Auditor	Audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies(1)	KPMG (Israel)	3,727	17,291	577	2,248	4,304	19,539
Sabra Dipping Company LLC (100%)	KPMG USA	998	1,029	–	–	998	1,029
Três Corações Alimentos S.A. (100%)(2)	KPMG Brazil	367	3,778	57	342	424	4,120
Strauss Coffee B.V.	Mazars & KPMG (Israel, Meijburg)	2,340	5,328	–	–	2,340	5,328
Strauss Russia LLC	KPMG Russia	547	4,242	–	–	547	4,242

Auditors' Fees - 2019

		For the Year Ended December 31, 2019					
Company	Auditor	Audit-related services and tax services		Other services		Total	
		NIS '000	Hours	NIS '000	Hours	NIS '000	Hours
Strauss Group and investee companies(1)	KPMG (Israel)	3,758	18,593	–	–	3,758	18,593
Sabra Dipping Company LLC (100%)	KPMG USA	998	1,020	105	80	1,103	1,100
Três Corações Alimentos S.A. (100%)(2)	KPMG Brazil	415	2,220	68	213	483	2,433
Strauss Coffee B.V.	Mazars & KPMG (Israel, Meijburg)	2,553	5,540	–	–	2,553	5,540
Strauss Russia LLC	KPMG Russia	559	4,034	–	–	559	4,034

(1) The Company receives audit services together with other investee companies, the main ones being Yad Mordechai Strauss Apiary Ltd., Strauss Frito-Lay Ltd. (100%), Strauss Water Israel Ltd., and also including the Strauss Health & Wellness group, including Yotvata Dairies.

(2) Três Corações (JV) in Brazil – 50% held by Strauss Group and 50% held by a local holding company, São Miguel Holding e Investimentos S.A. ("**São Miguel**") (hereinafter: "**Três Corações (JV)**"). (Data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

The mechanism for determining the Company Auditor's fees is defined according to the nature of the services rendered: fees for auditing and review services are determined as a fixed amount. Fees for services accompanying the audit (special approvals, prospectuses, discussions, etc.) are based on the number of hours invested.

The mechanism for determining the Auditor's fees was approved by the Board of Directors of the Company. In regard to the investee companies, the mechanism for determining the Auditor's fees was approved by the local managements of those companies.

29. Effectiveness of Internal Control

See the attached report for information on the effectiveness of internal control over financial reporting and disclosure in accordance with Regulation 9b.

30. Events After the Reporting Period

For a review of events occurring after the statement of financial position date, see Note 38 to the Consolidated Financial Statements as at December 31, 2020.

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

Ofra Strauss Chairperson of the Board	**Giora Bardea** Chief Executive Officer

March 21, 2021

Strauss Group LTD.

Financial Statements

as at December 31 ,2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

Consolidated Financial Statements as at December 31, 2020

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An Unofficial translation of the Hebrew version, the binding version is the Hebrew one.

Auditors' Report to the Shareholders of Strauss Group Ltd.

We have audited the accompanying consolidated statements of financial position of Strauss Group Ltd. (hereinafter "the Company") as of December 31, 2020 and 2019, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 158 million and NIS 114 million as of December 31, 2020 and 2019, respectively, and the Group's share in their profits amounted to approximately NIS 52 million, NIS 35 million and NIS 30 million for the years ended December 31, 2020, 2019 and 2018, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2020 and 2019, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2020 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2020, and our report dated March 21, 2021 included an unqualified opinion on the effective maintenance of those components.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 21, 2021

Unofficial Translation from Hebrew

Strauss Group Ltd.

Consolidated Statements of Financial Position

	Note	December 31 2020	December 31 2019
		NIS millions	
Current assets			
Cash and cash equivalents	7	491	525
Trade receivables	9	996	999
Income tax	35	16	2
Other receivables and debit balances	10	120	119
Inventory	11	557	543
Assets held for sale	16	12	15
Total current assets		2,192	2,203
Investments and non-current assets			
Investment in equity-accounted investees	12	1,222	1,332
Other investments and long-term debit balances	13	110	92
Fixed assets	14	1,754	1,746
Right-of-use assets	25	198	265
Intangible assets	15	916	931
Investment property	16	4	4
Deferred tax assets	35	18	17
Total investments and non-current assets		4,222	4,387
Total assets		6,414	6,590

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

Date of approval of the financial statements: March 21, 2021

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

Strauss Group Ltd.

Consolidated Statements of Financial Position (cont'd)

	Note	December 31 2020	2019
		NIS millions	
Current liabilities			
Current maturities of debentures	20	30	62
Short-term credit and current maturities of long-term loans and other long-term liabilities	20	256	398
Current maturities of lease liabilities	20	78	93
Trade payables	17	755	732
Income tax		37	96
Other payables and credit balances	18	575	552
Provisions	19	32	27
Dividend payable		70	-
Total current liabilities		1,833	1,960
Non-current liabilities			
Debentures	20	1,231	743
Long-term loans and other long-term liabilities	20	461	923
Lease liabilities	20	142	200
Long-term payables and credit balances	21	18	15
Employee benefits, net	22	49	48
Deferred tax liabilities	35	248	271
Total non-current liabilities		2,149	2,200
Equity and reserves	26		
Share capital		253	253
Share premium		1,051	1,051
Reserves		(2,155)	(1,838)
Retained earnings		3,111	2,811
Total equity attributable to the Company's shareholders		2,260	2,277
Non-controlling interests		172	153
Total equity		2,432	2,430
Total liabilities and equity		6,414	6,590

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Consolidated Statements of Income

	Note	2020	2019	2018
		For the year ended December 31		
		NIS millions		
Sales	29	5,873	5,695	5,604
Cost of sales	30	3,485	3,347	3,353
Gross profit		2,388	2,348	2,251
Selling and marketing expenses	31	1,316	1,320	1,293
General and administrative expenses	32	420	416	394
		1,736	1,736	1,687
Share of profit of equity-accounted investees	12	235	270	250
Operating profit before other income (expenses)		887	882	814
Other income		2	3	7
Other expenses		(3)	(7)	(13)
Other expenses, net	33	(1)	(4)	(6)
Operating profit		886	878	808
Financing income		6	5	28
Financing expenses		(144)	(121)	(121)
Financing expenses, net	34	(138)	(116)	(93)
Income before income tax		748	762	715
Income tax	35	(149)	(168)	(181)
Income for the year		599	594	534
Attributable to:				
The Company’s shareholders		533	537	478
Non-controlling interests		66	57	56
Income for the year		599	594	534
Earnings per share	36			
Basic earnings per share (in NIS)		4.60	4.65	4.16
Diluted earnings per share (in NIS)		4.55	4.60	4.13

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

Strauss Group Ltd.

Consolidated Statements of Comprehensive Income

	Note	2020	2019	2018
		For the year ended December 31		
		NIS millions		
Income for the year		599	594	534
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:				
Foreign currency translation differences	26.4	(76)	(38)	(25)
Other comprehensive loss from equity-accounted investees	26.4	(239)	(126)	(28)
Total other comprehensive loss items for the year that will be reclassified to profit or loss in subsequent periods, net		(315)	(164)	(53)
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods, net:				
Changes in employee benefits, net		-	-	1
Total other comprehensive income items that will not be reclassified to profit or loss in subsequent periods, net		-	-	1
Comprehensive income for the year		284	430	482
Attributable to:				
The Company's shareholders		217	373	426
Non-controlling interests		67	57	56
Comprehensive income for the year		284	430	482

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

Strauss Group Ltd.

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
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 year									
Income for the year	-	-	-	-	-	533	533	66	599
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(77)	-	(77)	1	(76)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(239)	-	(239)	-	(239)
Total other comprehensive loss for the year, net	-	-	-	-	(316)		(316)	1	(315)
Total comprehensive income (loss) for the year	-	-	-	-	(316)	533	217	67	284
Share-based payment	-	-	-	-	-	17	17	-	17
Improved interest to subsidiary	-	-	-	(1)	-	-	(1)	1	-
Dividend paid	-	-	-	-	-	(180)	(180)	-	(180)
Dividend declared	-	-	-	-	-	(70)	(70)	-	(70)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(49)	(49)
Balance as at December 31, 2020	253	1,051	(20)	(393)	(1,742)	3,111	2,260	172	2,432

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

Strauss Group Ltd.

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
					NIS millions				
Balance as at January 1, 2019	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 income (loss):									
Foreign currency translation differences	-	-	-	-	(38)	-	(38)	-	(38)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(126)	-	(126)	-	(126)
Total other comprehensive income (loss) for the year, net	-	-	-	-	(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 paid	-	-	-	-	-	(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 consolidated financial statements.

Consolidated Statements of Changes in Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2018	252	1,051	(20)	(392)	(1,209)	2,135	1,817	138	1,955
Effect of first-time adoption of IFRS 9	-	-	-	-	-	(4)	(4)	-	(4)
Balance as at January 1, 2018 after first-time adoption	252	1,051	(20)	(392)	(1,209)	2,131	1,813	138	1,951
Total comprehensive income (loss) for the year									
Income for the year	-	-	-	-	-	478	478	56	534
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(25)	-	(25)	-	(25)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(28)	-	(28)	-	(28)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the year, net	-	-	-	-	(53)	1	(52)	-	(52)
Total comprehensive income (loss) for the year	-	-	-	-	(53)	479	426	56	482
Share-based payment	-	-	-	-	-	17	17	-	17
Dividend paid	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(44)	(44)
Balance as at December 31, 2018	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246

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

Consolidated Statements of Cash Flows

	Note	For the year ended December 31		
		2020	2019	2018
		NIS millions		
Cash flows from operating activities				
Income for the year		599	594	534
Adjustments:				
Depreciation	14.1, 25.2	249	233	145
Amortization of intangible assets	15.1	35	32	36
Reversal of impairment loss of fixed assets, intangible assets and investment property, net		-	(2)	(1)
Other expenses, net		-	3	-
Expenses in respect of share-based payment		17	20	17
Financing expenses, net	34	138	116	93
Income tax expense		149	168	181
Share of profit of equity-accounted investees		(235)	(270)	(250)
Change in inventory		(38)	-	(25)
Change in trade and other receivables		(21)	(65)	(26)
Change in long-term receivables		18	(12)	1
Change in trade and other payables		45	17	(7)
Change in employee benefits		2	3	7
Interest paid		(123)	(85)	(124)
Interest received		2	4	6
Income tax paid, net	35.6.1	(227)	(84)	(85)
Net cash flows from operating activities		610	672	502
Cash flows from investing activities				
Sale of marketable securities and deposits, net		-	71	110
Proceeds from sale of fixed assets and investment property		6	10	19
Investment in fixed assets		(184)	(181)	(169)
Investment in intangible assets		(55)	(49)	(46)
Acquisition of operations, net cash acquired		-	-	(1)
Repayment of loans granted		21	17	17
Loans granted		(66)	(19)	(16)
Income from sublease		8	7	-
Dividends from investee companies	12.4	133	133	118
Investment in investee companies		(32)	(13)	(15)
Net cash flows from (used in) investing activities		(169)	(24)	17

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

Consolidated Statements of Cash Flows (cont'd)

	Note	2020	2019	2018
		For the year ended December 31		
		NIS millions		
Cash flows from financing activities				
Acquisition of non-controlling interests in a subsidiary		-	-	(36)
Short-term bank credit, net		24	(18)	(14)
Proceeds from issuance of debentures, net of issuance costs	20.4	691	-	200
Receipt of long-term loans		-	50	-
Redemption of debentures and repayment of long-term loans		(344)	(261)	(280)
Early redemption of debentures and prepayment of long-term loans	20.7	(555)	-	(203)
Change in liabilities in respect of credit card factoring		38	31	53
Exercise (redemption) of share options		-	1	(7)
Payment of lease liabilities		(86)	(91)	
Dividends paid	26.3	(180)	(200)	(160)
Dividend paid to non-controlling interests in a subsidiary		(49)	(54)	(44)
Net cash flows used in financing activities		(461)	(542)	(491)
Net increase (decrease) in cash and cash equivalents		(20)	106	28
Cash and cash equivalents as at beginning of year		525	426	390
Effect of exchange rate fluctuations on cash balances		(14)	(7)	8
Cash and cash equivalents as at end of year		491	525	426

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

Note 1 - General

The reporting entity, Strauss Group Ltd. (hereinafter: the "Company" or "Strauss Group") is an Israeli resident company. The Company's registered office address is 49 Hasivim St. Petach Tikva.

The Company and its investee companies (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active mainly in the development, manufacture, marketing and sale of a broad variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of appliances for the filtration, purification and carbonation of drinking water for home and office.

Strauss Holdings Ltd. is the direct controlling shareholder of the Company (approximately 57.2% of the equity and voting rights in the Company). The controlling shareholder of Strauss Holdings is Michael Strauss's Assets Ltd. ("Michael's Assets") (approximately 75.64% of the equity and voting rights in Strauss Holdings).

The Company was informed that a probate order has been issued with respect to the estate of Mr. Michael Strauss OBM, which holds the shares of Michael's Assets (the "Shares in the Estate Account"), and that as a result of the expected distribution of the Shares in the Estate Account, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss ("Michael's Children") will jointly hold shares of Michael's Assets (jointly, approximately 94.6% of the equity and voting rights in Michael's Assets), granting them control of Michael's Assets and, indirectly, control of the Company. Michael's Children are in agreement concerning cooperation in Michael's Assets, according to which they will vote as one in the general meeting of Michael's Assets.

In light of the foregoing, after the distribution of the estate, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss are the controlling shareholders of the Company.

The consolidated financial statements of the Group as at and for the year ended December 31, 2020 comprise those of the Company and its subsidiaries, as well as the Group's rights in joint arrangements and associates. The financial statements were approved for publication by the Company's board of directors on March 21, 2021.

<u>Impacts of the COVID-19 on the Group's business</u>:

December 2019 saw the start of an unfolding event with global health, social and macroeconomic consequences in the form of the spread of the COVID-19 virus, which was declared a global pandemic, in most countries in the world. Following the outbreak, Israel and many countries applied significant steps to cope with and delay the spread of the virus. These steps have broadly impacted global 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, including, among others, restrictions on the movement of civilians and on gatherings, the closure of international borders and a reduction in the number of employees permitted to work in the workplace. As a result of these actions, on the one hand at-home consumption of food products has increased, whereas on the other, demand for food products sold away-from-home (AFH) has dropped.

Company 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.

Note 1 – General (cont'd)

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 service 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 worldwide, particularly in its plants and supply chain facilities, including social distancing, use of masks and personal protective equipment and checking temperatures at the entrance to the site. The Company has also created a digital work environment that allows for work from home wherever possible. As at the date of this report, all of the Group's production and distribution facilities have continued to operate normally.

As at December 31, 2020 and on the date of approval of the financial statements, the Group's sales of products for at-home consumption has increased, whereas by contrast, the Group experienced a drop in sales of AFH and impulse products. During the fourth quarter sales growth continued, due, among other things, to the growth in at-home consumption of food products as a result of the lockdowns imposed on consumers and the closure of entertainment and AFH dining venues. In the fourth quarter and thereafter (through to the date of this report), demand for the Group's products has remained high, but has slowed in relation to the demand observed when the pandemic broke out and during the March lockdown.

The Group has also experienced erosion of the functional currencies in several countries of operations, which has especially impacted the international coffee segment and has affected the Group's sales as well as its operating profit margin, since the cost of raw materials in those countries in local currency has risen.

The Company has reviewed the implications of the COVID-19 pandemic on its financial statements and on the estimates and assumptions that served in preparing the financial statements, as follows:

- The Company examined whether there has been a negative effect on its results that may be indicative of signs of impairment of cash-generating units; the examination did not reveal any such signs.
- 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 procure and secure sources of funding. See Note 28.6 below.
- The Company tested the effect on estimates and critical judgments in the financial statements.

In the Company's estimate, following a qualitative and quantitative analysis in all business units, as at the date of this report the COVID-19 outbreak does not have a material effect on the Group's financial statements.

Note 2 - Basis of Preparation

2.1 Statement of compliance with International Financial Reporting Standards

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements were prepared in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

Note 2 - Basis of Preparation (cont'd)

2.2 Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the following items:

- Derivative financial instruments
- Inventory, measured at the lower of cost or net realizable value
- Provisions
- Assets and liabilities in respect of employee benefits
- Deferred tax assets and liabilities
- Investments in associates and joint ventures
- Non-current assets held for sale

For information on the method in which these items are measured, see Note 3, Significant Accounting Policies.

2.3 Functional and presentation currency

The consolidated 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. The NIS is the currency that represents the principal economic environment in which the Group operates.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. The estimates and their relevant assumptions are based on past experience and on other factors, including expectations relating to future events, which management considers reasonable under the circumstances. Actual results may differ from the estimates made. Additionally, these estimates and underlying assumptions are reviewed on an ongoing basis. The judgments made by management when implementing IFRS and determining the estimates are discussed in Note 4.

2.5 Operating cycle

The Group's operating cycle is one year. As a result, current assets and current liabilities include items designated and expected to be realized within one year.

Note 2 - Basis of Preparation (cont'd)

2.6 First-time adoption of new standards, amendments to standards and interpretations

2.6.1 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;
- 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 and charged to profit and loss when incurred). The amendment will be applied retrospectively commencing in annual reporting periods beginning on June 1, 2020. For further information, see Note 25.3).

Note 3 - Significant Accounting Policies

The accounting policy described below was consistently applied in all periods presented in these consolidated financial statements, other than as stated in section 2.6. The accounting policy was consistently applied by all entities in the Group. Policy representing the choice of an accounting alternative is presented in this note in bold print.

3.1 Basis of consolidation

3.1.1 Business combinations

The Group applies the acquisition method to all business combinations.

The acquisition date is the date whereon the acquirer obtains control over the acquiree. Control exists when the Group is exposed to, or the rights owner of, varying returns as a result of its involvement in the acquiree and has the ability to influence these returns through its influence in the acquiree. In reviewing control, tangible rights held by the Group and others are taken into account. The Group recognizes goodwill on acquisition according to the fair value of the Consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured. Furthermore, goodwill is not adjusted in respect of the utilization of carryforward tax losses that existed on the date of the business combination.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.1 Business combinations (cont'd)

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, liabilities incurred by the acquirer from the previous owners of the acquiree and equity instruments that were issued by the Group. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in fair value of the contingent consideration classified as a financial liability in profit or loss.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as valuation and professional or consulting fees, other than those associated with an issuance of debt or equity instruments related to the business combination, are expensed in the period wherein the services are received. The Group recognizes costs related to business combinations as other expenses.

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are adjusted to align them with the policies adopted by the Group.

3.1.3 Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company and they include additional components such as share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

<u>Measurement of non-controlling interests on the date of the business combination</u>
Non-controlling interests, which are instruments granting a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), are measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

<u>Allocation of other comprehensive income or loss among shareholders</u>
Profit or loss and any components of other comprehensive income are attributed to the owners of the Company and the non-controlling interests. The total profit or loss and other comprehensive income are attributed as mentioned even when the result is a negative balance of the non-controlling interests.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.3 Non-controlling interests (cont'd)

Transactions with non-controlling interests while retaining control
Transactions with non-controlling interests while retaining control are accounted for as capital transactions. **Any variance between the consideration paid or received and the change in non-controlling interests is classified to the reserve from transactions with non-controlling interests.**

The amount of the adjustment to non-controlling interests is calculated as follows:

For an increase in the holding rate, according to the proportionate share acquired from the balance of non-controlling interests in the consolidated financial statements prior to the transaction.

For a decrease in the holding rate, according to the proportionate share realized by the owners of the subsidiary in the net assets of the subsidiary, including goodwill.

Furthermore, when the holding rate in the subsidiary changes, while retaining control, the Company re-attributes the accumulated amounts that were recognized in other comprehensive income to the owners of the Company and the non-controlling interests.

3.1.4 Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Subsequently, the retained interest is accounted for according to the level of influence retained by the Group in the relevant company. **The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances, is recognized in profit or loss under other income or expenses. Any gain or loss on the loss of control of project companies held by Strauss's FoodTech incubator will be classified to operating profit (in the "Share of profit of equity-accounted investees" row).**

3.1.5 Investment in associates and joint ventures

Associate companies are entities in which the Group has a significant influence over financial and operating policies, but not control or joint control, generally expressed in the holding of 20% to 50% of the voting rights. Joint arrangements in which the Company has rights to the net assets of the joint arrangement are classified as joint ventures. Investments in associates and joint ventures are accounted for in the equity method, and the investment is initially recognized at cost, including transaction costs. The consolidated financial statements include the Group's share of profit or loss and of other comprehensive income of equity-accounted investees, following adjustments, to the extent required, to align accounting policies to those adopted by the Group, from the date on which the significant influence or joint control occurs, until the date whereon such influence and control no longer exist.

Note 3 - Significant Accounting Policies (cont'd)

3.1 Basis of consolidation (cont'd)

3.1.5 Investment in associates and joint ventures (cont'd)

When the Group's share of losses exceeds the value of the Group's rights in an equity-accounted investee, the carrying amount of those rights, including a long-term investment that is part of the investment in the investee, is reduced to zero. The Group does not recognize additional losses of the investee, unless the Group has a commitment to support the investee or has made payments on its behalf.

The joint ventures' operations constitute an integral part of the Group's operations, and accordingly, the Group's share in their results is included in the operating profit in the statement of income.

If there is a decrease in the holding rate of an equity-accounted investee while retaining significant influence or joint control, the Group detracts a relative portion from its investment and **recognizes a profit or loss from the sale under the other income and expenses item in the statement of income. Any gain or loss arising from a decrease in the holding rates of project companies held by Strauss's FoodTech incubator will be classified to operating profit (in the "share of profit of equity-accounted investees" row).**

If there is an increase in the holding rate of an equity-accounted investee while retaining significant influence or joint control, the Group applies the acquisition method only in respect of the incremental holding percentage, whereas the prior holding remains unchanged.

Long-term rights that essentially form part of the net investment, such as preference shares and long-term loans where settlement is unplanned and is not probable to occur in the foreseeable future, are first accounted for according to the guidance in IFRS 9, following which these rights are accounted for in the equity method according to the guidance in IAS 28.

Losses recognized according to the equity method in excess of the Group's investment in ordinary shares are classified to the Group's remaining rights in the investee in reverse order to their incurrence. After the rights have been reduced to zero the Group no longer recognizes losses of the investee, unless the Group has a commitment to support the investee or has made payments on its behalf. If the investee subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

3.1.6 Transactions eliminated on consolidation

Intra-group balances and any unrealized income and expenses arising from intra-group transactions were eliminated in preparing the consolidated financial statements. **Unrealized gains arising from transactions with equity-accounted investees were eliminated against the investment according to the Group's interest in these investments.** Unrealized losses were eliminated in the same way as unrealized gains, provided, however, that there is no evidence of impairment.

Note 3 - Significant Accounting Policies (cont'd)

3.2 Foreign currency

3.2.1 Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currency of the Group companies according to the exchange rate in effect on the transaction date. **Exchange differences arising on the settlement of monetary items or on reporting monetary items at exchange rates different from those at which they were initially recorded during the period or reported in previous financial statements are charged to specific income or expense items according to the nature of the monetary item (exchange differences in respect of trade receivables are recognized in income, exchange differences in respect of trade payables are recognized in the cost of sales or operating expenses according to their nature, and exchange differences in respect of foreign currency loans are recognized in financing costs).**
Monetary items are translated using the exchange rate at the date of the statement of financial position. Nonmonetary items denominated in foreign currency and measured at historical cost are translated using the exchange rate at the date of the transaction.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, were translated into NIS according to the exchange rates in effect as at the reporting date. The income and expenses of foreign operations were translated into NIS using the exchange rates in effect at the transaction dates.

Exchange differences in respect of translation were recognized directly in other comprehensive income as a separate item of equity, translation reserve. When the foreign operation is a non-wholly-owned subsidiary of the Group, the relevant proportionate share of the foreign operation translation differences is allocated to the non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control, is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal. In addition, when the Group's interest in a subsidiary that includes a foreign operation changes while control of the subsidiary is retained, a proportionate part of the cumulative amount of translation differences that was recognized in other comprehensive income is reattributed to non-controlling interests.

As a rule, exchange differentials in respect of loans received or granted to a foreign operation, including foreign operations which are subsidiaries, are recognized in income statements in the consolidated reports. When the settlement of loans received or granted to a foreign operation is neither planned nor likely in the foreseeable future, gains and losses from exchange differentials arising from these monetary items are included as part of the net investment in the foreign operation and are recognized in other comprehensive income, and are presented within equity in the translation reserve.

Repayment of loans received or granted to a foreign operation does not constitute disposal of the foreign operation.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments

3.3.1 Non-derivative financial instruments

Initial recognition and measurement of financial assets

The Group initially recognizes trade receivables and debt instruments issued when originated. Other financial assets are initially recognized on the trade date, when the Group becomes a party to the contractual terms of the instrument.
Financial assets are initially recognized at fair value plus any transaction costs that are directly attributable to the purchase or issue of the financial instrument. Receivables that do not include a significant financing component are initially measured at the transaction price.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows arising from the financial asset expire, or when the Group transfers the rights to receive the cash flows arising from the financial asset in a transaction in which all risks and rewards arising from ownership of the financial asset have been substantially transferred.
If the Group substantially retains all risks and rewards arising from ownership of the financial asset, the Group continues to recognize the financial asset.

Classification of financial assets

At initial recognition, financial assets, including debt balances with associate companies, are classified to one of the following measurement categories: amortized cost; fair value through other comprehensive income (FVTOCI) – investments in debt instruments; FVTOCI – investments in equity instruments; or fair value through profit or loss (FVTPL).

Financial assets are reclassified in subsequent periods if, and only if, there is a change in the Group's business model for managing financial assets, and in such case the relevant debt instruments will be reclassified from the start of the first reporting period following the change.

A financial asset that is a debt instrument is measured at amortized cost if it satisfies the following two cumulative conditions and is not designated for measurement at fair value through profit or loss:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the undischarged principal.

A financial asset that is a debt instrument is measured at fair value through other comprehensive income if it satisfies the following two cumulative conditions and is not designated for measurement at fair value through profit or loss:

- It is held within a business model whose objective is accomplished by collecting contractual cash flows as well as by selling financial assets; and

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-derivative financial instruments (cont'd)

- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the undischarged principal.

All financial assets that are not classified for measurement at amortized cost or FVTOCI as described above are measured at fair value through profit or loss.

<u>Assessment of the business model</u>
The Group assesses the objective of the business model within which the financial assets are held, and considers factors that include the manner of reporting the performance of the financial assets to key people in management, risks impacting the business model, the frequency and timing of sales of financial assets in prior periods, etc.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for the purpose of assessing the business model, in conformity with the Group's continued recognition of those financial assets.

Financial assets held for trading or managed, whose performance is evaluated on the basis of fair value, are measured at fair value through profit or loss.

<u>Assessment if cash flows are solely payments of principal and interest</u>
When assessing whether cash flows are SPPI, "principal" is the fair value of the financial asset at initial recognition, and "interest" comprises compensation for the time value of money and credit risk attributed to the undischarged principal within a certain time period, and for other lending risks and administrative costs.

When assessing if contractual cash flows meet the SPPI criterion, the Group examines the contractual terms of the instrument and if the financial asset includes a contractual term that is likely to change the timing or amount of contractual cash flows such that it will not satisfy that term.

The Group has short-term and long-term trade and other receivables and deposits that are held within a business model whose objective is to collect contractual cash flows. Contractual cash flows in respect of these financial assets are SPPI, which represent compensation for the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.1 Non-derivative financial instruments (cont'd)

Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss
In subsequent periods, these assets are measured at fair value. Net gains and losses, including interest income or dividends, are recognized in profit or loss.

Financial assets at amortized cost
Subsequent to initial recognition, these assets are measured at amortized cost using the effective interest method, less impairment losses. Interest income, foreign exchange gains or losses, impairment and derecognition are recognized in profit or loss.

Non-derivative financial liabilities

The Group initially recognizes debt instruments issued when originated. Other financial liabilities are initially recognized on the trade date, when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are initially recognized at fair value less any attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method. Transaction costs directly attributed to the expected issuance of an instrument that will be classified as a financial liability are recognized as an asset in the deferred expenses item in the statement of financial position. These transaction costs are deducted from the financial liability upon initial recognition, or are amortized as financing expenses in the statement of income when the issue is no longer expected to take place.

Non-derivative financial liabilities include debentures and loans received, and short and long-term trade and other payables.

Derecognition of financial liabilities
Financial liabilities are derecognized when the contractual commitment of the Group expires or when it has been settled or canceled.

Offset of financial instruments

Financial assets and liabilities are offset and the net amounts presented in the statement of financial position when the Group has an immediately enforceable legal right to offset the amounts recognized and there is an intention either to settle the financial assets and financial liabilities on a net basis, or to realize the asset and settle the liability simultaneously.

Note 3 - Significant Accounting Policies (cont'd)

3.3 Financial instruments (cont'd)

3.3.2 Derivative financial instruments including hedge accounting

The Group holds derivative financial instruments mainly to economically hedge against commodity price risk and against index and foreign exchange risk arising from its operating, financing and investing activities. The derivative financial instruments mainly comprise forward contracts and options on currencies, index and interest as well as commodity forwards and options. These derivatives, which are not considered accounting hedges, are initially recognized and measured at fair value at each cutoff date, with changes in fair value recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred. **Gains and losses from commodity forwards are accounted for under the cost of sales, whereas other gains and losses are accounted for under financing income (expenses)**. A jointly controlled entity of the Group has chosen to apply the fair value hedge model in IFRS 9.

3.3.3 CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured in each period in accordance with the actual increase or decrease in the CPI.

3.3.4 Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributed to the issuance of ordinary shares and share options net of tax effect are recognized as a deduction from equity.

Treasury shares
When share capital recognized as equity is repurchased by the Group, the amount of the consideration paid, plus directly attributable costs, is recognized as a deduction from equity**. Repurchased shares are classified as treasury shares.**

3.4 Fixed assets

3.4.1 Recognition and measurement

Fixed asset items are measured at cost (including advance payments in respect of trade payables) less investment grants, accumulated depreciation and accumulated impairment losses (see Note 3.9.1). The cost of self-constructed assets includes the costs of materials and direct labor, and any other costs directly attributable to bringing the assets to the location and condition required for their intended use. The Group capitalizes borrowing costs to specific and non-specific credit in respect of fixed assets that require a considerable period of time to prepare for their intended use, during the period required for completion and construction until the date on which they are ready for their designated use.

Note 3 - Significant Accounting Policies (cont'd)

3.4 Fixed assets (cont'd)

3.4.1 Recognition and measurement (cont'd)

Gain or loss on the disposal of a fixed asset item is determined by comparing the net proceeds from disposal with the carrying amount of the asset, and is recognized net within "other income" or "other expenses", as relevant, in the income statement.

3.4.2 Spare parts and tools

Spare parts and tools are presented as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise classified as inventory.

3.4.3 Subsequent costs

Improvement and enhancement costs are added to the cost of the fixed asset if it is expected that the future economic benefits embodied in the improvement will flow to the Group and their costs can be measured reliably. The costs of day-to-day maintenance are recognized in the statement of income as incurred.

3.4.4 Leasehold improvements

The costs of leasehold improvements are presented as fixed assets and amortized over the shorter of the lease period or the estimated useful life of the improvements, on a straight-line basis.

3.4.5 Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an asset less its residual value.
Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of each part of a fixed asset item as presented below, other than land, which is not depreciated.

The principal depreciation rates for the years 2018-2020 are as follows:

	%	
Buildings and leased lands	2-5	(mainly 2.5)
Machinery and equipment	4-30	(mainly 4-20)
Motor vehicles	15-20	
Furniture and other equipment	3-33	
Leasehold improvements	2-33	

Residual values and useful lives of the assets, and the depreciation method, are reviewed and revised as necessary at least once a year.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets

3.5.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. In subsequent periods goodwill is measured at cost less accumulated impairment losses. For information on measurement of goodwill at initial recognition, see Note 3.1.1.

3.5.2 Development of software for own use

Costs that are directly related to the development of unique identified software products that are controlled by the Group and satisfy the conditions for recognition as intangible assets, as described in paragraph 3.5.3 below, are recognized as intangible assets.

Capitalized costs include direct labor costs and other direct costs accumulated until the date whereon the software is available for use.

3.5.3 Research and development costs

Expenditure on research activities is recognized in the statement of income when incurred. Costs incurred during development are recognized as an intangible asset if it is possible to demonstrate the technological feasibility of completing the intangible asset so that it will be available for use or sale; the intention of the Group to complete the intangible asset and to use or sell the asset; the ability to use the intangible asset or sell it; the manner in which the intangible asset will create future economic benefits; the existence of sufficient resources, technical and other, to complete the intangible asset and the ability to reliably measure the expense required for its development.

The asset is tested for impairment once a year during the development period, and also during the period in which the asset is not available for use. Subsequent to initial recognition the asset is measured at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development has been completed and the asset is available for use.

3.5.4 Other intangible assets

Other intangible assets include brands, customer relationships and non-competition agreements that were acquired.

3.5.5 Subsequent expenditures

Subsequent expenditures are costs that were incurred after the recognition of the intangible asset for the purpose of adding to the asset, replacing part of it or for its maintenance. Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenses, including expenses related to internally generated goodwill and brands, are recognized in the statement of income when incurred.

Note 3 - Significant Accounting Policies (cont'd)

3.5 Intangible assets (cont'd)

3.5.6 Amortization

Intangible assets having a finite useful life are measured at cost net of accumulated amortization and impairment losses.

Amortization is recognized in the statement of income on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.

The annual rates of amortization for the years 2018-2020 are as follows:

	%	
Brands	10-20	
Computer software	10-33	(mainly 25)
Other*	10-20	

* Customer relationships are amortized using the undiscounted cash flow method.

Goodwill and assets having an indefinite useful life are not amortized systematically, but rather will be tested annually for impairment. Intangible assets that are not amortized include certain brands and trademarks.

Amortization methods, useful lives and residual values are reviewed at the end of each reporting period at minimum and adjusted if appropriate. The Group evaluates the useful life of an intangible asset that is not being amortized at least once annually to determine whether events and circumstances continue to support an indefinite useful life.

3.6 Investment property

Investment property is property (land or buildings – or part of a building – or both) held (as owner or as lessee under a finance lease) either to earn rental income or for capital appreciation or for both, but not for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

Investment property is initially measured at cost including capitalized borrowing costs. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Transaction costs are included in this initial measurement. **Subsequent to initial recognition the Group measures its investment property at historical cost less accumulated depreciation and impairment.** The cost is depreciated in the straight line method over the useful life of the property. The cost of self-constructed investment property includes the costs of materials and direct labor, and any other costs directly attributable to bringing the property to the condition required for it to operate as intended by management.

Note 3 - Significant Accounting Policies (cont'd)

3.6 Investment property (cont'd)

The principal depreciation rates are as follows:

	%	
Buildings	2.5	
Leased land	2	Or over the lease period (including options likely to be exercised) if longer
Owned land	-	

Fixed assets which are no longer intended for use by the Group but will be held for the purpose of producing rental revenues or to increase their capital value will be classified as investment property from such date onward and will be treated as described above.

Any gain or loss on disposal of an investment property is determined by comparing the proceeds from disposal and the carrying amount of the item, and is recognized under other income or expenses, as the case may be, in the statement of income.

3.7 Leased assets

Accounting policy applied commencing January 1, 2019

3.7.1 Determining whether an arrangement contains a lease

At inception of a contract, the Group determines whether the contract is, or contains, a lease, by reviewing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses if throughout the period of use, it has both of the following rights:
(a) The right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) The right to direct the use of the identified asset.

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

3.7.2 Leased assets and lease liabilities

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

Note 3 - Significant Accounting Policies (cont'd)

3.7 Leased assets (cont'd)

3.7.2 Leased assets and lease liabilities (cont'd)

Since the interest rate included in the lease cannot be easily determined, the lessee's incremental borrowing rate is used.
Subsequent to initial recognition the asset is accounted for under the cost model and depreciated to the earlier of the end of the lease term or the useful life of the asset.
The Group has chosen to apply the practical expedient in which short-term leases of up to one year and/or leases in which the underlying asset is of low value are accounted for by recognizing the lease payments in profit or loss on a straight-line basis over the lease term, without recognizing an asset and/or liability in the statement of financial position.

3.7.3 Lease term

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

3.7.4 Variable lease payments

Variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date of the lease and are included in the measurement of the lease liability. When there is a change in contractual cash flows resulting from a change in the index or rate, the remaining liability is revised against the right-of-use asset.
Other variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss on the date when the conditions for these payments are satisfied.

3.7.5 Depreciation of a right-of-use asset

After the commencement date of the lease, a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for remeasurements of the lease liability. Depreciation is calculated on a straight-line basis to the earlier of the useful life of the right-of-use asset or the end of the lease term.
The principal depreciation rates for the years 2019-2020 are as follows:

	%
Buildings	3.8-40
Vehicles	14-36
Coffee stands	10-50

Note 3 - Significant Accounting Policies (cont'd)

3.7 Leased assets (cont'd)

3.7.6 Reassessment of lease liabilities

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

3.7.7 Lease modifications

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

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

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

For other lease modifications, the Group remeasures the lease liability against the corresponding right-of-use asset.

3.7.8 Subleases

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

Note 3 - Significant Accounting Policies (cont'd)

3.7 Leased assets (cont'd)

Accounting policy applied in periods prior to January 1, 2019

Leases, including land leases from the Israel Lands Administration, in which the Group has assumed substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets are recorded and a liability recognized in an amount equal to the lower of fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future renewal dates of the lease agreement.

Other leases are classified as operating leases and the leased assets are not recognized in the Group's statement of financial position.
When a lease includes both a land component and a buildings component, each component is considered separately for the purpose of classifying the lease, with the principal consideration in classifying the land component being the fact that land normally has an indefinite useful life.

<u>Operating lease payments</u>
Minimum lease payments made under operating leases, excluding conditional lease payments, are recognized in the statement of income on a straight-line basis over the term of the lease. Prepayments to the Israel Lands Administration in respect of leased lands classified as operating leases are presented as deferred expenses and recognized in the statement of income over the lease period.

<u>Finance lease payments</u>
Minimum lease payments made under finance leases are apportioned between the financing expense and the reduction of the outstanding liability. The financing expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.8 Inventory

Inventory is measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 3 - Significant Accounting Policies (cont'd)

3.8 Inventory (cont'd)

Inventory cost is determined using the **moving average method**, as follows:

Raw materials and packaging materials	–	At cost.
Goods in process and finished goods	–	At calculated cost.
Goods purchased	–	At calculated cost.

3.9 Impairment

3.9.1 Non-financial assets

For impairment testing purposes, goodwill acquired in a business combination is allocated to cash-generating units, including those existing in the Group prior to the business combination, which are expected to benefit from the synergies arising from the combination. In testing for impairment assets are allocated to the lowest levels that generate separate identifiable cash flows (cash-generating units).

Assets with an indefinite useful life such as goodwill and intangible assets not yet available for use are not amortized and are tested for impairment once a year. Other non-financial assets (excluding inventory, employee benefits assets and deferred tax assets – see accounting policy 3.8, 3.11 and 3.16, respectively) are tested for impairment if there have been any occurrences or changes in circumstances indicating that their carrying amount will not be recoverable. Impaired non-financial assets, excluding goodwill, are tested at each statement of financial position date to identify the possible reversal of the impairment that was recognized in their respect.

The impairment loss recognized is equal to the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less selling expenses and its value-in-use.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Impairment losses for goodwill and other indefinite-lived intangible assets are classified as other expenses in the statement of income.

For goodwill impairment testing purposes, when the non-controlling interests were initially measured according to their relative share of the acquiree's net assets the carrying amount of the goodwill is adjusted according to the Company's holding percentage in the cash-generating unit to which the goodwill is allocated.

Note 3 - Significant Accounting Policies (cont'd)

3.9 Impairment (cont'd)

3.9.2 Investments in debt instruments

The Group recognizes a loss allowance for expected credit losses (ECL) pertaining to financial assets measured at amortized cost, as described in section 3.3.1 above. The Group measures the loss allowance for ECL at an amount equal to full lifetime ECL, with the exception of allowances measured at an amount equal to the 12-month ECL in respect of the following instruments: debt instruments defined as having a low credit risk on the reporting date, and debt instruments on which the credit risk has not increased significantly since initial recognition.

For trade and other receivables classified as current assets (that do not include a significant financing component), the Groups examines the ECL (or their elimination) throughout the life of the instrument.

When assessing if the credit risk of a financial asset has increased significantly since initial recognition and the estimation of ECL, the Group considers relevant reasonable and supportable information that is available without undue cost or effort. Such information includes quantitative and qualitative information and an analysis based on the Group's past experience and on the reported credit assessment and includes forward-looking information.

Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. The maximum period over which ECL should be measured is the maximum contractual period over which the entity is exposed to credit risk.

<u>Measurement of expected credit losses</u>
ECL is the probability weighted estimate of credit losses. The impairment loss is calculated as the difference between the carrying value of the financial asset and the present value of rate of the financial asset, if relevant, and is accounted for in the statement of income within selling and marketing expenses.
A loss allowance for ECL pertaining to a financial asset measured at amortized cost is presented as a reduction from the gross carrying amount of the financial asset.

<u>Credit-impaired financial assets</u>
On each reporting date, the Group tests whether financial assets measured at amortized cost and debt instruments measured at FVTOCI are credit-impaired. A financial asset is credit-impaired when one or more events have occurred that have a detrimental impact on the expected future cash flows of the financial asset.

Note 3 - Significant Accounting Policies (cont'd)

3.9 Impairment (cont'd)

3.9.2 Investments in debt instruments (cont'd)

Observable data that a financial asset is credit-impaired include the following events:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past-due event;
- Rescheduling of a loan or payment owed to the Group, which the Group would not have considered in other cases;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a financial asset because of financial difficulties;

<u>Write-off</u>
The gross carrying amount of a financial asset will be fully or partially written off when there is no reasonable expectation of recovery. This is usually the case when the Group determines that the debtor has no assets or sources of income that are likely to yield sufficient cash flows to pay the amounts that are subject to write-off. Financial assets that have been written off may still be subject to enforcement action in order to comply with the Group's recovery policy. A write-off constitutes a derecognition event.

3.9.3 Investments in associates and joint ventures accounted for in the equity method

An investment in an associate or joint venture accounted for in the equity method is tested for impairment when there is objective evidence of impairment.

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value-in-use and its net selling price. In estimating value-in-use of an investment in an equity-accounted investee, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the investee, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and is recognized as other expenses in the statement of income. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the equity-accounted investee.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized. The investment's carrying amount, after the reversal of the impairment loss, shall not exceed the

Note 3 - Significant Accounting Policies (cont'd)

3.9 Impairment (cont'd)

3.9.3 Investments in associates and joint ventures accounted for in the equity method (cont'd)

carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

3.10 Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction and not through continuing use.

Before classification as held for sale, the assets are measured in accordance with the Group's accounting policies. In subsequent periods the assets are measured at the lower of their carrying amount and fair value less cost to sell. Depreciable assets classified as held for sale are not depreciated periodically.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the statement of income. Gains are not recognized in excess of any cumulative impairment loss recorded in the past.

Note 3 - Significant Accounting Policies (cont'd)

3.11 Employee benefits

3.11.1 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. The Group's obligations to make contributions to defined contribution plans in respect of post-retirement benefits are recognized as an expense in the statement of income in the periods in which the employees rendered related services.

3.11.2 Defined benefit plans

The Group's net obligation in respect of defined benefit post-retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).
The discount rate is the yield on the date of the statement of financial position on high yield linked corporate debentures, the maturity dates and currencies of which are similar to the terms of the Group's obligations. The net obligations of the Group also include unrecognized actuarial gains and losses (see below). The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (insofar as relevant, excluding interest). **Remeasurements are recognized immediately, directly in retained earnings, through other comprehensive income**.

The Group offsets the assets of one benefit plan from the liability in another benefit plan only when there is a legally enforceable right to use the surplus of one plan to settle the obligation in respect of another plan, and there is intent to settle the obligation on a net basis or to simultaneously realize the surplus of one plan and settle the obligation in another.
Net interest that was recognized in the statement of income is presented under wage expenses.

3.11.3 Paid vacation and employee convalescence allowance

Employee benefits are classified, for measurement purposes, as short-term benefits or as long-term benefits depending on when the Company expects the benefits to be wholly settled. Employee benefits are classified according to the date whereon the liability falls due.

The Group recognizes the liability and the expense of the payment of leave and convalescence allowance as short-term, according to the entitlement of each employee on a non-discounted basis.

Note 3 - Significant Accounting Policies (cont'd)

3.11 Employee benefits (cont'd)

3.11.4 Share-based payment transactions

The Company recognizes the benefit created upon granting option warrants to employees as a wage expense, with a corresponding increase in retained earnings, in accordance with the grant date fair value of the option warrants on the basis of the Black & Scholes model.

The benefit is recognized over the vesting period of the option warrants based on the Company's estimates regarding the number of warrants that are expected to vest.

3.11.5 Termination benefits

Employee termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

3.12 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the liability, without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted each period to reflect the time that has passed.

When an outflow of economic benefits is not expected to be required or when the amount cannot be reliably estimated, disclosure of a contingent liability is made, other than when the probability of an outflow of economic benefits is remote.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Company settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and restructuring either has commenced or has been announced publicly. The provision includes direct expenditures caused by and essential for the restructuring, and which are not associated with the continuing operations of the Group.

A provision for onerous contracts is recognized when the expected benefits that will be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of upholding the contract.

Note 3 - Significant Accounting Policies (cont'd)

3.12 Provisions (cont')

Provisions for legal actions were created as a result of legal processes occurring in the ordinary course of the Group's business. A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the obligation can be reliably estimated. Cancellation of these provisions refers to a situation in which proceedings have been concluded in the Group's favor. The timing of the expected cash flows in respect of these legal proceedings is uncertain, as it depends on their outcome. Therefore, the provisions are not presented at their current value (the impact of the discount is immaterial).

3.13 Revenue

3.13.1 Identify the contract

The Group accounts for a contract with a customer only when all of the following conditions are met:

a. The contract has been approved by the parties to the contract (written or verbal contract or in accordance with other business practices) and they are committed to fulfilling their obligations;
b. The Group is able to identify each party's rights in relation to the goods or services to be transferred;
c. The Group is able to identify the payment terms for the goods or services to be transferred;
d. The contract has commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
e. It is probable that the Group will collect the consideration to which it is entitled in exchange for the goods or services to be transferred to the customer.

To comply with paragraph 'e' above, the Group examines, *inter alia*, the credit rating of every new customer and the collateral in place.

3.13.2 Identify the separate performance obligations in the contract

On the contract inception date the Group assesses the goods or services promised in the contract with the customer and identifies each promise to transfer to the customer one of the following as a performance obligation:

(a) A good or service (or a bundle of goods or services) that is distinct; or
(b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies a good or service promised to the customer as distinct if the customer can benefit from the good or service on its own or in conjunction with other readily available resources and if the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. In assessing whether a promise to transfer goods or services to a customer is separately identifiable, the Group considers whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into a combined deliverable for the receipt of which the customer entered into the contract.

Note 3 - Significant Accounting Policies (cont'd)

3.13 Revenue (cont'd)

3.13.2 Identify the separate performance obligations in the contract (cont'd)

When identifying the performance obligations in the contract, the Group also takes the following aspect into account:

Warranty
To assess whether a warranty represents a separate service to the customer and is therefore a distinct performance obligation, the Group examines the following factors among others: whether the customer has the option to purchase the warranty separately, whether the warranty is required by law, the length of coverage under the warranty period, and the nature of the services that the Group promises to perform. In contracts with its customers, the Group provides warranty services as required by law or in line with industry practices. Warranty services are provided only to assure the quality of the work and compliance with the technical specifications that were agreed upon by the parties, and they do not constitute a service in addition to the assurance. **The Group does not recognize a warranty as a separate performance obligation, but accounts for warranties in accordance with the guidance in IAS 37 and recognizes a provision for the warranty according to the estimated cost of the services in question.**

3.13.3 Determine the transaction price

The transaction price is the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. When determining the transaction price, the Group takes the effects of all of the following into account:

Variable consideration
The transaction price includes amounts that are likely to vary as a result of discounts, rebates, refunds, credits, incentives, bonuses and claims, as well as contract modifications in which respect the consideration has not yet been agreed upon by the parties. When measuring the transaction price, the Group includes the amount of all or part of the variable consideration only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future. At the end of each reporting period, if necessary, the Group adjusts the estimated amount of the variable consideration that was included in the transaction price.

Existence of a significant financing component
To measure the transaction price, the Group adjusts the amount of the consideration for the time value of money in cases where the timing of payments provides a significant financing benefit to the customer or to the Group. When the contract contains a significant financing component (in cases where the Company is paid the consideration more than 12 months after the revenue recognition date), the Group recognizes the amount of the consideration using the discount rate that would have been reflected in a separate financing transaction between the Group and the customer on the contract inception date. The financing component is recognized as financing expenses using the effective interest rate method.

Note 3 - Significant Accounting Policies (cont'd)

3.13 Revenue (cont'd)

3.13.3 Determine the transaction price (cont'd)

When the interval between the receipt of the consideration and the transfer of the goods or services to the customer is one year or less, the Group applies the practical expedient in the standard and does not separate a significant financing component.

Consideration payable to the customer
In certain cases, the Group pays or expects to pay a consideration to its customers (for example, a commission for arranging its products in-store), as well as credits or other items such as coupons and vouchers. These amounts are accounted for as a reduction of the transaction price, unless they are related to a distinct good or service received by the Group from the customer, in which case the consideration paid to the customer is accounted for as a separate transaction in the same manner as other purchases from suppliers.

3.13.4 Recognize revenue when the performance obligation is satisfied

The Group recognizes revenue when the performance obligation is satisfied and control is transferred. In recognizing revenue from the sale of goods, the Group takes the following considerations into account when deciding if control of the asset has been transferred at a point in time: the Group has a present right to payment for the asset; the customer has legal title to the asset; the Group has transferred physical possession of the asset; the customer has the significant risks and rewards related to the ownership of the asset; and the customer has confirmed acceptance of the asset.

For revenue from the provision of services, the customer simultaneously receives and consumes the benefits from the services as the Company performs, and therefore, revenue in respect of this performance obligation is recognized over time, concurrently with the provision of the services.

3.13.5 Sale with a right of return

For contracts granting the customer the right to return goods purchased, revenue is recognized at an amount in which respect it is highly probable that a significant revenue reversal will not occur. Therefore, revenue that is recognized is adjusted for expected returns, which are estimated on the basis of historical information and past experience. In cases where returned goods are exchanged for new goods, i.e. there is no cash refund, a liability for returns is recognized with a corresponding adjustment to the income item, and an asset is recognized in respect of the right to accept the returns with a corresponding adjustment to the cost of sales.

3.13.6 Customer acquisition costs

The incremental costs of obtaining a contract with a customer are capitalized as an asset only when the Company expects to recover those costs. **Accordingly, direct sales commissions paid to sales agents are capitalized as an asset in respect of obtaining a contract and are amortized on a systematic basis that is consistent with the pattern of transfer of the goods**

Note 3 - Significant Accounting Policies (cont'd)

3.13 Revenue (cont'd)

3.13.6 Customer acquisition costs (cont'd)

or services to which the asset relates. The Group has also chosen to apply the practical expedient in the standard and recognizes the incremental costs of obtaining a contract as an expense when incurred when the amortization period of the asset is one year or less.

Costs to obtain a contract that are incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless these costs are chargeable to the customer.

3.13.7 Principal versus agent considerations

When another party is involved in providing goods or services to a customer, the Group determines which party is the principal supplier in the transaction. The Group is the principal when it acquires control of the goods or services before they are transferred to the customer. Indicators that the Group controls the goods or services prior to their transfer include, *inter alia*, the following: the Group is primarily responsible for fulfilling the contract; the Group has an inventory risk before the goods are transferred to the customer; and the Group has discretion in determining the prices.
When the Group is the principal in the transaction, revenue is recognized at the gross amount of the consideration.

3.14 Government grants

Unconditional government grants are initially recognized at fair value when there is reasonable assurance that they will be received and the Group will meet the conditions associated with the grant.

Government grants that compensate the Group for expenses incurred are presented as a deduction from the corresponding expenses and recognized in the statement of income on a systematic basis, in the same periods in which the expenses are recognized in the statement of income. Government grants received for the acquisition of assets are presented as a deduction from the relevant assets and are recognized in the statement of income on a systematic basis over the useful life of the asset, as mentioned in Note 3.4.1 above.

Grants from the Chief Scientist in respect of research and development projects are accounted for as Forgivable Loans according to IAS 20. Grants received from the Chief Scientist are recognized as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The difference between the amount received and the fair value on the date of receipt of the grant is recognized as a reduction of research and development expenses. The amount of the liability is reviewed each period, and any changes are recognized in the statement of income.

Note 3 - Significant Accounting Policies (cont'd)

3.15 Financing income and expenses

Financing income and expenses mainly comprise interest income on funds invested, interest expenses on loans received, net gains (including dividends) on changes in the fair value of financial assets presented at fair value through the statement of income, net foreign exchange gains and gains/losses on derivative instruments recognized in the statement of income, excluding commodity derivatives. Interest income and expenses are recognized as they accrue, using the effective interest method, except for borrowing costs that were capitalized to fixed assets (see also Note 3.4.1). Interest income in respect of sales on long-term credit, which is measured at the present value of the relative consideration, is recorded as financing income.

As a rule, interest income and expenses are calculated by applying the effective interest rate to the gross carrying amount of the financial asset or to the amortized cost of the financial liability, according to the circumstances. However, for credit-impaired financial assets that were purchased or originated, or financial assets that have become credit-impaired since initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

In the statements of cash flows, interest received and interest paid are presented as part of cash flows from operating activities excluding credit costs that were discounted to qualifying assets and paid in cash, which are presented together with fixed asset acquisitions in cash flows from investing activities. Dividends paid are presented under financing activities and dividends received are presented under investing activities.

3.16 Income tax expense

Income tax comprises current and deferred tax. Current and deferred taxes are recognized in the statement of income unless they relate to a business combination or are recognized directly in equity or in other comprehensive income if they relate to items recognized directly in equity or in other comprehensive income. In these cases, the income tax expense is recognized in equity or in other comprehensive income.

<u>Current tax</u>
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and also includes any adjustments to taxes in respect of prior years and any incremental tax arising from dividends.

<u>Offset of current tax assets and liabilities</u>
The Group offsets current tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

<u>Uncertain tax positions</u>
A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more likely than not that the Group will be required to use its economic resources to settle the obligation.

Note 3 - Significant Accounting Policies (cont'd)

3.16 Income tax expense (cont'd)

Deferred tax
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group does not recognize deferred tax for temporary differences on the initial recognition of goodwill as well as differences relating to investments in subsidiaries and joint ventures if the Group controls the timing of reversal of the difference and if it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized when it is probable that future taxable profits will be available against which temporary differences can be utilized or in the absence of forecasts for taxable income. Deferred tax assets are recognized up to the amount of taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

Offset of deferred tax assets and liabilities
The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities and they relate to the same tax authority in the same assessee company or different companies, which intend to settle current tax assets and liabilities on a net basis or simultaneously.

Additional tax in respect of the distribution of dividends
The Group may be liable for additional tax in the event of the payment of dividends by the Group companies. This additional tax was not included in the financial statements, as it is the policy of the Group companies to avoid distribution of a dividend that involves the imposition of additional tax on the recipient company in the foreseeable future. In cases where an investee company is expected to distribute a dividend deriving from profits that involves the imposition of additional tax on the Company, the Company creates a tax reserve in respect of the additional tax for which the Company may be liable as a result of distribution of the dividend. Additional income tax in respect of the distribution of dividends is recognized in the income statement on the date when the liability to pay the corresponding dividend is recognized.

Note 3 - Significant Accounting Policies (cont'd)

3.17 Supplier discounts

Discounts received from suppliers at year end in which respect the Company is not obligated to meet certain targets are included in the financial statements upon making the proportionate part of the purchases entitling the Company to the said discounts.

Supplier discounts where the right to their receipt is conditional on the Company meeting certain targets, such as a minimum annual scale of purchases (in volume or value terms) or an increase in purchases compared to prior periods, are included in the financial statements, pro rata, according to the scale of purchases made by the Company from the suppliers in the reporting period on the way to accomplishing the targets, only when it is expected that the targets will be accomplished and the amounts of the discounts can be reasonably estimated. The estimated accomplishment of targets is based, among other things, on past experience and on the Company's relationship with the suppliers, as well as the forecast scale of purchases from the suppliers in the remainder of the period.

3.18 Advertising expenses

Advertising expenses are recognized in the statement of income as incurred.

3.19 Contribution to joint venture expenses

Revenues from contributions to expenses by related and other companies are recorded on an accrual basis according to specific agreements with the companies, and are included in the relevant expense items.

3.20 Earnings per share

The Group presents basic and diluted EPS with respect to its ordinary share capital. The basic earnings per share are calculated by dividing the income or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, after adjustment for treasury shares. Diluted EPS are calculated by adjusting the income or loss attributable to the ordinary shareholders of the Company and adjusting the weighted average of ordinary shares outstanding, after adjustment for treasury shares and for the impact of all potentially dilutive ordinary shares, which include option warrants granted to employees.

Note 3 - Significant Accounting Policies (cont'd)

3.21 New standards and interpretations not yet adopted

3.21.1 Amendment to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current*

The amendment replaces certain classification requirements for liabilities as current or non-current. For example, according to the amendment, a liability will be classified as non-current when the entity has a right to defer settlement by at least twelve months after the reporting period, which is "substantial" and exists at the end of the reporting period. A right exists on the reporting date only if the entity complies with the conditions for deferring settlement on that date. Further, the amendment clarifies that the right to convert a liability will affect its classification as current or non-current, unless the conversion feature is classified as equity.

The amendment is effective for reporting periods beginning on January 2023. Earlier application is permitted. The amendment will be applied retrospectively, including a revision of comparative figures.

The Group has not yet begun to review the implications of applying the standard on its financial statements.

Note 4 - Critical Accounting Policies and Management's Judgments

The judgments of management and its estimates are reviewed on an ongoing basis and are based on past experience and various factors, including expectations regarding future events.

The Group makes estimates and assumptions regarding the future. The accounting estimates deriving from these assumptions may, by nature, differ from actual results. The estimates and assumptions that in the next fiscal year may result in significant adjustment to the carrying amount of assets and liabilities are discussed below.

<u>Impairment of assets</u>
In accordance with IAS 36, on every reporting date the Group examines the existence of any events or circumstances that may indicate impairment in the value of non-financial assets included in its scope, including investments in joint ventures, accounted for using the equity method. When there are signs indicating impairment, the Group examines whether the carrying amount of the asset exceeds its recoverable amount.

Once a year on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash-generating unit that contains goodwill or intangible assets that have indefinite useful lives or are unavailable for use. If necessary, the Group writes down the asset to its recoverable amount and recognizes an impairment loss. The assumptions regarding future cash flows are based on past experience with the specific asset or similar assets, and on the expectations of the Group regarding the economic conditions that will exist over the remaining useful life of the asset. The Group uses estimates of appraisers when determining the net sales price of assets. With respect to real estate, the estimates take into account market conditions for real estate in a similar location. See also Note 15.3 regarding assumptions and risk factors relating to goodwill impairment.

<u>Valuation of intangible assets and goodwill</u>
The Group is required to allocate the acquisition costs of investees to assets acquired and liabilities assumed based on their fair value estimate. In major acquisitions, the Group contracts with independent third-party valuation specialists for their assistance in determining the fair value of those assets and liabilities. These valuations require the use of significant estimates and assumptions by management. Material intangible assets recognized in recent years include customer relations, trademarks and brands. Critical estimates used in estimating the useful life of such intangible assets include, among others, the duration of the customer relationship, the duration of expected use of the brand and anticipated market developments. Critical estimates used in the valuation of certain intangible assets include, among others, expected cash flows from customer contracts and the replacement cost of brands. Management's estimates with respect to fair value and useful life are based on assumptions considered by management to be reasonable; however, they involve inherent uncertainty, and consequently, actual results may differ. See also Note 15.2 with regard to indefinite-life intangible assets.

Note 4 - Critical Accounting Policies and Management's Judgments (cont'd)

Contingent liabilities

The Company has a procedure in place for examining and determining the amounts of provisions recorded in respect of legal claims pending against the Company and its investee companies. Legal opinions are received each quarter from legal counsel handling the claims on the behalf of the Company, who, in an opinion presented to the Company, assess the chances of the claims' success and indicate whether it is probable (above 50%) or improbable (50% or less) that the claim will be accepted. When a claim is unlikely to be accepted no provision is recorded on the Company's books, but disclosure is provided in the framework of Note 24 to the financial statements if the claim is significant. When acceptance of the claim is probable, the Company estimates the amount of the exposure based on the assessment of its legal counsel, the experience accumulated by the Company and the specific circumstances of the case, and recognizes a provision in the financial statements on the basis of this assessment. The legal proceedings will ultimately be decided by the courts and consequently, their outcomes may differ from these estimates.

In the course of the process of approving the Company's annual financial statements, the board of directors' balance sheet committee performs control processes also with respect to the claims pending against the Company, and these claims, including their amounts, the Company's legal counsel's assessment of the extent of exposure and their chances of success, as well as the amount of the provisions made in their respect in the financial statements, are presented to the committee.

Provision for doubtful debts

The Group applies the guidance provided in IFRS 9 to estimate expected credit losses (ECL) in the trade receivables balance. This estimate requires that significant judgment be applied and the use of forecasts to measure ECL. When applying judgment, the Group takes into account, *inter alia*, the accounts receivable age analysis, bad debt history, debt collection patterns, financial strength and a short-term analysis of customer businesses and industry trends. See also Note 9 and Note 28.1 regarding exposure to credit risk related to accounts receivable.

Uncertain tax positions

The Group is assessed for tax purposes in numerous jurisdictions, and accordingly, Group management is required to apply significant judgment in determining provisions and tax reserves according to local and international tax laws. The Group has transactions and tax positions in which respect the final tax liability is uncertain in the ordinary course of business. The Group recognizes provisions in respect of amounts expected to apply to it following tax audits, based on its estimates as to the possibility that additional taxes will be imposed. If the final tax liability is different from the liability recorded on the books, the differences will affect the provisions for income taxes in the period in which the final assessment is determined by the tax authorities. For further information on uncertain tax positions, see also Note 35.6 with regard to income tax.

Note 5 - Determination of Fair Value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 16.3, on assets held for sale;
- Note 20.2, on loans and other long term liabilities;
- Note 23, on share-based payments;
- Note 28, on financial instruments.

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

Note 6 - Subsidiaries

Information on primary subsidiaries

	The Group's ownership rights (%) December 31			Country of incorporation and main location of company operations
	2020	2019	2018	
Strauss Health Ltd.	80	80	80	Israel
Uri Horazo Yotvata Dairies Ltd. (1)	40	40	40	Israel
Strauss Water Ltd.	100	100	100	Israel
Strauss Coffee B.V.	100	100	100	Holland
Strauss Russia LLC (2)	100	100	100	Russia

(1) Held by Strauss Health Ltd. The Group holds 50% of the voting rights.
(2) Held by Strauss Coffee B.V.

Note 7 - Cash and Cash Equivalents

	December 31	
	2020	2019
	NIS millions	
Cash and balances in banks	196	143
Deposits	295	382
	491	525

Note 8 - Securities and Deposits

As of December 31, 2020, and December 31, 2019, the Company has no balances of deposits and securities.

Note 9 - Trade Receivables

9.1 Composition

	December 31	
	2020	2019
	NIS millions	
Open debts	1,037	1,036
Less provision for doubtful debts	(41)	(37)
	996	999

9.2 Analysis of customer aging:

	December 31, 2020		December 31, 2019	
	Gross	Provision for doubtful debts	Gross	Provision for doubtful debts
	NIS millions			
Not past due	975	(9)	959	(7)
1-30 days past due	19	-	27	-
31-60 days past due	5	-	10	-
61-90 days past due	2	-	3	-
91-120 days past due	1	-	3	-
120+ days past due	35	(32)	34	(30)
	1,037	(41)	1,036	(37)

9.3 Changes in the provision for doubtful debts during the period:

	2020	2019
	NIS millions	
Balance as at January 1	37	42
Impairment loss (reversal of impairment loss) recognized during the period (1)	9	(2)
Doubtful debts becoming bad debts	(4)	(2)
Foreign currency effect	(1)	(1)
Balance as at December 31	41	37

(1) In 2020 and 2019, includes a balance sheet classification of approximately NIS 3 million and NIS 5 million, respectively, with no impact on profit and loss.

Note 9 - Trade Receivables (cont'd)

9.4 Maximum exposure to credit risk in respect of trade receivables at the reporting date by customer type:

	December 31	
	2020	2019
	NIS millions	
Large customer market	494	495
Private market	181	189
Away-from-home	158	172
Other customers (1)	163	143
Total	996	999

(1) Principally customers for the supply of services for water purifiers.

Note 10 - Receivables and Debit Balances

	December 31	
	2020	2019
	NIS millions	
Advance payments to suppliers	17	19
Government institutions	4	2
Loans granted, including current maturities of long-term loans	14	10
Accrued income	13	11
Derivatives (1)	34	24
Prepaid expenses	20	23
Jointly controlled entities	-	13
Other receivables	18	17
Total	120	119

(1) Including encumbered deposits to secure derivatives at an amount of approximately NIS 13 million and NIS 2 million as at December 31, 2020 and 2019, respectively.

Note 11 - Inventory

	December 31	
	2020	2019
	NIS millions	
Raw materials	190	198
Packaging materials	61	56
Unfinished goods	13	15
Finished goods (including purchased products)	265	254
Spare parts and auxiliary equipment in respect of inventory for sale	28	20
	557	543

Note 12 – Investments in Equity-Accounted Investees

12.1 Material equity-accounted investees

	Percentage of equity and control as at December 31			Country of incorporation and main location of company operations
	2020	2019	2018	
Três Corações Alimentos S.A. (1)	50%	50%	50%	Brazil
Sabra Dipping Company (2)	50%	50%	50%	USA

(1) An equity-accounted investee held by the Group and the Brazilian holding company São Miguel, which develops, processes, sells, markets, and distributes a variety of branded coffee products, corn products, coffee machines, paper filters for filter coffee, instant coffee, cappuccino, liquid cappuccino, chocolate beverages, juice powders and cashew-based dairy substitutes, and also sells green coffee, primarily to customers outside Brazil.

(2) An equity-accounted investee held by the Group and PepsiCo, which develops, manufactures, sells, markets, and distributes refrigerated dips and spreads throughout the USA and Canada.

12.2 Concise information on material equity-accounted investees

	Sabra Dipping Company		Três Corações Alimentos S.A.	
	December 31		December 31	
	2020	2019	2020	2019
	NIS millions			
Current assets	291	*359	1,134	1,289
Of which:				
Cash and cash equivalents	71	77	388	462
Non-current assets	486	533	865	896
Total assets	777	*892	1,999	2,185
Current liabilities	164	*213	839	1,065
Of which:				
Financial liabilities excluding trade payables, other payables and provisions	14	35	401	584
Non-current liabilities	91	66	377	115
Of which:				
Financial liabilities excluding trade payables, other payables and provisions	79	55	299	99
Total liabilities	255	*279	1,216	1,180
Total net assets 100%	522	613	783	1,005
Company's share of net assets	261	307	392	502
Other adjustments	90	97	104	147
Carrying amount of investment	351	404	496	649

* Reclassified.

Note 12 – Investments in Equity-Accounted Investees (cont'd)

12.2 Concise information on material equity-accounted investees (cont'd)

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	For the year ended December 31			For the year ended December 31		
	2020	2019	2018	2020	2019	2018
	NIS millions					
Income	1,281	1,369	1,352	2,946	3,598	3,937
Profit for the year	88	111	85	178	269	294
Other comprehensive income (loss)	(46)	(49)	43	(332)	(113)	(77)
Total comprehensive income (loss) (100%)	42	62	128	(154)	156	217
Of which:						
Depreciation and amortization	45	44	46	58	68	41
Interest income	1	1	-	12	11	14
Interest expenses	3	5	6	26	27	22
Income tax received (paid)	*(35)	*(43)	*(33)	4	(45)	(52)
Other adjustments	(7)	(8)	8	(42)	(17)	(14)
Company's share of comprehensive income (loss) presented on the books	14	23	72	(118)	61	95

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

12.3 Concise aggregate information on equity-accounted investees that are not inherently material

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Carrying amount of investments	375	279	278
Group's share of profit	85	58	44
Group's share of other comprehensive loss	(2)	(19)	(5)
Group's share of total comprehensive income	83	39	39

Note 12 – Investment in Equity-Accounted Investees (cont’d)

12.4 Information on dividends received from equity-accounted investees

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Três Corações Alimentos S.A. (1) (2)	36	53	47
Sabra Dipping Company	84	35	38
Qingdao HSW Health Water Appliance Co. Ltd. (1)	-	7	3
Strauss Frito-Lay Ltd.	17	42	34
	137	137	122

(1) Figures represent gross amounts before withholding tax.

(2) The Company’s share of the retained earnings of Três Corações Alimentos S.A. as at December 31, 2020, December 31, 2019 and December 31, 2018 is approximately NIS 359 million, NIS 427 million and NIS 394 million,, respectively, of which approximately NIS 17 million, NIS 24 million and NIS 27 million, respectively, are held as a legal reserve that may serve only for the purpose of a capital increase or to absorb legal losses, and approximately NIS 139 million, NIS 165 million and NIS 151 million, respectively, are included in a tax incentive reserve, which, according to a decision by company management, cannot be distributed as a dividend. Should Três Corações Alimentos S.A. distribute the tax incentive reserve in the future, additional tax will be paid to the tax authorities in respect of the amount distributed.

12.5 Attachment of financial statements

The Group is attaching the consolidated financial statements of Três Corações Alimentos S.A. to these consolidated financial statements. The investee’s reports are presented in Brazilian Reals.

Following are the closing and average exchange rates and rates of change in the exchange rates of the Brazilian Real in the reporting period:

	Brazilian Real to Shekel Exchange Rate		
	Closing exchange rate for the period	Average exchange rate for the period	% change based on closing exchange rate
For the year ended:			
December 31, 2020	0.62	0.67	(27.9)
December 31, 2019	0.86	0.91	(11.1)

From January 1, 2020 through to the date of approval of the financial statements, the Real depreciated against the Shekel by approximately 31%.

Note 12 – Investment in Equity-Accounted Investees (cont'd)

12.6 Additional information on the Group's equity-accounted investees

12.6.1 On February 17, 2020 Café Três Corações S.A., a subsidiary of Três Corações Alimentos S.A., a joint venture in Brazil 50% owned 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 265 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 23 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).

12.6.2 In March 2020, the board of directors of the Haier Strauss Water joint venture (hereinafter: "HSW") approved an investment of approximately RMB 375 million (approximately NIS 190 million) for the construction of a facility for the production and assembly of HSW products sold in China. To support the realization of HSW's strategy and its ongoing activities, the subsidiary Strauss Water granted a shareholder loan of approximately NIS 49 million, in accordance with its share in the partnership. The difference between the fair value of the loan on the grant date and the amount granted, approximately NIS 10 million, was recognized in the investment in equity-accounted investees item.

12.6.3 In May 2020, HSW received a government grant further to the inception of operations in a territory in China entitling companies 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 13 - Other Investments and Long-Term Debit Balances

13.1 Segmentation according to classification of investment:

	December 31	
	2020	2019
	NIS millions	
Deposits and other long-term receivables	9	9
Non-current trade receivables (1)	15	41
Less current maturities	(9)	(9)
Less provision for doubtful debts	-	(6)
	6	26
Non-current loans to others (see 13.2 and 13.3 below)	109	67
Less current maturities	(14)	(10)
	95	57
	110	92

(1) As at December 31, 2020 mainly includes the balance of long-term trade payables in respect of subleases in Tzrifin and Check Post (in accordance with the application of IFRS 160) and the leasing of coffee machines for payments in installments. These balances are discounted at an interest rate of 1.1%-3.0% (in 2019 – 0%-3.0%).

13.2 Information on non-current loans to others and their terms:

	December 31		Interest rate as at December 31, 2020	Linkage base
	2020	2019		
	NIS millions			
Loans to employees	6	6	According to section 3(i) of the Income Tax Ordinance	NIS linked
Loans to suppliers and others	19	13	0%-4.35%	NIS unlinked
Loans to equity-accounted investees	84	48	Interest-free	Dollar, Yuan
	109	67		

13.3 Repayment schedule of non-current loans to others:

	December 31	
	2020	2019
	NIS millions	
First year	14	10
Second year	4	4
Third year	3	3
Fourth year	2	1
Fifth year and thereafter	86	49
	109	67

Note 14 - Fixed Assets

14.1 Changes in fixed assets

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as at January 1, 2020	1,231	2,380	35	299	130	4,075
Additions	29	119	5	10	17	180
Disposals	-	(12)	(2)	(1)	(1)	(16)
Foreign currency effect	(6)	(14)	(2)	(1)	-	(23)
Balance as at December 31, 2020	1,254	2,473	36	307	146	4,216
Depreciation and impairment losses						
Balance as at January 1, 2020	487	1,505	26	264	96	2,378
Depreciation for the year	28	112	3	12	9	164
Disposals	-	(12)	(1)	(1)	(1)	(15)
Foreign currency effect	(3)	(9)	(1)	(1)	-	(14)
Balance as at December 31, 2020	512	1,596	27	274	104	2,513
Spare parts						51
Balance as at December 31, 2020	**742**	**877**	**9**	**33**	**42**	**1,754**

	Land and buildings	Machinery and equipment	Motor vehicles	Furniture and other equipment	Leasehold improvements	Total
	NIS millions					
Cost						
Balance as at January 1, 2019	1,225	2,296	34	294	119	3,968
Additions	20	141	3	10	14	188
Disposals	(7)	(24)	(2)	(3)	(2)	(38)
Classification from inventory	-	5	-	-	-	5
Foreign currency effect	(7)	(38)	-	(2)	(1)	(48)
Balance as at December 31, 2019	1,231	2,380	35	299	130	4,075
Depreciation and impairment losses						
Balance as at January 1, 2019	466	1,447	25	256	90	2,284
Depreciation for the year	25	102	3	12	8	150
Disposals	(1)	(21)	(2)	(3)	(1)	(28)
Foreign currency effect	(3)	(23)	-	(1)	(1)	(28)
Balance as at December 31, 2019	487	1,505	26	264	96	2,378
Spare parts						49
Balance as at December 31, 2019	**744**	**875**	**9**	**35**	**34**	**1,746**

Note 14 - Fixed Assets (cont'd)

14.2 Fixed assets purchased on credit

Fixed assets at an amount of NIS 38 million were purchased on credit as at December 31, 2020 (2019: NIS 29 million, 2018: NIS 27 million).

14.3 For details regarding liens – see Note 24.2.

Note 15 - Intangible Assets

15.1 Changes in intangible assets

	Brands	Computer software	Goodwill	Research and development	Other	Total
			NIS millions			
Cost						
Balance as at January 1, 2020	310	403	653	111	99	1,576
Acquisitions	-	21	-	-	13	34
Additions – own development	-	7	-	19	-	26
Foreign currency effect	(21)	(1)	(22)	-	-	(44)
Balance as at December 31, 2020	289	430	631	130	112	1,592
Accumulated amortization						
Balance as at January 1, 2020	58	329	119	44	95	645
Amortization for the year	-	25	-	4	2	31
Foreign currency effect	(1)	(1)	1	-	1	-
Balance as at December 31, 2020	57	353	120	48	98	676
Balance as at December 31, 2020	**232**	**77**	**511**	**82**	**14**	**916**

	Brands	Computer software	Goodwill	Research and development	Other	Total
			NIS millions			
Cost						
Balance as at January 1, 2019	319	379	680	88	101	1,567
Acquisitions	-	19	-	-	-	19
Additions – own development	-	8	-	23	-	31
Disposals	-	-	-	-	(1)	(1)
Foreign currency effect	(9)	(3)	(27)	-	(1)	(40)
Balance as at December 31, 2019	310	403	653	111	99	1,576
Accumulated amortization						
Balance as at January 1, 2019	62	307	127	40	93	629
Amortization for the year	-	24	-	4	4	32
Disposals	-	-	-	-	(1)	(1)
Foreign currency effect	(4)	(2)	(8)	-	(1)	(15)
Balance as at December 31, 2019	58	329	119	44	95	645
Balance as at December 31, 2019	**252**	**74**	**534**	**67**	**4**	**931**

Note 15 - Intangible Assets (cont'd)

15.2 Intangible assets with indefinite useful lives

On December 31, 2020 intangible assets include an amount of NIS 230 million attributable to brands and trademarks having an indefinite useful life (2019: NIS 250 million). These assets were assessed as having indefinite useful lives since according to an analysis of the relevant factors, there is no foreseeable limit on the period they are predicted to generate positive cash flows for the Group.

The relevant factors that were analyzed included, *inter alia*, management's forecasts regarding the duration of expected use of the brand or trademark; the existence of legal or contractual limitations on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in lifestyle, competitive environment, market demand and industry trends; the sales history of products under the brand name, the time the brand has been on the market, and market awareness of the brand name or trademark. Also taken into consideration is the length of time similar brands are used in the industry in which the Company operates.

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives

The following units have significant carrying amounts of goodwill and intangible assets having an indefinite useful life:

	Goodwill		Intangible assets having an indefinite useful life	
	December 31		December 31	
	2020	2019	2020	2019
	NIS millions		NIS millions	
Israel	76	76	-	-
Water	154	154	102	102
Poland	56	58	54	57
Russia	77	99	60	77
Romania	60	60	14	14
Germany	88	87	-	-
	511	534	230	250

The recoverable amount of the cash-generating units is based on its value-in-use. Value-in-use is calculated using the most up-to-date projected future cash flows for periods of up to 5 years, based on the strategic operating plan of the relevant unit. The projected cash flows for remaining periods are calculated using the relevant growth rate, which takes into consideration the expected growth rate of the category, the industry, the country and the population. Cash flows are discounted at rates that reflect the risks specific to the cash-generating units in each relevant year.

Note 15 - Intangible Assets (cont'd)

15.3 Impairment testing for cash-generating units containing goodwill and intangible assets having indefinite useful lives (cont'd)

The main assumptions by operating segment are as follows:

	December 31, 2020 (1)		December 31, 2019	
	Long-term growth rate	Discount rate	Long-term growth rate	Discount rate
Israel				
Fun & Indulgence	2.0%	11.4%	2.0%	11.4%
Health & Wellness	2.0%	8.7%-11.2%	2.0%	9.7%-11.2%
International Coffee (2)	0%-2%	7.1%-10.5%	0%-1.5%	6.8%-11.4%
Water	2.0%	11.4%	2.0%	13.0%

(1) In light of the satisfaction of the conditions in IAS 36 paragraph 99, impairment testing for a cash-generating unit in the Fun & Indulgence segment and three cash-generating units in the Health & Wellness segment was based on the recoverable amount and on the underlying assumptions as at December 31, 2019.

(2) An annual test for impairment of goodwill attributed to a Strauss Coffee subsidiary in Germany was performed on September 30, 2020.

In testing for the impairment of goodwill and intangible assets having indefinite useful lives attributed to a Strauss Coffee subsidiary in Russia that is a cash-generating unit, in the years 2019 and 2020 a long-term growth rate of 1.5% was assumed, based on growth assumptions applying to the Russian coffee market, as well as a nominal pre-tax discount rate of approximately 10.5% (in 2019 – 11.4%). On the basis of these assumptions the recoverable amount was found to exceed the carrying value of the unit. An increase of 1.23% in the discount rate and a decrease of 1% in the long-term growth rate combined would lead to the carrying value being approximately equal to the recoverable amount. In the rest of the units in the Group, goodwill is an insignificant asset (immaterial in relation to the Company's total assets), and the sensitivity of the units to impairment is very low due to a significant difference between the recoverable amount and the carrying value of the unit.

Note 16 - Investment Property and Assets Held for Sale

16.1 Changes in investment property

	2020	2019
	NIS millions	
Balance as at January 1	4	5
Annual depreciation	-	(1)
Balance as at December 31	4	4

Note 16 - Investment Property and Assets Held for Sale (cont'd)

16.2 Real estate rights

On December 31, 2020 investment properties include a production plant in Bet Shemesh owned by the Company at a value of approximately NIS 3 million (December 31, 2019: approximately NIS 3 million) and land abroad owned by subsidiaries at a value of approximately NIS 1 million (December 31, 2019: approximately NIS 1 million).

16.3 Assets held for sale

Assets held for sale include commercial space in Petach Tikva and Givatayim. In 2020 the Company sold part of the commercial space in Petach Tikva in consideration for a total amount of approximately NIS 4 million.

16.4 Fair value

As at the reporting date, the fair value of total assets held for sale was estimated at approximately NIS 19 million. On the reporting date, the fair value of investment property was estimated at approximately NIS 15 million. Fair value of the real estate assets was estimated at Level 3, and the valuation was mainly based on the price per square meter, as reflected, *inter alia*, in a sales transaction signed in 2020.

16.5 For information on liens, see Note 24.2.

Note 17 - Trade Payables

	December 31	
	2020	2019
	NIS millions	
Open debts	754	731
Notes payable	1	1
	755	732

* For information regarding suppliers who are related parties and interested parties, see Note 37.

Note 18 - Other Payables and Credit Balances

	December 31	
	2020	2019
	NIS millions	
Employees and other payroll related liabilities	229	219
Institutions	12	4
Derivatives	21	14
Accrued expenses	174	188
Deposits and guarantees from customers and distributors	104	99
Advances from customers	21	15
Other payables	14	13
	575	552

Note 19 - Provisions

19.1 Changes in the period

	Legal claims	Warranty	Total
	NIS millions		
Balance as at January 1, 2020	4	23	27
Provisions created during the period	1	26	27
Provisions used during the period	(1)	(21)	(22)
Balance as at December 31, 2020	4	28	32

For information on legal claims, see Notes 3.12 and 24.1.

Note 20 – Loans, Credit and Debentures

20.1 Short-term credit and current maturities of loans, debentures and other long-term liabilities:

	December 31	
	2020	2019
	NIS millions	
Current maturities of debentures	30	62
Short-term credit and current maturities of long-term loans and other long-term liabilities:		
Short-term loans from banks	29	7
Liability in respect of credit card factoring	137	108
Current maturities of long-term loans	90	283
	256	398
Current maturities of lease liabilities	78	93
	364	553

Note 20 – Loans, Credit and Debentures (cont'd)

20.2 Composition of non-current liabilities:

	December 31	
	2020	2019
	NIS millions	
Debentures less current maturities	1,231	743
Long-term loans and other long-term liabilities, less current maturities:		
Liability in respect of credit card factoring	94	85
Loans from others (1)	291	713
Loans from banks (1)	76	125
	461	923
Lease liabilities	142	200
	1,834	1,866

(1) As at December 31, 2020 the fair value of the loans exceeded their carrying amount by approximately NIS 12 million (2019: approximately NIS 45 million). The fair value of the loans is measured on the basis of the present value of future cash flows in respect of principal and interest discounted at the interest rate on Israel government bonds of similar average duration, plus the necessary adjustments for the lending company's risk premium and the discount for lack of marketability as at the date of the financial statements (Level 2).

Note 20 – Loans, Credit and Debentures (cont'd)

20.3 Information on material loans:

Borrower's identity	Type	Loan date	Original loan amount	Currency	Linkage base	Nominal interest (%)	Redemption years	December 31, 2020 Face value	December 31, 2020 Carrying value
			NIS millions					NIS millions	
The Company	Series E debentures (see 20.4)	July 2017/ November 2018	603	NIS	Unlinked	2.61	2020-2027	573	570
The Company	Series F debentures (see 20.4)	July 2020	700	NIS	Unlinked	1.9	2024-2037	700	691
Subsidiary	Loans from others	March 2016	100	NIS	Unlinked	1.69	2016-2021	17	17
Subsidiary	Loans from others	January 2017	100	NIS	Unlinked	2	2017-2022	33	33
Subsidiary	Loans from others	April 2019	50	NIS	Unlinked	1.9	2019-2024	34	34
Subsidiary	Loans from others	April and July 2017	312	NIS	Unlinked	2-3.5	2018-2027	255	255
Subsidiary	Loans from banks	August 2017	125	Euro	Unlinked	1.5-2.5	2023	118	118
Subsidiary	Liability in respect of credit card factoring (1)	January 2017 – December 2020	-	NIS	Unlinked	0.8-2.3	2017-2024	231	231

(1) The Group has factoring arrangements with third parties for part of these payments and non-recourse factoring arrangements for the sale of water bars.

Note 20 – Loans, Credit and Debentures (cont'd)

20.3 Information on material loans (cont'd):

Borrower's identity	Type	Loan date	Original loan amount	Currency	Linkage base	Nominal interest (%)	Redemption year	December 31, 2019	
								Face value	Carrying value
			NIS millions					NIS millions	
The Company	Series D debentures (1)	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	204	206
The Company	Series E debentures (see 20.4)	July 2017/ November 2018	603	NIS	Unlinked	2.61	2020-2027	603	599
The Company	Loans from banks (1)	September 2011	100	NIS	CPI	3.95	2019-2022	50	52
The Company	Loans from banks (1)	September 2011	100	NIS	Unlinked	6.3	2019-2022	50	50
The Company	Loans from others (1)	January 2011	300	NIS	Unlinked	5.82	2011-2022	206	206
The Company	Loans from others (1)	April 2012	372	NIS	CPI	3.55	2012-2022	262	272
Subsidiary	Loans from others	March 2016	100	NIS	Unlinked	1.69	2016-2021	34	34
Subsidiary	Loans from others	January 2017	100	NIS	Unlinked	2	2017-2022	50	50
Subsidiary	Loans from others	April 2019	50	NIS	Unlinked	1.9	2019-2024	42	42
Subsidiary	Loans from others	April and July 2017	312	NIS	Unlinked	2-3.5	2018-2027	299	299
Subsidiary	Loans from banks	August 2017	125	Euro	Unlinked	1.5-2.5	2023	116	116
Subsidiary	Liability in respect of credit card factoring	January 2017 – December 2019	-	NIS	Unlinked	0.8-1.8	2020-2023	193	193

(1) For information on the early redemption of Series D debentures and prepayment of loans from banks and others, see Note 20.7.

Note 20 – Loans, Credit and Debentures (cont'd)

20.4 Information on debenture series issued by the Company and debentures in circulation

	Series E	Series E Expansion	Series F (1)
Date issued	July 4, 2017	November 1, 2018	July 7, 2020
Listed for trading	July 5, 2017	November 4, 2018	July 8, 2020
Type of interest	Fixed	Fixed	Fixed
Annual interest rate	2.61%	2.61%	1.9%
Effective interest rate on listing date, taking issuance costs into account	2.78%	2.75%	2.04%
Face value on issuance date	NIS 403 million	NIS 200 million	NIS 700 million
Nominal face value as at December 31, 2020	NIS 383 million	NIS 190 million	NIS 700 million
Carrying value of debentures as at December 31, 2020	NIS 381 million	NIS 189 million	NIS 691 million
Carrying value of interest payable as at December 31, 2020	-	-	-
Market value as at December 31, 2020	NIS 416 million	NIS 206 million	NIS 718 million
Linkage conditions	Principal and interest are not linked to any index		Principal and interest are not linked to any index
Payment dates of principal	8 yearly payments on June 30 of each year from 2020 to 2027. 4 first payments of 5% each and 4 additional payments of 20% each.		14 yearly payments on June 30 of each year from 2024 to 2037. 4 first payments of 5% each, and 10 additional payments of 8% each.
Interest payment dates	Half-yearly interest on December 31 and June 30, from December 31, 2017 until June 30, 2027		Half-yearly interest on December 31 and June 30, from December 31, 2020 until June 30, 2037
Collateral or liens	None		None
Name of rating company	Midroog, Maalot	Midroog, Maalot	Midroog, Maalot
Rating at issue date	ilAA+; Aa2il	ilAA+; Aa2il	ilAA+; Aa1il
Rating at reporting date	ilAA+; Aa1il	ilAA+; Aa1il	ilAA+; Aa1il

(1) In July 2020 the Company issued debentures (Series F), which were listed on the Tel Aviv Stock Exchange. The net proceeds of the issue were NIS 691 million.

Note 20 – Loans, Credit and Debentures (cont'd)

20.4 Information on debenture series issued by the Company and debentures in circulation (cont'd)

The terms and conditions of the Company's Series E and Series F debentures include customary causes for calling for immediate repayment, including the following: a transfer of control of the Company, as a result of which the debenture rating is downgraded to below ilAA- on Maalot's rating scale or ilAa3 on Midroog's rating scale) (according to the terms and conditions of the relevant debentures, with certain transfers of control being excluded); a material change in the Company's business according to the terms and conditions of the relevant debentures; a rating revision such that the new rating falls below ilBBB- (or corresponding rating), and said downgrade is not the result of a change in the methodology and/or rating scales of the rating companies; a call for immediate repayment of a different debenture series publicly issued by the Company and listed for trading on TASE, a call for the immediate repayment of the Company's debts to financial institutions (not including non-recourse loans) of an amount that is not less than NIS 200 million. In addition, violation of the covenants as described in Note 20.6.

For information on financial covenants pertaining to the Series E and Series F debentures, see Note 20.6.

For information on liens and guarantees, see Notes 24.2 and 24.3.

20.5 On April 4, 2017 the subsidiary Strauss Coffee took a loan of NIS 234 million from an institutional body, as well as a line of credit of NIS 78 million which was used on July 27, 2017 (see below). The loan in unlinked and bears annual interest of 2.5%-3.5%, which is to be paid half-yearly on the outstanding balance of the loan. The principal of the loan will be repaid in ten yearly installments, as follows: two annual installments of approximately 2% of the loan, four annual installments of 14%-15% of the loan, and four annual installments of 8%-10% of the loan. On July 27, 2017 the subsidiary Strauss Coffee Company took an additional loan of NIS 78 million from the institutional body, bearing 2%-3% interest, which will be paid half-yearly on the outstanding balance of the loan; the loan will be repaid in the identical manner to the loan of April 2017. Strauss Coffee undertook not to create a general floating charge on its assets in favor of any third party without the lender's consent (negative charge). In addition, the terms and conditions of the loans include customary causes for calling for immediate repayment, including in a case where a third-party lender has called for the immediate repayment of the Company's debts to such lender of an amount that is more than the sum determined, and in the case of a change of control of the subsidiary Strauss Coffee and/or of the Company.

For information on financial covenants relating to these loans, see Note 20.6

Note 20 – Loans, Credit and Debentures (cont'd)

20.6 Covenants

Debentures

In the abovementioned agreements, the Company has committed that for as long as the Series E and Series F debentures have not been redeemed in full, the Company's net debt to annual EBITDA ratio as defined in the deeds will not exceed 7 for four or more consecutive calendar quarters. Failure to comply with said covenant shall serve as cause for immediate repayment. Should the net debt to annual EBITDA ratio exceed 4 for at least two consecutive calendar quarters, Series E and Series F debenture holders will be credited for additional interest, as stated in the debenture certificate.

The Company has committed that for as long as the Series E and Series F debentures have not been redeemed in full, the ratio of equity (not including non-controlling interests) to the total consolidated balance sheet will not fall below 20% at any time. Failure to comply with said ratio for two consecutive quarters will credit the Series E and Series F debenture holders for additional interest, as stated in the debenture certificate.

The Company has committed that for as long as the Series E and Series F debentures have not been redeemed in full, the Company's equity in its consolidated financial statements, excluding a reduction in equity arising as a result of the acquisition of non-controlling interests after the date of issue of each of the debenture series, will not fall below NIS 500 million for the Series E debentures and below NIS 600 million for the Series F debentures. Failure to comply with said minimum equity for three or more consecutive calendar quarters will serve as cause for immediate repayment.

Should the Company fail to comply with any of the covenants to which it has committed in favor of the holders of Series E and Series F debentures during the relevant period, as the case may be, the Company will be entitled to prepare, for the purpose of calculating its compliance with the covenants it has not met, a pro forma income statement and balance sheet in accordance with the accounting standards under which the Company's financial statements as at March 31, 2017 were prepared for the Series E debentures, and as at March 31, 2020 for the Series F debentures, without applying IFRS 11.

On December 31, 2020 and throughout the year the Company was in compliance with all terms and conditions and covenants under the Series E and Series F debenture trust deeds. In addition, as at December 31, 2020 and throughout the year the conditions establishing cause for immediate repayment of the debentures or for the exercise of sureties given to secure payment to the debenture holders were not satisfied.

Banks and financial institutions

With respect to the loans taken by the subsidiary Strauss Coffee as described in Note 20.5 above, the following covenants were defined: (1) the ratio of equity (plus shareholders' loans) to balance sheet will be no less than 25%; (2) the net debt (less shareholders' loans) to EBITDA ratio will not exceed 3.5 (debt service coverage ratio). Following are events on the occurrence of each of

Note 20 – Loans, Credit and Debentures (cont'd)

20.6 Covenants(cont'd)

which 0.5% interest will be added to the loans from institutional bodies: (1) if the ratio of equity to balance sheet as defined above is less than 30%; (2) if the debt service coverage ratio as defined above is higher than 2.5; (3) if the debt service coverage ratio as defined above is higher than 3. Furthermore, 1.5% interest will be added if cause for immediate repayment is created. As at December 31, 2020, Strauss Coffee is in compliance with all of the financial covenants described above.

Additionally, two subsidiaries are required to meet covenants in favor of banks in Israel and other countries and non-banking corporations. As at the date of this report, the subsidiaries are in compliance with these covenants.

20.7 Prepayment of debentures and long-term loans

In the course of 2020 the Company effected prepayment of long-term loans from institutional bodies and banks at a total amount (principal and interest) of NIS 553 million (of which payments of principal amounting to approximately NIS 140 million were repaid on the original payment date). As a result of the prepayment a loss of NIS 20 million was recognized, which was classified to financing expenses on the income statement. Further, on December 28 the Company effected early redemption of its Series D debentures at an amount of approximately NIS 172 million face value. The proceeds of the early redemption amounted to approximately NIS 185 million. As a result of the early redemption a loss of NIS 10 million was recognized, which was classified to financing expenses on the income statement.

Note 21- Long-Term Payables

	December 31	
	2020	2019
	NIS millions	
Long-term payables	-	2
Other payables	18	13
	18	15

Note 22 - Employee Benefits

22.1 The labor laws in Israel require the Group to pay severance pay to employees who were dismissed or have retired (including those who left the Group in other specific circumstances). The liability for the payment of severance pay is calculated according to the labor agreements in effect on the basis of salary components which, in the opinion of Company management, create an obligation to pay severance pay.

The Company has two severance pay plans: one plan according to the provisions of section 14 of the Severance Pay Law, which is accounted for as a defined contribution plan; and the other for

Note 22 - Employee Benefits (cont'd)

22.1 (cont'd)

employees to whom section 14 does not apply, which is accounted for as a defined benefit plan. The Group's liability in Israel for the payment of severance pay to employees is mostly covered by current deposits in the names of the employees in recognized pension and severance pay funds, and by the acquisition of insurance policies, which are accounted for as plan assets.

In addition to these plans, the Company has an obligation to pay an acclimatization bonus to senior executives. The Group's obligation for the payment of acclimatization bonuses is not covered by the current deposits in the names of the employees.

As regards its international operations, employee benefits are accounted for in accordance with the requirements of the law in each country in which the Group operates.

22.2 The Company has an obligation to pay benefits to certain employees in accordance with personal employment contracts. In addition, the Company has an obligation to pay benefits to employees who have retired in accordance with the local laws. These benefits were accounted for as a defined benefit plan.

22.3 Composition

	December 31	
	2020	2019
	NIS millions	
Defined benefit plan		
Present value of funded obligation	124	137
Fair value of plan assets	(75)	(89)
Total employee benefits, net	49	48

22.4 Defined benefit plans

22.4.1 Changes in the liability for defined benefit plans

	2020	2019
	NIS millions	
Liability in respect of defined benefit plans as at January 1	137	132
Benefits paid under the plans	(18)	(8)
Current service costs	7	7
Interest expenses	2	4
Actuarial losses (gains)	(2)	3
Other adjustments	(2)	(1)
Liability in respect of defined benefit plans as at December 31	124	137

Note 22 - Employee Benefits (cont'd)

22.4 Defined benefit plans (cont'd)

22.4.2 Composition of defined benefit plan assets

	December 31	
	2020	2019
	NIS millions	
Cash and cash equivalents	5	9
Government debentures	6	10
Corporate debentures	32	24
Equity instruments	32	46
Total plan assets	75	89

22.4.3 Changes in defined benefit plan assets

	2020	2019
	NIS millions	
Fair value of plan assets as at January 1	89	85
Contributions paid into the plans	5	5
Benefits paid under the plans	(18)	(7)
Interest income	2	2
Actual yield less interest income	(3)	3
Other adjustments	-	1
Fair value of plan assets as at December 31	75	89

22.4.4 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions as at the reporting date in nominal terms:

	2020	2019
Discount rate as at December 31 (1)	0.51%-2.31%	0.80%-3.61%
Future salary increases	2.00%-6.00%	2.00%-6.00%
Demographic assumptions (2)		

(1) The discount rate is based on high yield corporate debentures. The weighted discount rate for 2020 is 1.91% (2019: 1.89%).

(2) Calculations are based on demographic assumptions, as follows:

a) Mortality and loss of work capacity rates are based on pension circular 2019-1-10 published by the Capital Market, Insurance and Savings Division of the Ministry of Finance.
b) Employee turnover rates are based on an analysis of historical data. According to this analysis, the main turnover rate for employees and senior employees is 10.36% and 13.51%, respectively, for each year of seniority.

Note 22 - Employee Benefits (cont'd)

22.4 Defined benefit plans (cont'd)

22.4.4 Actuarial assumptions and sensitivity analysis (cont'd)

Reasonably possible changes on the reporting date in one of the actuarial assumptions, assuming that the remaining assumptions remain unchanged, influence the defined benefit obligation as follows:

		Increase (decrease) in defined benefit obligation as at December 31, 2020
Discount rate	1% increase	(4)
Discount rate	1% decrease	5
Future salary costs	1% increase	5
Future salary costs	1% decrease	(4)
Departure rate	Multiplied by 1.2	(1)
Departure rate	Multiplied by 0.8	1

22.4.5 Impact of the plan on the Group's future cash flows

The Group's estimate of expected contributions in 2021 to a funded defined benefit plan is NIS 5 million.

The Group's estimate of the plan's life (according to a weighted average) as at the end of the reporting period is 4.10-5.42 years (2019: 4.60-5.83 years).

22.5 Defined contribution plans

In the year ended December 31, 2020 the Group recorded an expense of approximately NIS 49 million (2019: NIS 45 million, 2018: NIS 44 million) in respect of defined contribution plans.

22.6 Actual return

The actual return on the plan assets in 2020 is approximately -1.6% (2019: 5.95%, 2018: 1.23%).

Note 23 - Share-Based Payment

23.1 Description of the plan

23.1.1 Employee options plan - in accordance with the May 2003 senior employee options plan, which was updated from time to time and most recently in March 2018 (hereinafter: the "Plan") and approved by the board of directors of the Company and/or its committees, the Company has granted senior Group employees option warrants, free of charge, each of which may be exercised into one ordinary share of NIS 1 par value on a "net stock" basis, as described below:

Vesting period	
Option warrants granted before September 9, 2013	50% will vest approximately two years from the grant date, and the remaining 50%, three years from the grant date.
Option warrants granted between September 9, 2013 and March 20, 2016	Will vest in three equal tranches, two, three and four years from the grant date, respectively.
Option warrants granted commencing on March 20, 2016	50% will vest approximately two years from the grant date, and the remaining 50%, three years from the grant date.
Exercise price	
Option warrants granted up to September 9, 2013	Determined according to the average closing price of the Company's share immediately prior to the approval of the grant, linked to the CPI.
Option warrants granted between September 9, 2013 and September 12, 2016	Determined according to the average closing price of the Company's share in the 30 trading days preceding the grant date plus a 5% premium, provided that the exercise price shall be no less than the closing price of the share on the TASE at the close of trading on the day before the grant date.
Option warrants granted commencing on September 12, 2016	Determined by the remuneration committee and/or the board of directors on the grant date, according to one of the following alternatives: (1) the average closing price of the Company's share in the 30 trading days preceding the grant date plus a premium to be determined by the board of directors and/or its committees; (2) the average closing price of the Company's share in the 30 trading days preceding the grant date with no premium, linked to the CPI.
Manner of exercise	
The option warrants will be exercised without payment of the exercise price, such that the offeree will be allotted underlying shares of a number that reflects the benefit component embodied in the options, which is equal to the amount arising from the difference between the minimum price determined by the employee (if determined) or the market price (the closing price of an ordinary share on the last trading day before the exercise date) if no minimum price was determined, and the actual exercise price, multiplied by the number of warrants exercised.	

Note 23 - Share-Based Payments (cont'd)

23.1 Description of the plan (cont'd)

23.1.1 Employee options plan (cont'd)

The exercise price or conversion ratio of each option warrant will be adjusted pro rata for the allotment of bonus shares, consolidation and split of the Company's shares, a rights issue to the shareholders of the Company or the distribution of a dividend. The board of directors and/or its committees reserves the right to make amendments to the Plan with respect to all offerees or to a particular offeree.

In the event of termination other than due to dismissal for cause as defined in the Plan and employment agreement, the employee shall be entitled to exercise the options which have matured before and until the termination date during a period of 180 days after the termination date. Further, the board of directors and/or its committees may accelerate options that have not vested before the termination date such that they will vest on the termination date, provided, however, that the original vesting date is no more than 6 months after the termination date. With regard to options that are due to vest within 6 months from the termination date, the board of directors may extend the exercise period by an additional 180 days.

In a case of termination due to the employee's incapacitation or death or legal incompetence, the employee or his heirs shall be entitled to exercise all option warrants allotted to the employee, according to the vesting and expiration dates determined on the original grant date.

23.1.2 Restricted share units ("RSU"/"PSU") plan – according to the remuneration plan for senior employees of July 2016, which was approved by the board of directors and the meeting of shareholders of the Company, the Company may allot restricted shares to senior employees, free of charge. Upon satisfaction of their vesting terms and conditions, each RSU/PSU shall be automatically converted into one NIS 1 par value ordinary share of the Company on the vesting date determined for each offeree.

The number of shares shall be adjusted pro rata following the allotment of bonus shares, a rights issue to the shareholders of the Company or a change in the Company's structure (merger or sale of the Company). If a dividend is distributed before the RSUs have been exercised, the holder of the RSUs shall be entitled to a cash bonus on the vesting date of the restricted shares at the amount of the dividend whereto he would have been entitled had he held, on the date the dividend was distributed, the number of ordinary shares of the Company equal to the number of RSUs, less the tax applying to the distribution.

23.1.3 Taxation – for employees in Israel, the plans described above were approved under section 102 of the Income Tax Ordinance (New Version), 1961 and accordingly, the option warrants or RSUs were deposited with a trustee. According to the plans, the employees shall bear any and all taxes applying thereto.

Note 23 - Share-Based Payments (cont'd)

23.2 Grants in the reporting period

The fair value of the employee options is measured using the Black-Scholes model. Assumptions include the share price on the measurement date, the exercise price of the instrument, forecast volatility (based on the historical volatility of the Company's shares over the expected term of the options), the expected life of the instruments (based on past experience and the general conduct of the option holders) and the risk-free interest rate (based on government bonds); service conditions and performance conditions that are not market conditions are not taken into account in determining fair value.

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

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Expected annual volatility	Discount rate
		NIS M	NIS	NIS	Years	%	%
March 24, 2020	1,133,325 to 15 managers	14.1	95.96	102.66*	3.95-4.95	17.77-18.87	0.17-0.29
August 16, 2020	46,666 to 1 manager	0.7	100.60	102.09	3.95-4.95	18.85-19.22	0.26-0.35
September 30, 2020	400,000 to the CEO	5.7	98.38	102.30	3.84-4.84	18.91-18.94	0.25-0.33

(*) The exercise price is linked to the CPI known on the grant date.

Entitlement to exercise the options will be created in two equal tranches in each of the years 2022 and 2023. The benefit arising from these grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

23.3 Changes in the number of share options:

	Number of share options (thousands)		
	2020	2019	2018
Balance as at January 1	4,465	4,493	4,424
Additional allotment	1,580	1,380	1,573
Exercise of options (1)	(639)	(1,338)	(1,504)
Forfeiture of options	(268)	(70)	-
Balance as at December 31 (2)	5,138	4,465	4,493

(1) The weighted average share price on the exercise date of the options exercised in 2020 was NIS 99.55 (2019: NIS 97.79, 2018: NIS 80.17).

(2) On December 31, 2020, 1,548 thousand (2019: 647 thousand) of the outstanding option warrants had vested.

Note 23 - Share-Based Payments (cont'd)

23.4 Salary expenses in respect of share-based payments

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Total expense included in salary expenses	17	20	17

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements

24.1 Contingent liabilities

24.1.1 Following is information on material claims filed with the courts against the Company and its subsidiaries for class certification. Based on the estimates of the Company's legal counsel, management is of the opinion at this stage that **the claims are not expected to be accepted**:

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim and the ruling	Claim amount (NIS millions)
April 2015	Central District Court	The Company, the Parent Company, Tnuva Central Cooperative for the Marketing of Agricultural Produce in Israel Ltd. and Tnuva Food Industries Agricultural Co-Op in Israel Ltd.	Alleged unfair pricing by a monopoly holder, and of products under price control. (On December 27, 2016 the court directed a joinder of this claim with the claim of May 2016 pertaining to alleged excessive pricing by a monopoly holder of the Milky pudding).	57 (the Group's share)
May 2016	Central District Court	The Company and Parent Company	Alleged excessive pricing by a monopoly of the Milky dairy dessert.	100
December 2018	Central District Court	The subsidiary Strauss Water Ltd.	Alleged unlawful collection of a cancellation fee following cancellation of service agreements by the customer.	20
September 2020	Central District Court	The Company and the subsidiary Strauss Health Ltd.	Misleading with respect to presenting the quantity of sugar in products in the Gamadim series.	45

24.1.2 Following is information on material claims filed with the court against the Company for recognition as a class action, in which respect legal proceedings ended in the reporting period through to the date of approval of the financial statements:

Date claim filed	Court in which claim is being litigated	Defendant	Subject of claim and the ruling	Claim amount (NIS millions)
April 2018	Tel Aviv – Jaffa District Court	The subsidiary Strauss Water Ltd.	Alleged defect in appliances manufactured by the subsidiary. On October 19, 2020 the Tel Aviv – Jaffa District Court set aside the motion to hear the action as a class action.	97
September 2019	Central District Court	The subsidiary Strauss Water Ltd.	Collection of payment in the warranty period, when the appliances are allegedly meant to be covered by the warranty and serviced free of charge. On July 13, 2020 the Central District Court set aside the motion to hear the action as a class action.	85

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

24.1 Contingent liabilities (cont'd)

24.1.3 Claims and other contingent liabilities

24.1.3.1 On the date of publication of this report, claims in the civil courts and other claims that were not mentioned in the preceding notes amount to approximately NIS 72 million. Of said claims, those of which the chances cannot be estimated account for NIS 24 million. The Company has not included provisions for claims that are pending as at the date of publication of this report, which, in the opinion of its legal counsel, are not expected to be accepted or the chances of which cannot be estimated.

Based on the opinion of its legal counsel, Company management is of the view that the Company and its subsidiaries are not expected to incur losses as a result of the above claims in excess of the amount of the provision made in the financial statements.

24.1.3.2 In May 2018 a monetary claim was filed with the court in New York pertaining to a settlement agreement between the parties with respect to a debt owed by the claimant. The claim amount is approximately $10 million. On September 12, 2018 the court dismissed the claim and subsequently, on October 24, 2018 the claimant filed an appeal. Based on the opinion of its legal counsel, Company management presently estimates that the appeal is not expected to be accepted. On June 15, 2020 a motion for the case to be reheard was set aside by the court. The claimant has the possibility to petition the US Supreme Court to review the case. On January 18, 2021 the possibility of appealing the dismissal was denied.

24.1.3.3 There are lawsuits in the civil courts and other claims underway against an equity-accounted investee in Brazil. As at December 31, 2020, these claims (the Group's share) totaled approximately NIS 222 million (of which approximately NIS 122 million are claims by the tax authorities, NIS 94 million are labor-related claims and NIS 6 million, civil suits). Based on the information received from the equity-accounted investee's legal counsel, an analysis of the pending legal proceedings and past experience as far as the amounts claimed are concerned, the equity-accounted investee estimates that the chances of approximately NIS 122 million of the claims are slight and has made provisions totaling approximately NIS 21 million (the Group's share), which is considered sufficient to cover the expected losses as a result of the above claims.

24.2 Liens

24.2.1 There are fixed and floating charges on a number of real estate properties in the Group in favor of others to secure credit.

24.2.2 With respect to its debts, the Company has undertaken to banks, other financing entities and the debenture holders not to create charges on its assets (negative charges) other than in certain cases as defined in the loan agreements or trust deeds.

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

24.3 Guarantees

24.3.1 Guarantees were given to banks and others with respect to the business operations of the Group, as follows:

	December 31	
	2020	2019
	NIS millions	
In favor of a bank for an equity-accounted investee	5	5
In favor of others in Israel and abroad	20	21

24.4 Material commitments

24.4.1 In the engagement for the investment by PepsiCo Foods International (hereinafter: "PepsiCo") in Strauss Frito-Lay Ltd, the shareholders agreed that should control of the Company (directly or indirectly) be assumed by a party that is not the Strauss family, PepsiCo shall have the right, after 12 months have elapsed from the Company becoming thus controlled, to acquire the Company's entire remaining shareholding in Strauss Frito-Lay Ltd. at the market price to be determined as specified in the agreement, on condition that PepsiCo had attempted in good faith to cooperate with the new controlling shareholder in the said 12 months and shall reasonably determine that its attempt was unsuccessful.

24.4.2 According to a letter of indemnity for officers of the Company (including those who are among the controlling shareholders and their relatives), the Company has irrevocably undertaken to indemnify officers of the Company with respect to any liability or expense (as defined in the letter of indemnity) imposed on the officer due to actions performed in his capacity as such after the date of the letter of indemnity, which are directly or indirectly related to one or more of the types of events described in the letter of indemnity, or part of them or anything related to them, directly or indirectly. The amount the Company will pay, in addition to sums which shall be received from insurance companies, if any, for all officers cumulatively, in respect of one or more of the events described in the letter of indemnity, has been limited to 25% of the shareholders' equity of the Company according to its most recent financial statements as at the actual date of the indemnity payment (hereinafter: the "Date of Record"). The maximum amount of indemnity will be linked to the index from the latest index published prior to the date of record, until the latest index published prior to the payment date. Additionally, under a deed of exemption from liability granted to officers, the Company has released, in advance and retrospectively, its officers (including those among the controlling shareholders and their relatives) from their liability, in whole or in part, for damage as a result of a breach of the duty of care to the Company to the maximum extent permitted by law, provided, however, that such release shall not apply to a decision or transaction in the approval of which the controlling shareholder or any officer of the Company had a personal interest. As at the reporting date the Company is engaged in a policy for the insurance of directors and officers serving in the Company and its subsidiaries with liability limits of approximately $100 million, for payment of an annual premium of $374 thousand.

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

24.4 Material commitments (cont'd)

24.4.3 Strauss Health and Yotvata are engaged in yearly agreements with dairy farmers to purchase the entire quotas of their milk produce in accordance with the Milk Sector Planning Law, 2011. In 2020, these transactions amounted to approximately NIS 472 million (2019: NIS 464 million).

24.4.4 On December 29, 2005 a series of agreements was signed between companies in the Group and the Lima family of Brazil and companies under its control, their goal being the consolidation of the parties' operations in Brazil. It was determined that the transfer or sale of shares by a shareholder of the jointly-held company to a third party which is not related to either of the shareholders is subject to a right of first refusal to the sale, right of first offer and a shareholder's tagalong right to the sale of the other shareholder's shares. The agreement further determines that the shareholders will have preemptive rights with respect to any allotment of securities by the joint company in the future, in such manner that they will be able to acquire new securities pro rata to their holdings. Should a shareholder in the jointly-held company enter insolvency proceedings, the other shareholder will be entitled to acquire all of the shareholder's shares in the jointly-held company on the basis of the joint company's fair market value, subject to a prescribed valuation mechanism. The agreement further determines that should an arbitrator who is appointed in a dispute between the shareholders rule that a shareholder is in breach of the shareholders' agreement or joint venture agreement, the other shareholder that is not in breach shall be entitled to exercise its call option to buy the shares of the shareholder in breach for a price equal to 80% of fair market value, or alternatively, to exercise its put option to sell its shares to the shareholder in breach for a price equal to 120% of fair market value, according to a mechanism defined in the shareholders' agreement.

According to the shareholders' agreement, in the case of a "change of control" that terminates the Strauss family's/Lima family's control of one of the companies that is a party to the agreement (or their parent companies), the other party shall have a put option to sell all of its shares in the jointly-held company to the counterparty or a call option to acquire all of the counterparty's shares in the jointly-held company in consideration for the fair market value of the jointly-held company as agreed by the parties. In the absence of agreement, the market price of the shares will be determined by an external valuator; however, if the parties fail to reach an agreement on the identity of the valuator, or if one of the parties objects to the market value determined by the valuator, each of the parties shall have the right to appoint another valuator. The final fair market price will be the arithmetic average of the valuations.

Note 24 - Contingent Liabilities, Liens, Guarantees and Engagements (cont'd)

24.4 Material commitments (cont'd)

24.4.5 In December 2007, a joint venture transaction was signed with a PepsiCo subsidiary (Frito-Lay Dip Company, Inc.) (the "Buyer") such that effective March 28, 2008, the Company (via S.E. USA, Inc.) and PepsiCo (via the Buyer) each holds 50% of the "participation rights" in Sabra Dipping Company, LLC ("Sabra"). Each of the holders of "participation rights" in Sabra will has a put option to sell its "participation rights" to the other holders of "participation rights" in Sabra at such time, on the basis of Sabra's market value less 25%. The party against which the option was exercised will have the right to purchase the "participation rights" of the party exercising the option at the said price or alternatively, to sell the party exercising the option its "participation rights" on the basis of Sabra's market value plus 25%. The bylaws determine, *inter alia*, that the sale of "participation rights" to a third party is subject to the tagalong right of the remaining owners of "participation rights", and insofar as this right is not exercised, the seller shall have a drag-along right to enforce a sale on the remaining owners of "participation rights". Additionally, the bylaws contain an itemization of certain corporations, in which respect any transfer of "participation rights" in Sabra to them shall require the consent of the Buyer or of S.E. USA, Inc., according to the provisions of the bylaws.

The bylaws further determine that should a party holding "participation rights" cease to be a wholly-owned subsidiary of the Company or PepsiCo, as the case may be, or should any corporation among the corporations specified in the bylaws acquire a stake of more than 20% in the Company or PepsiCo, as the case may be, the counterparty shall be entitled to acquire, on a pro rata basis, all "participation rights" in Sabra held by that party, according to Sabra's market value.

24.4.6 In July 2011 the Company contracted with the US food concern PepsiCo (through PRB Luxembourg, hereinafter: "PRB") in an agreement for the establishment of a joint venture via a company in which the parties would be equal shareholders (each party holding 50%) – PepsiCo Strauss Fresh Dips & Spreads International GmbH (hereinafter: the "Venture" or "Obela"). The agreement is for a term of twenty years and will be automatically renewed for additional terms of twenty years each, provided that neither of the shareholders has informed the other, five years before the end of the twenty-year period, that it does not wish to renew the agreement. Each of the shareholders in Obela has a put option to sell its shares to the counterparty on the basis of Obela's market value less 25%. The party against which the option has been exercised will have the right to acquire the shares of the party exercising the option at that price and alternatively, to sell its shares to the party exercising the option according to the Venture's market value plus 25%, as set forth in the agreement.

24.4.7 For information on transactions with interested and related parties, see Note 37.

Note 25 - Leases

Leases in which the Group is the lessee

Commencing on January 1, 2019 the Group has applied IFRS 16, *Leases*. The Group leases the following major items under lease agreements:
1. Buildings
2. Coffee stands
3. Vehicles

Additionally, the Company leases land from the Israel Lands Administration, which are classified under fixed assets (see Note 14).

25.1 Information on major lease agreement in which the Group is the lessee

25.1.1 Property and coffee stand agreements

Leased property	Remaining lease term
Distribution and logistics center in Haifa (1)	Until October 2021, with an option to extend until March 2023.
Distribution and logistics center in Acre	Until February 2021, with an option to extend until January 2026.
Coffee stand at Ben Gurion Airport	Until December 2024, with an option to extend until October 2027.

(1) Since November 2018 part of the distribution and logistics center in Haifa has been sublet, and since January 2020 the sublease has been accounted for as a finance sublease in accordance with the guidance in IFRS 16. Furthermore, in 2020 a lease agreement was signed for a new logistics center for a 15-year period with two additional extension options, beginning in March 2023.

25.1.2 The Group leases vehicles for an average period of three years, and from time to time alters the number of vehicles according to its current needs. The leased vehicles serve the employees of Group headquarters, marketing and sales and other employees, whose employment agreements include an obligation by the Group to place vehicles at their disposal. The Group has accounted for the arrangement between it and the leasing companies as a leasing arrangement governed by IFRS 16, and the arrangement between the Group and its employees as an arrangement governed by IAS 19. The Group has no extension and/or cancellation options in its agreements with the leasing companies which are reasonably certain to be exercised.

Note 25 – Leases (cont'd)

25.2 Right-of-use assets

	Property and coffee stands	Vehicles	Total
Balance as at January 1, 2020	174	91	265
Additions	19	55	74
Disposals	*(46)	(5)	(51)
Depreciation	(38)	(49)	(87)
Foreign currency effect	(1)	-	(1)
Indexation	(1)	(1)	(2)
Balance as at December 1, 2020	107	91	198
Balance as at January 1, 2019	200	86	286
Additions	15	52	67
Disposals	-	(3)	(3)
Depreciation	(39)	(44)	(83)
Foreign currency effect	(3)	-	(3)
Indexation	1	-	1
Balance as at December 1, 2019	174	91	265

* In 2020, including a decrease of approximately NIS 44 million as a result of the revision of the lease agreement for the distribution and logistics center in Haifa, which shortened the term of the extension option from 2036 to 2023.

25.3 Additional information on leases

(a) Amounts recognized in profit or loss

	For the Year Ended December 31	
	2020	2020
	NIS millions	
Expenses (income) associated with variable lease payments that were not included in the measurement of the lease liability (1)	(8)	10
Income from operating subleases of right-of-use assets	-	(2)
Expenses associated with short-term leases	16	13

(1) In 2020, including income of approximately NIS 12 million in respect of COVID-19-related rent concessions following application of the amendment to IFRS 16. For further information, see Note 2.6.1.

For information on interest expenses in respect of leases recognized in profit or loss in 2020, see Note 34.

In the year ended December 31, 2018 (before the application of IFRS 16) an amount of NIS 63 million was recorded as an expense in the income statement in respect of operating leases of real estate properties. Additionally, prior to the application of IFRS 16, an average annual amount of approximately NIS 54 million was recognized in respect of the lease agreements.

Note 25 – Leases (cont'd)

25.1 Additional information on leases (cont'd)

(b) Options to terminate or extend a lease

In most of the lease agreements the Group assumed that it was reasonably certain that the extension option in the agreements would be exercised, and accordingly, there are no material commitments in respect of leases that were not presented in the financial statements.

(c) Amounts recognized in the statement of cash flows

	For the year ended December 31	
	2020	2019
	NIS millions	
Total cash flow paid for leases (principal and interest)	92	97

In Israel, most lease payments are linked to the CPI.

For information on an analysis of the payment dates of lease liabilities, see Note 28.6.

Note 26 - Capital and Reserves

Capital management – goals, procedures and processes

It is Company management's policy to maintain a strong capital base with the aim of preserving the Company's ability to conduct its operations in a manner that generates shareholder yield and benefits to other related parties such as credit providers and employees of the Company, as well as to support future business development. Company management monitors the return on equity, which is defined as total equity attributed to the shareholders of the Company, as well as the dividend payout ratio for holders of the Company's ordinary shares.

26.1 Share capital

26.1.1 Composition

	December 31	
	2020	2019
	Number of shares (in thousands) of NIS 1 par value	
Authorized	150,000	150,000
Issued and paid-up (see also Note 26.1.2)	116,980	116,667
Treasury shares (see also Note 26.2)	(868)	(868)
	116,112	115,799

Note 26 - Capital and Reserves (cont'd)

26.1 Share capital (cont'd)

26.1.2 The holders of ordinary shares are entitled to dividends declared from time to time and to one vote per share at shareholders' meetings of the Company. Treasury shares (see below) do not grant such rights.

26.2 Treasury shares

The reserve for treasury shares includes the cost of shares of the Company held by the Company. On December 31, 2020 and 2019 the Company held 868 thousand Company shares, constituting approximately 0.7% of the shares of the Company. These shares are suspended until reissued.

26.3 Dividend distribution

Declaration date	Payment date	Total dividend paid NIS millions	Dividend per share NIS
December 23, 2020 (ex-date: December 31, 2020)	January 14, 2021	70	0.603
March 24, 2020 (ex-date: April 5, 2020)	April 14, 2020	180	1.554
March 12, 2019 (ex-date: March 24, 2019)	April 2, 2019	200	1.735

As a result of the dividend distribution, the exercise price of option warrants granted to employees was adjusted. See Note 23.1.1.
For information on a dividend declared after the statement of financial position date, see Note 38.

26.4 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of monetary items that in fact constitute an increase or decrease in the net investment of the Group in foreign operations.
The effect of changes in foreign exchange rates that was recognized as other comprehensive income (including the share of non-controlling interests) according to the relevant operating segments was:

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
International Coffee (1)	(291)	(118)	(71)
International Dips and Spreads	(31)	(36)	32
Water	(2)	(18)	(7)
Other	9	8	(7)
Total	(315)	(164)	(53)

(1) For changes in the exchange rate of the Brazilian Real, see Note 12.5.

Note 26 - Capital and Reserves (cont'd)

26.5 Reserve from transactions with non-controlling interests

The reserve from transactions with non-controlling interests includes the difference between the consideration paid for the acquisition of non-controlling interests and the change in non-controlling interests.

Note 27 - Segment Reporting

27.1 General

Segment information is presented in respect of the operating segments of the Group on the basis of the Group's management (non-GAAP) and internal reports (hereinafter: "Management Reports"). The Group's division into reportable operating segments is derived from Management Reports, which are based on the geographical location and types of products and services, as follows:

- The Israel operation, which includes two operating segments –
  - Fun & Indulgence – includes the manufacture, marketing and sale of confectionery, bakery products and snacks.
  - Health & Wellness – includes the manufacture, marketing and sale of dairy products and milk beverages, fresh salads and foods, honey products, olive oil, fruit preserves, cooking sauces, bottled lemon juice and natural maple syrup.

- The coffee operation, which includes two operating segments –
  - Israel Coffee – includes the manufacture, marketing and sale of coffee products in Israel and the Coffee Company's corporate expenses in material amounts.
  - International Coffee – includes the manufacture, marketing and sale of coffee products outside Israel.

- The International Dips and Spreads operating segment – includes the manufacture, marketing and sale of refrigerated dips and spreads outside Israel.

- The Strauss Water operating segment – includes the development, assembly, marketing, sale and servicing of point-of-use (POU) water filtration, purification and carbonation systems.

- Other Operations – includes the activity of the FoodTech incubator (The Kitchen), which is carried out as part of the Group's innovation arm, and the activities of Group Headquarters.

Note 27 - Segment Reporting (cont'd)

27.1 General(cont'd)

The results of the operating segments set forth below are based on evaluations of the Company's performance in the framework of the Management Reports. According to these reports, the Group presents the operating segments by presenting the Group's relative share of the income and expenses of jointly-controlled companies (50%), and not as equity income. These evaluations are based on operating profit, which includes the allocation of selling expenses and general and administrative expenses, which were burdened according to the allocation indices of the relevant cost generators, less certain items, as follows:

- Other expenses (income)
- All adjustments required to delay recognition of profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties
- Expenses in respect of share-based payment

Inter-segment pricing is determined on the basis of transaction prices within the ordinary course of business.

Segment results include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing income and expenses.

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Income			
Sales to external customers:			
Health & Wellness	2,537	2,277	2,177
Fun & Indulgence	1,144	1,134	1,099
Total Israel	3,681	3,411	3,276
Israel Coffee	712	754	737
International Coffee	2,567	2,972	3,214
Total Coffee	3,279	3,726	3,951
International Dips and Spreads	722	771	759
Water	668	628	591
Other	-	-	-
Sales to other segments:			
Health & Wellness	6	*7	7
Fun & Indulgence	9	*11	10
Total Israel	15	18	17
Israel Coffee	2	2	2
International Coffee	2	2	2
Total Coffee	4	4	4
Total income of the segments	8,369	8,558	8,598
Elimination of inter-segment sales	(19)	(22)	(21)
Total income of segments excluding inter-segment sales	8,350	8,536	8,577
Adjustments to the equity method	(2,477)	(2,841)	(2,973)
Total consolidated income	5,873	5,695	5,604

* Reclassified.

Note 27 - Segment Reporting (cont'd)

27.2 Information according to operating segments and reconciliation between the operating data of the segments and the consolidated financial statements (cont'd)

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Profit			
Health & Wellness	307	251	229
Fun & Indulgence	111	119	114
Total Israel	418	370	343
Israel Coffee	158	143	119
International Coffee	196	281	299
Total Coffee	354	424	418
International Dips and Spreads	56	71	49
Water	91	75	65
Other	5	(7)	(10)
Total profit of the segments	924	933	865
Unallocated income (expenses):			
Adjustments in respect of commodity hedges (1)	4	15	10
Other expenses, net	(4)	(2)	(2)
Share-based payment	(17)	(20)	(17)
Total operating profit	907	926	856
Adjustments to the equity method	(21)	(48)	(48)
Total operating profit in the consolidated financial statements	886	878	808
Financing expenses, net	(138)	(116)	(93)
Income before income tax	748	762	715

(1) 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 most of the profit or loss arising from commodity derivatives until the date when the inventory is sold to outside parties.

Note 27 - Segment Reporting (cont'd)

27.3 Additional information on operating segments and reconciliation with the consolidated financial statements

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
Depreciation and amortization			
Health & Wellness	96	82	56
Fun & Indulgence	60	58	38
Total Israel	156	140	94
Israel Coffee	38	36	15
International Coffee	74	75	57
Total Coffee	112	111	72
International Dips and Spreads	27	26	27
Water	37	38	23
Other	-	1	1
	332	316	217
Adjustments:			
Depreciation of unallocated non-financial assets	21	19	21
Adjustments to the equity method	(69)	(72)	(58)
Total depreciation and amortization in the consolidated statements	284	263	180

27.4 Information on geographical segments

The Group's income from sales to external customers, as reported in the income statement, on the basis of their geographical location, is as follows:

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
Israel	4,751	4,497	4,333
Europe and rest-of-world	1,122	1,198	1,271
Total consolidated income	5,873	5,695	5,604
Adjustments to income of operating segments in respect of jointly controlled entities	2,477	2,841	2,973
Total income of operating segments	8,350	8,536	8,577

Note 27 - Segment Reporting (cont'd)

27.4 Information on geographical segments (cont'd)

The non-current assets of the Group, as reported in the statement of financial position, on the basis of their geographical location, are as follows:

	December 31	
	2020	2019
	NIS millions	
Israel	2,176	2,177
Europe and rest-of-world	696	769
Total consolidated assets	2,872	2,946
Adjustment to assets of operating segments	895	995
Total assets of operating segments	3,767	3,941

These assets mainly include fixed assets, right-of-use assets and intangible assets, and do not include financial assets, investments in equity-accounted investees and deferred tax assets.

27.5 Information regarding products and services

Following are the revenues of the Group from sales to external customers as reported in the income statement, according to groups of similar products and services:

	Year ended December 31		
	2020	2019	2018
	NIS millions		
Income			
Dairy products	1,800	1,640	1,517
Salads	355	312	349
Other Health & Wellness products	382	325	311
Confectionery and bakery products	858	857	848
Coffee	1,810	1,933	1,988
Water purification devices and related services	668	628	591
Total consolidated income	5,873	5,695	5,604
Adjustments to income of operating segments	2,477	2,841	2,973
Total income of operating segments	8,350	8,536	8,577

27.6 Major customers

The Group's income from a customer attributed to the Health & Wellness segment, the Fun & Indulgence segment and the Israel Coffee segment amounted to NIS 594 million (in 2019 and 2018: NIS 530 million and NIS 520 million, respectively).

Note 28 - Financial Instruments

The Group is exposed to the following risks as a result of using financial instruments:

- Credit risk;
- Market risks that include: commodity price risk, interest rate risk, foreign currency risk and CPI risk;
- Liquidity risk.

This note provides information regarding the exposure of the Group to these risks and Group policy for the management of such risks.

In calculations of fair value and the sensitivity analyses the Company used the following:

1. Options – Black-Scholes model, standard deviation and quotations of relevant underlying assets.
2. Forward transactions – According to the change in the price of the relevant underlying asset and interest differences deriving from interest rates and/or stock exchange market prices (for commodities).
3. Debentures – According to the price on the Tel Aviv Stock Exchange.

28.1 Credit risk

Other than as stated in Note 27.6 with respect to the Group's income from a major customer, the accounts receivable balance is spread and the Group is not exposed to a material risk arising from the concentration of credit with a single customer or group of customers.

Most of the sales of the Group to its customers (in and outside of Israel) are made on accepted market credit terms. Part of the credit to retail customers in the private market in Israel is guaranteed by credit insurance (including a deductible component) and by different collateral, and the rest of the credit to the private market that is not covered by any security is at risk. Nevertheless, the wide spread of the Group's customers in the private market reduces this risk. Most of the credit granted to large customers is secured and is concentrated among a small number of customers to which the scope of the Group's sales is large, and therefore non-repayment of credit which is not secured by any of the large customers may to a certain extent impair the Group's cash flows and business results. Most of the credit to customers outside Israel is not guaranteed.

Company management constantly monitors customer debts, and the financial statements include specific provisions for doubtful debts which fairly reflect, according to management's estimate, the loss inherent in debts where collection is doubtful.

28.1.1 Exposure to credit risk

The carrying amount of financial assets reflects maximum credit exposure.
For information regarding exposure to credit risk in respect of customers, see Note 9. Additionally, for a segmentation of financial assets with varying credit risks, see Note 13 regarding loans granted.

Note 28 - Financial Instruments (cont'd)

28.1 Credit risk (cont'd)

28.1.2 Sureties and other credit enhancements

As at December 31, 2020 customer credit at an amount of NIS 920 million (2019: NIS 896 million) is guaranteed by credit insurance as described above. In addition, the Company has deposits and guarantees from customers to secure their debts at an amount of NIS 104 million as at December 31, 2020 (2019: NIS 99 million).

28.2 Interest rate risk

The Company's interest rate risk primarily arises from bank loans at floating interest rates, and customer deposits at floating interest rates. In parallel, from time to time the Company invests in short-term deposits bearing floating interest.

On December 31, 2020, short-term loans and credit amounting to NIS 29 million (2019: NIS 7 million) bear floating interest, and the remainder of the debt (including lease liabilities), NIS 2,169 million (2019: NIS 2,412 million), bears fixed interest. Accordingly, any change in interest rates with respect to the Company's financial debt on the reporting date is not expected to have a material impact on equity and profit and loss in the relevant periods.

28.3 Commodity risk

The Group companies use derivative financial instruments in order to reduce the exposure to risks arising from unusual changes in the prices of raw materials required for production (green coffee and crude oil) or materials and cost influenced by commodity prices (crude oil, seeds and grains).

Note 28 - Financial Instruments (cont'd)

28.3 Commodity risk (cont'd)

28.3.1 Following is an itemization of the Group's material derivative financial instruments (stock exchange derivatives):

			December 31, 2020	
		Exercise/expiry date	Fair value	Carrying amount and fair value
			NIS millions	
Green coffee	Contracts purchased, net	March 2021 – September 2021	125	11

			December 31, 2019	
		Exercise/expiry date	Fair value	Carrying amount and fair value
			NIS millions	
Green coffee	Contracts purchased, net	March 2020 – November 2020	142	7

Note 28 - Financial Instruments (cont'd)

28.3 Commodity risk (cont'd)

28.3.2 Sensitivity analysis – forward transactions and options

Any increase (decrease) in the prices of the essential commodities will increase (decrease) equity and income for the period, in respect of forward transactions and options, by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2020				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
			NIS millions		
Arabica	6	3	7	(3)	(6)
Robusta	6	3	4	(3)	(6)
Total	12	6	11	(6)	(12)

	December 31, 2019				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
			NIS millions		
Arabica	5	3	12	(3)	(5)
Robusta	9	4	(5)	(4)	(9)
Total	14	7	7	(7)	(14)

28.4 Foreign currency risk

28.4.1 The Group uses derivatives (OTC) to hedge part of its foreign currency risk. As at December 31, 2020 the carrying amount and fair value of the Group's derivative financial instruments (foreign currency), net amounted to a net liability of approximately NIS 13 million (December 31, 2019: an amount of less than NIS 1 million).

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.2 Sensitivity analysis regarding financial assets (liabilities)

Following is a sensitivity analysis relating to the Group's material derivative instruments (foreign currency – OTC) as at December 31, 2020 and December 31, 2019. Any change in the exchange rates of the major currencies as at December 31 will increase (decrease) equity and income for the period by the amounts presented below. This analysis was performed assuming that all other variables remain constant and disregards tax effects.

	December 31, 2020				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	3.536	3.376	3.215	3.054	2.894
Total NIS/USD derivatives	26	13	(13)	(12)	(24)

	December 31, 2019				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/USD exchange rate	3.802	3.629	3.456	3.283	3.110
Total NIS/USD derivatives	19	7	-	(4)	(8)

	December 31, 2020				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/EUR exchange rate	4.339	4.141	3.944	3.747	3.550
Total NIS/EUR derivatives	7	3	1	(3)	(8)

	December 31, 2019				
	10% increase	5% increase	Fair value and carrying amount	5% decrease	10% decrease
NIS/EUR exchange rate	4.266	4.072	3.878	3.684	3.490
Total NIS/EUR derivatives	11	5	-	(2)	(3)

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.3 Statement of financial position according to linkage bases

The Group's exposure to CPI and foreign currency risk, not including risk associated with financial derivatives, is as follows:

	December 31, 2020							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-monetary	Total
	NIS millions							
Cash and cash equivalents	-	261	145	32	3	50	-	**491**
Trade receivables	-	795	24	4	53	120	-	**996**
Other receivables and debit balances (1)	8	33	13	1	3	4	37	**99**
Other investments and long-term debit balances	8	11	45	-	-	41	5	**110**
Current maturities of debentures	-	(30)	-	-	-	-	-	**(30)**
Short-term loans and credit	-	(227)	-	-	(24)	(5)	-	**(256)**
Current maturities of lease liabilities	(67)	(3)	-	-	-	(8)	-	**(78)**
Trade payables	-	(555)	(144)	(18)	-	(38)	-	**(755)**
Other payables and credit balances (2)	-	(456)	(8)	(10)	(26)	(30)	(24)	**(554)**
Debentures	-	(1,231)	-	-	-	-	-	**(1,231)**
Long-term loans and credit	-	(343)	-	(118)	-	-	-	**(461)**
Lease liabilities	(115)	(4)	-	-	-	(23)	-	**(142)**
Other long-term payables and credit balances	-	(16)	-	-	-	(2)	-	**(18)**
Total	(166)	(1,765)	75	(109)	9	109	18	**(1,829)**

(1) Excluding derivative financial instruments at an amount of NIS 21 million.
(2) Excluding derivative financial instruments at an amount of NIS 21 million.

	December 31, 2019							
	NIS linked	NIS unlinked	Dollar	Euro	Ruble	Other	Non-monetary	Total
	NIS millions							
Cash and cash equivalents	-	362	95	30	3	35	-	**525**
Trade receivables	-	765	19	3	73	139	-	**999**
Other receivables and debit balances (1)	6	41	2	2	2	3	41	**97**
Other investments and long-term debit balances	12	24	48	-	-	4	4	**92**
Current maturities of debentures	-	(62)	-	-	-	-	-	**(62)**
Short-term loans and credit	(116)	(275)	-	-	-	(7)	-	**(398)**
Current maturities of lease liabilities	(81)	(2)	-	-	-	(10)	-	**(93)**
Trade payables	-	(549)	(130)	(14)	(1)	(38)	-	**(732)**
Other payables and credit balances (2)	(4)	(440)	(9)	(18)	(26)	(23)	(18)	**(538)**
Debentures	-	(743)	-	-	-	-	-	**(743)**
Long-term loans and credit	(208)	(599)	-	(116)	-	-	-	**(923)**
Lease liabilities	(174)	(5)	-	-	-	(21)	-	**(200)**
Other long-term payables and credit balances	-	(11)	-	(2)	-	(1)	(1)	**(15)**
Total	(565)	(1,494)	25	(115)	51	81	26	**(1,991)**

(1) Excluding derivative financial instruments at an amount of NIS 22 million.
(2) Excluding derivative financial instruments at an amount of NIS 14 million.

Note 28 - Financial Instruments (cont'd)

28.4 Foreign currency risk (cont'd)

28.4.4 Sensitivity analysis regarding financial assets (liabilities)

Any change in the exchange rates of the major currencies as at December 31 relating to the currency risk arising from financial items denominated in foreign currency, which is not the functional currency of the Company and its subsidiaries, will increase (decrease) equity (the equity attributable to all shareholders of the Company) by immaterial amounts.

28.5 CPI risk

From time to time the Company uses CPI futures for varying periods to partly hedge the index risk arising from the excess of index-linked liabilities. As at December 31, 2019 and December 31, 2020 the Company has no CPI futures contracts.

28.6 Liquidity risk

The Company's liabilities mainly derive from credit that was raised by issuing debentures (Series E and Series F) and loans from banks and others. In addition to these liabilities, the Company has secured and unsecured credit lines from banks. Over the years the Company's business operations have generated positive cash flows that enable it to meet the financial obligations it has undertaken. However, should the Company require any sources of financing in addition to those generated by its business operations the Company will be able to use, *inter alia*, the credit lines available to it. Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the reporting date, such as the CPI, foreign currency exchange rates and interest rates.

In the first half of 2020, the Company contracted in a number of agreements with banks and financial institutions 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 are for a period of two years and NIS 200 million are for a period of three years. On the date of approval of the financial statements the agreements for a one-year period have expired, and the rest of the lines of credit are unused.

Note 28 - Financial Instruments (cont'd)

28.6 Liquidity risk (cont'd)

	December 31, 2020								
	Note	Carrying amount	Contractual cash flow	2021	2022	2023	2024	2025	2026 and thereafter
		NIS millions							
Trade payables	17	755	755	755	-	-	-	-	-
Derivatives	18	21	21	21	-	-	-	-	-
Other payables (1)	18	530	527	527	-	-	-	-	-
Series E debentures	20	570	639	45	44	43	132	128	247
Series F debentures	20	691	841	13	13	13	48	47	707
Shekel loans from others	20	339	367	99	80	62	38	31	57
Foreign currency loans and credit from banks	20	147	155	33	2	120	-	-	-
Liability in respect of credit card factoring	20	231	232	137	76	18	1	-	-
Lease liability	20	220	229	81	62	34	21	23	8
Dividend declared	26	70	70	70	-	-	-	-	-
Long-term payables and credit balances	21	1	1	-	1	-	-	-	-
		3,575	3,837	1,781	278	290	240	229	1,019

(1) The carrying amount includes accrued expenses in respect of interest.

	December 31, 2019								
	Note	Carrying amount	Contractual cash flow	2020	2021	2022	2023	2024	2025 and thereafter
		NIS millions							
Trade payables	17	732	732	732	-	-	-	-	-
Derivatives	18	14	14	14	-	-	-	-	-
Other payables (1)	18	520	503	503	-	-	-	-	-
Series D debentures	20	206	225	40	43	41	101	-	-
Series E debentures	20	599	684	45	45	44	43	132	375
Shekel loans from banks	20	102	111	54	3	54	-	-	-
Shekel loans from others	20	903	981	265	303	225	62	*38	*88
Foreign currency loans and credit from banks	20	123	132	10	2	2	118	-	-
Liability in respect of credit card factoring	20	193	193	108	68	16	1	-	-
Finance lease liability	20	293	318	97	66	44	23	25	63
Long-term payables and credit balances	21	5	5	-	5	-	-	-	-
		3,690	3,898	1,868	535	426	348	*195	*493

* An amount of approximately NIS 88 million was reclassified between the years 2024 and 2025 and thereafter.

(1) The carrying amount includes accrued expenses in respect of interest.

Note 28 - Financial Instruments (cont'd)

28.7 Fair value of financial instruments

28.7.1 Fair value

The carrying amount of cash and cash equivalents, short and long-term investments, trade receivables, other receivables and debit balances, trade payables and other payables and credit balances is the same as or proximate to their fair value.

The fair value of the debentures, which is based on TASE prices, together with their carrying amount (including accrued interest), presented in the statement of financial position, is as follows:

	December 31, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS millions			
Series D debentures (1)	-	-	208	223
Series E debentures (2)	570	622	599	651
Series F debentures (2)	691	718	-	-

(1) For information on the early redemption of Series D debentures, see Note 20.7.
(2) For further information on Series E and Series F debentures, see Note 20.4.

28.7.2 Fair value hierarchy

28.7.2.1 Derivatives – fair value valuation technique

Forward contracts – fair value is estimated by discounting the difference between the forward price quoted in the contract and the current forward price for the remaining term of the contract until the maturity date, using the appropriate market interest rates applying to similar instruments.

Foreign currency options – fair value is determined according to the Black-Scholes model.

28.7.2.2 Fair value hierarchy of financial instruments measured at fair value

	December 31, 2020		December 31, 2019	
	Level 1	Level 2	Level 1	Level 2
	NIS millions			
Financial assets and liabilities				
Trade receivables- derivatives	18	3	19	3
Trade payables- derivatives	(5)	(16)	(11)	(3)
	13	(13)	8	-

As at December 31, 2020 and December 31, 2019, the Group has no material financial instruments measured at Level 3.

Note 29 – Sales

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
Sales of manufactured products	4,662	4,539	4,516
Sales of other products	747	730	684
Other income (1)	464	426	404
	5,873	5,695	5,604

(1) Mainly income from services for water purification devices.

Note 30 - Cost of Sales

30.1 By components

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
Materials consumed (1)	2,619	2,545	2,565
Wages, salaries and related expenses	470	442	445
Depreciation and amortization	147	136	113
Other manufacturing expenses	246	240	233
Change in provision for warranty	7	4	4
	3,489	3,367	3,360
Valuation of balance of commodity hedging transactions as at end-of-year	(4)	(20)	(7)
	3,485	3,347	3,353

(1) In 2020, including a net loss of NIS 36 million (2019 and 2018: NIS 27 million and NIS 24 million, respectively) in respect of inventory impairment.

30.2 By sources of income

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
Manufactured products	2,917	2,873	2,875
Other products	410	347	337
Other income (1)	162	147	148
	3,489	3,367	3,360
Valuation of balance of commodity hedging transactions as at end-of-year	(4)	(20)	(7)
	3,485	3,347	3,353

(1) Costs in respect of other income mainly include costs of services for water purification devices.

Note 31 - Selling and Marketing Expenses

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Salaries and related expenses	555	549	557
Advertising	260	279	271
Doubtful and bad debts	4	3	4
Distribution and transportation expenses	258	239	223
Maintenance expenses	72	96	135
Depreciation and amortization	107	102	48
Reimbursement of expenses by equity-accounted investees	(28)	(34)	(33)
Other	88	86	88
	1,316	1,320	1,293

Note 32 - General and Administrative Expenses

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Salaries and related expenses (1)	263	276	270
Depreciation and amortization	31	27	20
Contributions	20	10	10
Consulting and professional fees	58	63	54
Maintenance expenses	30	16	16
Reimbursement of expenses by equity-accounted investees	(2)	(2)	(2)
Other	20	26	26
	420	416	394
(1) Less:			
Salaries and related expenses capitalized to software for own use	5	6	5

Note 33 - Other Income (Expenses), Net

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
Other income			
Gain on sale of fixed assets and investment property, net	1	-	3
Impairment reversal of assets held for sale	-	2	1
Other income	1	1	3
Total other income	2	3	7
Other expenses			
Restructuring expenses, net	-	(1)	(6)
Business establishment and acquisition costs	-	(1)	(1)
Loss on fixed assets, deferred expenses and assets held for sale, net	(2)	(2)	(2)
Other expenses	(1)	(3)	(4)
Total other expenses	(3)	(7)	(13)
Other expenses, net	(1)	(4)	(6)

Note 34 - Financing Expenses, Net

	For the year ended December 31		
	2020	2019	2018
		NIS millions	
Financing income:			
Interest income	4	5	4
Net gains on derivative financial instruments measured at fair value through profit or loss	-	-	22
Net foreign exchange gains	-	-	2
Linkage differentials to the CPI in Israel, net	2	-	-
Total financing income	6	5	28
Financing expenses:			
Interest expenses	(76)	(92)	(101)
Interest expenses on lease liabilities	(5)	(7)	-
Net loss on derivative financial instruments measured at fair value through profit or loss	(16)	(12)	-
Loss on prepayment of financial liabilities	(30)	-	(14)
Net foreign exchange loss	(17)	(8)	-
Linkage differentials to the CPI in Israel, net	-	(2)	(6)
Total financing expenses	(144)	(121)	(121)
Financing expenses, net	(138)	(116)	(93)

Note 35 - Income Tax

35.1 Information on the tax environment in which the Group companies in Israel operate

35.1.1 Corporate tax rates

- The following tax rates are relevant to the Company in 2018-2020:

  2018 - 23%

  2019 - 23%

  2020 – 23%

35.1.2 Benefits under laws for the encouragement of capital investments

In accordance with the Law for the Encouragement of Capital Investments, 1959 and the Law for the Encouragement of Capital Investments in Agriculture, 1980 (hereinafter: the "Capital Investment Encouragement Laws") some of the Group's production facilities were granted the status of an "approved enterprise", which entitles them to investment grants or tax benefits ("alternative benefits track"). The benefits are contingent upon fulfillment of the terms prescribed in the Capital Investment Encouragement Laws and their related regulations, and in the deeds of approval under which the investments in the approved enterprises were made. The main customary conditions in the deeds of approval are: the minimal percentage of the investments in fixed assets by paid-up share capital; keeping of proper books of account in the double entry system; execution of the plan in a timely manner, as stipulated in the deed of approval; operation of the assets of the approved enterprise for a period of no less than 7 years from the date they were purchased by the Company; increase of the employee headcount or of exports. Failure to comply with these terms is liable to lead to the benefits being revoked and refunded plus the higher of arrears interest or linkage differentials. To date, the relevant companies have complied with the conditions.

Amendment of the Law for Encouragement of Capital Investments, 1959

According to a legal opinion received by the Company, some of the plants of companies in the Group fulfill the definition of a "competitive industrial plant" as this term is defined in the law, and as such, these companies are entitled to tax benefits pursuant to the provisions of the law from 2011 and thereafter. Accordingly, the tax rate that will apply to the taxable income of those companies thanks to the preferred plant is 10% (for 2011-2012) and 7% (for 2013). It is noted that on August 5, 2013 the Knesset passed the Law for the Change of National Priorities (Legislative Amendments for Achieving Budget Objectives for the Years 2013 and 2014), 2013, which determines that the law was amended retrospectively with respect to 2012. As it is not presently possible to estimate the outcome of the discussions and/or proceedings which will take place with the tax authorities on the subject, and noting that the tax authority's position differs, the relevant subsidiaries adopted a conservative approach and recorded their tax expenses in their financial statements in accordance with the corporate tax rate in the relevant year and paid the advance payments arising from this calculation. Income tax returns for 2011, 2012 and 2013 were filed according to the tax rates defined in the Encouragement Laws. (see also Note 35.6).

Note 35 - Income Tax (cont'd)

35.1 Information on the tax environment in which the Group companies in Israel operate (cont'd)

35.1.3 Benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company and part of the Group companies (including Strauss Health Ltd., Strauss Frito-Lay Ltd., Uri Horazo Yotvata Dairies Ltd.) are "industrial companies" as defined in the Law for the Encouragement of Industry (Taxes), 1969. In accordance with this status they are entitled to benefits, the principal ones being as follows:

a. Higher rates of depreciation.
b. Amortization of issuance expenses of shares listed for trading on the Stock Exchange in three equal annual portions commencing in the year the shares were listed for trading.
c. Amortization of patents and knowhow used for the plant's development over an 8-year period.
d. The possibility of filing consolidated tax returns by companies with one production line.

35.2 Information on the tax environment in which the Group companies outside of Israel operate

The companies incorporated outside of Israel are assessed according to the tax laws in their countries of domicile.

The principal tax rates applicable to the business operations of these companies are as follows: Romania – 16%; Poland – 19%; Serbia – 15%; Holland – 25%; Switzerland – 12%; Ukraine – 18%; Russia – 20%; UK – 19%; USA – approximately 28%; China – up to 25%.

The Group companies in the coffee business are held by Strauss Coffee (incorporated in the Netherlands). There is a double taxation treaty between Israel and the Netherlands. Furthermore, there are double taxation treaties between the other countries in which the Group operates and the Netherlands. The treaties prescribe the rules according to which the tax liability is divided between each country and the Netherlands. Payment of a dividend by Strauss Coffee is subject to corporate tax in Israel. In parallel, corporate tax paid in foreign countries can be credited against tax payable in Israel under the "indirect credit" mechanism, in accordance with the rules and restrictions stipulated in the provisions of Israeli law. The Company has created a tax reserve in respect of the additional tax that may be imposed on the Company as a result of the distribution of a dividend.

35.3 Final tax assessments

Most of the companies in Israel were issued with final tax assessments up to and including 2017 in the framework of assessment agreements signed in 2019 and 2020. Among other things, the Company revised its estimated deferred tax liability and recorded income of approximately NIS 16 million. The rest of the subsidiaries have self-assessments that are considered final (subject to the dates of submission of the tax returns and extension of the period of limitations according to the law) up to and including the 2015 tax year (see Note 35.6.3).

Note 35 - Income Tax (cont'd)

35.3 Final tax assessments (cont'd)

Final tax assessments were issued for the Group companies outside of Israel as follows: For Strauss Coffee in Holland up to and including the 2011 tax year; for Strauss Serbia up to and including the 2012 tax year; for Strauss Romania up to and including the 2013 tax year (see Note 35.6.3); for Strauss Poland, Ukraine and Germany up to and including the 2014 tax year; for S.E. USA up to and including the 2015 tax year; for Strauss Russia up to and including the 2017 tax year; for Strauss Switzerland up to and including the 2019 tax year.

35.4 Carryforward tax losses

The Group has carryforward tax losses from operations carried over to the subsequent year at an amount of NIS 252 million (2019: NIS 307 million). Deferred taxes were not recorded in respect of losses of NIS 239 million (2019: NIS 264 million).

35.5 Transfer prices

In November 2006 a general provision of law and regulations were published in Israel, allowing for intervention in determining the price and terms of international transactions between related parties. The regulations define principles for examining the market value of international transactions between related parties and prescribe reporting requirements regarding such transactions. The Company examines these transfer prices from time to time, and performs surveys to the extent required according to the regulations.

35.6 Assessment proceedings

35.6.1 Part of the Group companies in Israel were issued with final tax assessments in the past under an agreement for the years 2011-2014, in which it was agreed that appeals filed on the issue of benefits under the Law for the Encouragement of Capital Investments would be the sole issue in dispute and would continue to be conducted as part of the legal proceeding (see Note 35.1.2). It is further noted that the entire tax obligation pertaining to this issue has been paid, such that to the extent that their position on the subject is not accepted, no further obligation is expected.

35.6.2 Subsidiaries and equity-accounted investees operating outside Israel were issued with tax assessments. In the estimate of Company management, based on the opinion of its legal counsel, in cases where the Company's position is expected not to be accepted, the provision that was recorded is sufficient.

35.6.3 An assessment audit of part of the Group companies operating in and outside of Israel has begun (including VAT assessments and deductions) for years in which respect the statute of limitations has not yet expired. In the opinion of Group management, at this preliminary stage and based on the information available to the Group, the provision recorded is adequate.

Note 35 - Income Tax (cont'd)

35.7 Composition of income tax expenses

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Current taxes	161	146	126
Deferred taxes	(1)	26	38
Taxes in respect of prior years	(11)	(4)	17
	149	168	181

35.8 Reconciliation between the theoretical tax on pre-tax income and the tax expenses recorded on the Company's books:

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Income before income tax	748	762	715
Principal tax rate	23%	23%	23%
Income tax at the principal tax rate	172	175	165
Deferred taxes at a different tax rate to the principal rate	(10)	17	11
Permanent differences, net	40	31	24
Temporary differences and losses utilized in which respect deferred taxes were not recorded	1	2	12
Share of profit of equity-accounted investees, in which respect deferred taxes were not recorded	(29)	(38)	(39)
Net differences resulting from differences in tax rates abroad	(12)	(13)	(7)
Taxes in respect of prior years	(11)	(4)	17
Differences resulting from benefits and reduced tax rates	(2)	(2)	(2)
Income tax in the statement of income	149	168	181
Effective tax rate	19.9%	22.0%	25.4%

Note 35 - Income Tax (cont'd)

35.9 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2019	Effect of first-time adoption of IFRS 16 recognized in equity	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized in other comprehensive income	Balance as at December 31, 2019	Decrease (increase) in deferred tax expense in statement of income	Changes in deferred taxes recognized in other comprehensive income	Change in deferred taxes through permanent accounts	Balance as at December 31, 2020
Deferred taxes in respect of:									
Provision for doubtful debts	9	-	-	-	9	(2)	-	-	7
Provision for vacation and convalescence	9	-	1	-	10	3	-	-	13
Tax losses and deductions	11	-	(4)	3	10	(8)	1	-	3
Employee severance benefits	6	-	-	-	6	1	-	-	7
Inventory adjustments	2	-	-	-	2	-	-	-	2
Other temporary differences	17	3	-	(1)	19	6	(1)	-	24
Fixed assets, intangible assets and deferred expenses	(227)	(1)	(2)	6	(224)	(7)	4	-	(227)
Hedging transactions	(4)	-	(4)	-	-	(2)	-	-	(2)
Differences arising from investment in subsidiaries and equity-accounted investees	(69)	-	(17)	-	(86)	10	-	19	(57)
	(238)	2	(26)	8	(254)	1	4	19	(230)
Range of tax rates in the Group	9%-28%				9%-28%				12%-28%

Note 36 - Basic and Diluted Earnings per Share

Basic earnings per share for the year 2020 were calculated by dividing the income attributable to ordinary shareholders at an amount of NIS 533 million (2019 and 2018: NIS 537 million and NIS 478 million, respectively) by the weighted average number of ordinary shares, as follows:

Weighted average number of ordinary shares:

	For the year ended December 31		
	2020	2019	2018
	Millions of NIS 1 par value (each) shares		
Balance as at January 1	116.7	116.1	115.6
With the addition of options exercised into shares and shares issued during the period, weighted	0.1	0.3	0.2
Less treasury shares	(0.9)	(0.9)	(0.9)
Weighted average number of ordinary shares used to calculate basic earnings per share for the year	115.9	115.5	114.9

Diluted earnings per share for the years 2020, 2019 and 2018 were calculated by dividing the income attributable to ordinary shareholders in the calculation of basic earnings per share by the weighted average number of ordinary shares outstanding, after adjustment in respect of all potentially dilutive ordinary shares, as follows:

Weighted average of ordinary shares (diluted):

	For the year ended December 31		
	2020	2019	2018
	Millions of NIS 1 par value (each) shares		
Weighted average number of ordinary shares used to calculate basic earnings per share	115.9	115.5	114.9
Effect of share options	1.1	1.3	0.9
Weighted average number of ordinary shares used to calculate diluted earnings per share	117	116.8	115.8

For the purpose of calculating the dilutive effect of share options, the average market value of the Company's shares was based on quoted market prices during the period in which the options were outstanding.

In the calculation for 2020, 1,673 thousand option warrants (2019 and 2018: 803 thousand and 1,573 thousand option warrants, respectively) were excluded from the calculation of the diluted weighted average number of ordinary shares as their effect would be anti-dilutive.

Note 37 - Balances and Transactions with Interested and Related Parties

37.1 Identity of interested and related parties

The Company's interested and related parties are the parent company, related parties of the parent company, jointly controlled companies (see Note 12), and members of the board of directors and senior management, who are the Company's senior officers.

37.2 Transactions with members of senior management

37.2.1 In addition to salaries, the members of senior management participate in the options plan of the Company. For information on the allotment of options to executives in 2020, see Note 23.

The benefits awarded to members of senior management are as follows:

	For the year ended December 31					
	2020		2019		2018	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Short-term benefits	9	23	9	26	8	27
Post-employment benefits	9	1	9	-	8	2
Share-based payment	9	8	9	8	8	10
		32		34		39

37.2.2 The benefits awarded to members of the board of directors are as follows:

	For the year ended December 31					
	2020		2019		2018	
	Number of people	NIS millions	Number of people	NIS millions	Number of people	NIS millions
Directors not employed	12	3	12	3	10	3
Employed interested parties	1	5	1	5	1	5
	13	8	13	8	11	8

Expenses related to directors' benefits were included in general and administrative expenses in the income statement. As at December 31, 2020 there is a credit balance of approximately NIS 1 million for directors' salaries, similar to December 31, 2019.

37.2.3 See Note 24.4.2 for information on a deed of undertaking to indemnify officers and a directors and officers (D&O) liability policy.

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.3 Balances and transactions with interested and related parties

	The parent company and its related parties	Equity-accounted investees	Total
		NIS millions	
As at December 31, 2020:			
Current assets presented under trade and other receivables	-	3	3
Long-term assets presented under investments and long-term debit balances	-	84	84
Current liabilities presented under trade and other payables	-	(3)	(3)
As at December 31, 2019:			
Current assets presented under trade and other receivables	-	16	16
Long-term assets presented under investments and long-term debit balances	-	48	48
Current liabilities presented under trade and other payables	-	-	-

Note 37 - Balances and Transactions with Interested and Related Parties (cont'd)

37.3 Balances and transactions with interested and related parties (cont'd)

	The parent company and its related parties (1)	Equity-accounted investees	Total
		NIS millions	
For the year ended December 31, 2020:			
Sales	-	5	5
Purchases	-	(3)	(3)
Selling, general and administrative income (expenses)	(19)	36	17
Financing income	-	1	1
For the year ended December 31, 2019:			
Sales	1	6	7
Purchases	-	(4)	(4)
Selling, general and administrative income (expenses)	*(17)	39	*22
For the year ended December 31, 2018:			
Sales	1	12	13
Purchases	-	(6)	(6)
Selling, general and administrative income (expenses)	(15)	38	23

* Restated.

(1) Prices and credit terms for transactions with interested parties are in accordance with customary commercial terms and conditions. In 2020, mainly includes the purchase of advertising services from Reshet Media Ltd. at an amount of NIS 19 million (2019: NIS 17 million, 2018: NIS 15 million).

Note 38 - Events After the Reporting Period

38.1 For information on developments in pending claims after the statement of financial position date, see Note 24.1.

38.2 On March 21, 2021 the board of directors of the Company approved a dividend distribution to shareholders at an amount of NIS 270 million (approximately NIS 2.3 per share), which will be paid on April 13, 2021.

38.3 On March 21, 2021 the remuneration committee and the board of directors of the Group approved a grant of 1,146,655 option warrants to 19 managers. The exercise price was determined as the average closing price of the Company's share in the 30 trading days preceding the grant date, plus a 5% premium. Entitlement to exercise the option warrants will vest in two equal tranches, on March 21 of each of the years 2023-2024. The value of the grant, according to an initial estimate, is approximately NIS 17 million.

Strauss Group LTD.

Separate Financial Information

as at December 31 ,2020

Unofficial Translation from Hebrew

Strauss Group Ltd.

Separate Financial Information as at December 31, 2020

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Tel Aviv 61006, Israel
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An Unofficial translation of the Hebrew version, the binding version is the Hebrew one.

To the Shareholders of Strauss Group Ltd.
49 Hasivim Street
Kiryat Matalon, Petach Tikva

Subject: Special Auditors' Report on Separate Financial Data According to Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970

We have audited the separate financial information data presented in accordance with Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970 of Strauss Group Ltd. (hereinafter – the "Company") as at December 31, 2020 and 2019 and for each of the three years, the last of which ended on December 31, 2020. The separate financial information is the responsibility of the Company's Board of Directors and its Management. Our responsibility is to express an opinion on the separate financial data based on our audit .

We did not audit the financial statements of equity accounted investees the investment in which amounted to approximately NIS 158 million and NIS 114 million as of December 31, 2020 and 2019, respectively, and the Group's share in their profits amounted to approximately NIS 52 million, NIS 35 million and NIS 30 million for the years ended December 31, 2020, 2019 and 2018, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial data is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial data. An audit also includes a review of the accounting principles used in the preparing of the separate financial data and the significant estimates made by the Board of Directors and Management , as well as evaluating the separate financial data presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and on the reports of the other auditors, the separate financial data has been prepared, in all material respects, in accordance with the Regulation 9C of the Securities Regulations (Periodic and Immediate Reports) – 1970.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 21, 2021

Unofficial Translation from Hebrew

Strauss Group Ltd.

Information Pertaining to Financial Position

	Additional information	December 31 2020	December 31 2019
		NIS millions	
Current assets			
Cash and cash equivalents	2	204	235
Trade receivables		185	188
Income tax		8	-
Other receivables and debit balances		34	33
Investee receivables		110	131
Inventory		135	136
Assets held for sale		5	9
Total current assets		681	732
Investments and non-current assets			
Investments in investees		2,115	2,134
Other investments and long-term debit balances	3	531	601
Right-of-use assets		96	141
Fixed assets		937	936
Investment property		3	3
Intangible assets		48	46
Total investments and non-current assets		3,730	3,861
Total assets		4,411	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: March 21, 2021

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

Information Pertaining to Financial Position (cont'd)

	Additional information	December 31 2020	2019
		NIS millions	
Current liabilities			
Current maturities of debentures	4	30	62
Short-term credit and current maturities of long-term loans and other long-term liabilities	4	-	197
Current maturities of lease liabilities		38	36
Trade payables		196	205
Income tax		-	36
Other payables and credit balances		241	237
Investee payables		127	143
Dividend declared		70	-
Total current liabilities		702	916
Non-current liabilities			
Debentures	4	1,231	743
Long-term loans and other long-term liabilities	4	-	383
Lease liabilities		67	110
Long-term payables and credit balances		16	11
Employee benefits, net		29	26
Deferred tax liability	6	106	127
Total non-current liabilities		1,449	1,400
Total equity attributable to the shareholders of the Company		2,260	2,277
Total liabilities and equity		4,411	4,593

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

Information Pertaining to Statements of Income

	Additional information	For the year ended December 31 2020	2019	2018
		NIS millions		
Sales		1,034	1,022	1,032
Cost of sales		664	653	644
Gross profit		370	369	388
Selling and marketing expenses		227	231	247
General and administrative expenses		86	90	82
		313	321	329
Operating profit before other income (expenses)		57	48	59
Other income		1	3	4
Other expenses		(1)	(3)	(4)
Other expenses, net		-	-	-
Operating profit		57	48	59
Financing income		22	21	61
Financing expenses		(101)	(87)	(97)
Financing expenses, net		(79)	(66)	(36)
Profit (loss) before income tax		(22)	(18)	23
Income tax	6	(12)	(34)	(28)
Loss after income tax		(34)	(52)	(5)
Income from investees		567	589	483
Income for the year attributable to the shareholders of the Company		533	537	478

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

Strauss Group Ltd.

Information Pertaining to Comprehensive Income

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Income for the period attributable to the shareholders of the Company	533	537	478
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:			
Other comprehensive loss from investees	(316)	(164)	(53)
Total other comprehensive loss items that will be reclassified to profit or loss, net of tax	(316)	(164)	(53)
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:			
Changes in employee benefits, net	-	-	1
Total other comprehensive income items that will not be reclassified to profit or loss, net of tax	-	-	1
Comprehensive income for the year attributable to the shareholders of the Company	217	373	426

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

Information Pertaining to Cash Flows

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Cash flows from operating activities			
Income for the year attributable to the shareholders of the Company	533	537	478
Adjustments:			
Depreciation	98	90	52
Amortization of intangible assets	13	13	18
Other income, net	-	(1)	(3)
Expenses in respect of share-based payment	12	13	12
Share in gain of investees	(567)	(589)	(483)
Financing expenses, net	79	66	36
Income tax expenses	12	34	28
Change in inventory	1	(13)	12
Change in trade and other receivables	(2)	(8)	(13)
Change in investee receivables	1	23	(21)
Change in trade and other payables	5	*30	(2)
Change in investee payables	(16)	(17)	40
Change in employee benefits	2	4	4
Interest paid	(92)	(56)	(97)
Interest received	24	*29	13
Income tax received (paid), net	(72)	2	15
Net cash flows from operating activities	31	157	89
Cash flows from investing activities			
Sale of marketable securities and deposits, net	-	70	80
Proceeds from sale of fixed and other assets	5	5	14
Acquisition of fixed assets	(66)	(63)	(55)
Investment in intangible assets	(13)	(11)	(13)
Repayment of deposits and long-term loans	15	10	11
Long-term loans granted	(17)	(14)	(11)
Dividends from investees	289	221	117
Cash received in respect of investing activities with investees	122	121	307
Cash paid in respect of investing activities with investees	(53)	(36)	(16)
Net cash flows from investing activities	282	303	434

* Reclassified (see Note 1.1.2).

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

	For the year ended December 31		
	2020	2019	2018
	NIS millions		
Cash flows from financing activities			
Repayment of debentures and long-term loans	(258)	(213)	(227)
Early redemption of debentures and loans	(555)	-	(203)
Dividends paid	(180)	(200)	(160)
Proceeds from issuance of debentures, net of issuance costs	691	-	200
Repayment of principal of lease liability	(42)	(34)	-
Net cash flows used in financing activities	(344)	(447)	(390)
Net increase (decrease) in cash and cash equivalents	(31)	13	133
Cash and cash equivalents as at January 1	235	222	89
Cash and cash equivalents as at December 31	204	235	222

As at December 31, 2020, fixed assets totaling approximately NIS 19 million were purchased on credit (2019: NIS 11 million, 2018: NIS 14 million).

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

Note 1 – Reporting Rules and Policies

1.1 General

This report contains financial information from the consolidated financial statements of Strauss Group Ltd. (hereinafter: the "Company") as at December 31, 2020 (hereinafter: the "Consolidated Financial Statements" or "Consolidated Statements"), attributable to the Company itself (hereinafter: "Separate Financial Information"), which is presented pursuant to Regulation 9C and the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970 with respect to the separate financial information of the corporation.

The Separate Financial Information should be read in conjunction with the Consolidated Statements.

In this Separate Financial Information – investees – subsidiaries, joint ventures and associates.

1.1.1 Impacts of the COVID-19 on the Group's business:

For further information on the effects of the COVID-19 pandemic on the Group's activity, see Note 1 to the Consolidated Financial Statements.

1.1.2 Reclassification

interest receipts were reclassified from "other payables" (current assets) to "Interest received".

1.2 Accounting policies

The Company's Separate Financial Information was prepared in accordance with the accounting policies applied in the Consolidated Financial Statements, including the method in which the data in the Consolidated Financial Statements of the Company were classified, *mutatis mutandis*, as a result of the following.

1.2.1 Assets and liabilities included in the Consolidated Statements, attributable to the Company itself as parent company

The amounts of assets and liabilities included in the statements of financial position, attributable to the Company itself as parent company, reflect the assets and liabilities contained in the consolidated statements of financial position, not including amounts of assets and liabilities in respect of investees, plus or minus, as the case may be, intercompany balances that were eliminated in the framework of the Consolidated Statements.

Additionally, this information presents the net amount, based on the consolidated statements of financial position, attributable to the controlling shareholders of the Company, of total assets less total liabilities, which in the consolidated statements of financial position represent financial information relating to investees, including goodwill.

Note 1 – Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

1.2.1 Assets and liabilities included in the Consolidated Statements, attributable to the Company itself as parent company (cont'd)

As a result of this presentation, the equity attributable to the controlling shareholders of the Company on the basis of the Consolidated Financial Statements is equal to the equity of the Company as derived from the Separate Financial Information.

1.2.2 Income and expenses included in the Consolidated Statements, attributable to the Company itself as parent company

The amounts of income and expenses included in the financial statements, segmented between profit or loss and other comprehensive income, attributable to the Company itself as parent company, reflect the income and expenses contained in the consolidated statements of income and the consolidated statements of comprehensive income, not including amounts of income and expenses in respect of investees, plus or minus, as the case may be, intercompany income and expenses that were eliminated in the framework of the Consolidated Financial Statements.

Additionally, this information presents the net amount, based on the Consolidated Financial Statements, attributable to the shareholders of the Company, of total income less total expenses, which in the Consolidated Financial Statements represent the results of operations in respect of investees, including goodwill impairment or cancellation. These data are presented, segmented according to profit or loss and other comprehensive income.

Unrealized gains and losses arising from intra-group transactions between the Company and its investees were presented as part of the balance in respect of investees and as part of gains in respect of investees.

As a result of this presentation, the total income for the period attributable to the shareholders of the Company and the total comprehensive income for the year attributable to the shareholders of the Company, on the basis of the Consolidated Financial Statements, are equal to the total income for the year attributable to the shareholders of the Company and the total other comprehensive income for the year attributable to the shareholders of the Company, respectively, as these are derived from the Separate Financial Information.

Note 1 – Reporting Rules and Policies (cont'd)

1.2 Accounting policies (cont'd)

1.2.3 Cash flows included in the Consolidated Statements, attributable to the Company itself as parent company

This information presents cash flows included in the Consolidated Financial Statements attributable to the Company itself as parent company, which are taken from the consolidated statements of cash flows (i.e. the balances remaining after the elimination of intercompany cash flows in the Consolidated Statements), segmented between cash flows from operating activities, cash flows from investing activities and cash flows from financing activities, accompanied by an itemization of the components of each. Additionally, within each of these activities, intercompany cash flows are presented separately, on a net basis.

These amounts reflect the cash flows included in the Consolidated Financial Statements, excluding cash flows in respect of investees.

The notes presented below also include disclosures relating to other material information in accordance with the disclosure requirements presented in Regulation 9C and as set forth in the Tenth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, subject to clarifications by the ISA staff, to the extent that such information was not included in the Consolidated Statements in a manner that expressly refers to the Company as parent company.

Note 2 – Cash and Cash Equivalents

	As at December 31	
	2020	2019
	NIS millions	
Cash and bank balances	7	23
Deposits	197	212
	204	235

Note 3 –Other Investments and Long-Term Debit Balances

3.1 Composition of other investments and long-term debit balances

	As at December 31		
	2020	2019	
	NIS millions		
Preferred shares of an investee	289	289	
Loans to investees	32	48	Shekel-denominated and bearing 2% interest
Loans to investees	69	137	Dollar-denominated and bearing 9.2% interest
Capital notes to investees	87	103	Unlinked and interest-free
Capital notes to investees	45	48	Dollar-denominated and interest-free
Receivables – Group companies	35	28	Unlinked and interest-free
Loans to employees	4	4	According to section 3(I) of the Income Tax Ordinance
Other	10	6	Shekel-denominated and bearing 0%-3.85% interest
	571	663	
Less current maturities	40	62	
	531	601	

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

Note 4 – Loans and Other Liabilities

Information on material loans:

Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal interest (%)	Redemption years	December 31, 2020 Face value NIS millions	December 31, 2020 Carrying value NIS millions
Series E Debentures	July 2017/ November 2018	603	NIS	Unlinked	2.61	2020-2027	573	570
Series F Debentures (1)	July 2020	700	NIS	Unlinked	1.9	2024-2037	700	691

Type	Loan date	Original loan amount NIS millions	Currency	Linkage base	Nominal interest (%)	Redemption years	December 31, 2019 Face value NIS millions	December 31, 2019 Carrying value NIS millions
Series D Debentures (2)	January 2013/June 2014	465	NIS	Unlinked	4.5	2017-2023	204	206
Series E Debentures	July 2017/ November 2018	603	NIS	Unlinked	2.61	2020-2027	603	599
Loans from banks (2)	September 2011	100	NIS	CPI	3.95	2019-2022	50	52
Loans from banks (2)	September 2011	100	NIS	Unlinked	6.3	2019-2022	50	50
Loans from others (2)	January 2011	300	NIS	Unlinked	5.82	2011-2022	206	206
Loans from others(2)	April 2012	372	NIS	CPI	3.55	2013-2022	262	272

(1) For information on the Debenture Series F issuance, see Note 20.4 to the Consolidated Financial Statements
(2) For information on the early redemption of Series D Debentures, Banks Loans and Loans from others, see Note 20.7 to the Consolidated Financial Statements

Note 5 – Financial Instruments

For a description of the risks to which the Company is exposed arising from the use of financial instruments and for information on the policy for managing the Company's risks, see Note 28 to the Consolidated Financial Statements.

5.1 CPI and foreign exchange risk

5.1.1 Statement of financial position according to linkage bases

The Company's foreign exchange risk, based on carrying amounts, is as follows:

	December 31, 2020		
	NIS linked	NIS unlinked	Total
		NIS millions	
Current maturities of debentures	-	30	30
Current maturities of lease liabilities	36	2	38
Debentures	-	1,231	1,231
Lease liabilities	62	5	67
Total	98	1,268	1,366

	December 31, 2029		
	NIS linked	NIS unlinked	Total
		NIS millions	
Current maturities of debentures	-	62	62
Short-term loans and credit	116	81	197
Current maturities of lease liabilities	35	1	36
Debentures	-	743	743
Long-term loans	208	175	383
Lease liabilities	105	5	110
Total	464	1,067	1,531

5.1.2 Sensitivity analysis of financial assets (liabilities)

The Company uses OTC derivatives to partially hedge its foreign currency risk. For information see Note 28.4 to the Consolidated Financial Statements.

5.1.3 CPI risk

For information on the CPI risk, see Note 28.5 to the Consolidated Financial Statements.

5.2 Floating interest rate risk and cash flow sensitivity analysis of floating interest instruments

The Company has floating rate deposits and consequently its financial results are exposed to changing interest rates.

Due to the low interest rate, a cash flow sensitivity analysis relating to possible changes in the interest rate is not presented since the impact is immaterial.

Note 5 – Financial Instruments (cont'd)

5.3 Liquidity risk

Following is an analysis of the contractual repayment dates of financial liabilities, including interest payments, but not including the effect of setoff agreements. This analysis is based on indices known as at the statement of financial position date, such as the CPI, foreign currency exchange rates and interest rates.

	December 31, 2020							
	Carrying value	Contractual cash flow	2021	2022	2023	2024	2025	2026 and thereafter
	NIS millions							
Trade payables	196	196	196	-	-	-	-	-
Derivatives	9	9	9	-	-	-	-	-
Other payables (1)	232	232	232	-	-	-	-	-
Investee payables	127	127	127	-	-	-	-	-
Series E Debentures	570	639	45	44	43	132	128	247
Series F Debentures (2)	691	841	13	13	13	48	47	707
Finance lease liability	105	109	39	33	16	9	7	5
Dividend declared	70	70	70	-	-	-	-	-
	2,000	2,223	731	90	72	189	182	959

(1) The carrying amount includes accrued interest expenses.
(2) For information on the Debenture Series F issuance, see Note 20.4 to the Consolidated Financial Statements

Note 5 – Financial Instruments (cont'd)

5.3 Liquidity risk (cont'd)

	December 31, 2019							
	Carrying value	**Contractual cash flow**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 and thereafter**
	NIS millions							
Trade payables	205	205	205	-	-	-	-	-
Derivatives	2	2	2	-	-	-	-	-
Other payables (1)	235	221	221	-	-	-	-	-
Investee payables	143	143	143	-	-	-	-	-
Series D Debentures (2)	206	225	40	43	41	101	-	-
Series E Debentures	599	684	45	45	44	43	132	375
Shekel loans from banks (2)	102	111	54	3	54	-	-	-
Shekel loans from others (2)	478	518	168	205	145	-	-	-
Finance lease liability	146	169	40	28	21	11	10	59
	2,116	2,278	918	324	305	155	142	434

(1) The carrying amount includes accrued interest expenses.
(2) For information on the early redemption of Series D Debentures, Banks Loans and Loans from others, see Note 20.7 to the Consolidated Financial Statements

Note 5 – Financial Instruments (cont'd)

5.4 Fair value of financial instruments

For information on the fair value of financial instruments, see Note 28.7.1 to the Consolidated Financial Statements.

Note 6 - Income Tax

6.1 General

The Company's income is taxable at the ordinary tax rate. For the tax rates applying to the Company and various incentives and Laws for Encouragement, see Note 35.1 to the Consolidated Financial Statements.

6.2 Final tax assessments

The Company has been issued with final tax assessments up to and including 2017 in the framework of an assessment agreement signed in 2020.

Fresh Foods Ltd., which was merged with the Company in 2015, was issued with final tax assessments in the past under an agreement, in which it was agreed that the appeal that Fresh Foods had filed with respect to the subject of benefits under the Law for the Encouragement of Capital Investments would remain the sole issue in dispute (see Note 35.1.2 to the Consolidated Financial Statements).

6.3 Composition of income tax expense

	For the year ended December 31		
	2020	**2019**	**2018**
		NIS millions	
Current tax expenses	(14)	(15)	(15)
Deferred tax expenses, net	2	(16)	(13)
Expenses in respect of prior years	-	(3)	-
Income tax expenses, net	(12)	(34)	(28)

Note 6 – Information on Taxes on Income (cont'd)

6.4 Composition of deferred taxes included in assets (liabilities)

	Balance as at January 1, 2019	Decrease (increase) in deferred tax expenses in profit or loss	Change in deferred taxes classified to equity	Balance as at December 31, 2019	Decrease (increase) in deferred tax expenses in profit or loss	Changes in deferred taxes via balance sheet accounts	Balance as at December 31, 2020
Deferred taxes in respect of:							
Provision for doubtful debts	2	-	-	2	-	-	2
Provision for vacation and convalescence	5	-	-	5	1	-	6
Investment in investees	(69)	(17)	-	(86)	10	19	(57)
Fixed and intangible assets	(64)	(2)	-	(66)	(3)	-	(69)
Employee benefits	6	1	-	7	-	-	7
Carryforward tax losses	6	2	-	8	(7)	-	1
Other	2	-	1	3	1	-	4
	(112)	(16)	1	(127)	2	19	**(106)**
	23%			23%			23%

Note 7 – Information on Relationships, Commitments and Significant Transactions with Investees

7.1 Dividends from investees

In the reporting period investees declared dividends at an amount of approximately NIS 292 million, of which approximately NIS 289 were received in the reporting period.

7.2 For further information on the Company's investments in investees, including guarantees extended to investees, see Notes 6, 12 and 24.3 to the Consolidated Financial Statements.

Note 8 – Claims and Contingent Liabilities

For information on claims filed against the Company and other contingent liabilities, see Note 24.1 to the Consolidated Financial Statements.

Note 9 – Liens and Guarantees

9.1 Liens

For information on encumbrances, see Note 24.2 to the Consolidated Financial Statements.

9.2 Guarantees

9.2.1 The following guarantees to banks and others were given in connection with the Group's business activity:

	December 31	
	2020	2019
	NIS millions	
In favor of banks for subsidiaries and an equity-accounted investee (1)	41	41
In favor of others in Israel and abroad	5	4

(1) For further information with respect to the cancellation of guarantees, see Note 10.1.

9.2.2 There are mutual guarantees between the Company and its subsidiaries, both limited (see above) and unlimited in amount, to secure all obligations to banks.

Note 10 – Events after the Reporting Date

10.1 In March, guarantees for a subsidiary at a total amount of NIS 30 million were cancelled.

10.2 For information on events after the reporting date, see Note 38 to the Consolidated Financial Statements.

Strauss Group LTD.

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Regulation 10A: Condensed Quarterly Statements of Comprehensive Income

	Q1	Q2	Q3	Q4	Total
	NIS millions				
Profit and loss:					
Sales	1,545	1,333	1,541	1,454	5,873
Cost of sales	910	799	913	863	3,485
Gross profit	635	534	628	591	2,388
Selling and marketing expenses	336	300	336	344	1,316
General and administrative expenses	108	96	97	119	420
Total operating expenses	444	396	433	463	1,736
Share of profit of equity-accounted investees	48	70	64	53	235
Operating profit before other income (expenses)	239	208	259	181	887
Other income	-	1	1	-	2
Other expenses	(1)	-	(1)	(1)	(3)
Other income (expenses), net	(1)	1	-	(1)	(1)
Operating profit	238	209	259	180	886
Financing income	12	1	3	1	6
Financing expenses	(22)	(48)	(28)	(57)	(144)
Financing expenses, net[1]	(10)	(47)	(25)	(56)	(138)
Income before tax	228	162	234	124	748
Income tax	(57)	(16)	(48)	(28)	(149)
Income for the period	171	146	186	96	599
Attributable to:					
The shareholders of the Company	156	126	168	83	533
Non-controlling interests	15	20	18	13	66
Income for the period	171	146	186	96	599

[1] The total sum of financing items for all quarters is not identical to the split of financing items in total for the year as a result of the net presentation of expenses/income from the valuation of financial liabilities.

	Q1	Q2	Q3	Q4	Total
	NIS millions				
Income for the period	171	146	186	96	599
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:					
Foreign currency translation differences	(74)	24	(21)	(5)	(76)
Other comprehensive loss from equity-accounted investees	(129)	(63)	(20)	(27)	(239)
Total other comprehensive loss items for the year that will be reclassified to profit or loss, net of tax	(203)	(39)	(41)	(32)	(315)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods:					
Changes in employee benefits	1	-	(1)	-	-
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	1	-	(1)	-	-
Comprehensive income (loss) for the period	(31)	107	144	64	284
Attributable to:					
The shareholders of the Company	(47)	87	127	50	217
Non-controlling interests	16	20	17	14	67
Comprehensive income for the period	(31)	107	144	64	284

Regulation 10C: Use of Consideration for Securities

On July 7, 2020, NIS 700 million face value of new debentures (Series F) were issued in consideration for a (gross) amount of NIS 700 million in accordance with a shelf offering report published on July 5, 2020 (reference no. 2020-01-063460), which is included in this report by reference and was published under a shelf prospectus of May 20, 2019. (reference no. 2019-01-047995)

The total proceeds received from the public offering served for recycling current financial debts of the Company.

Regulation 11: List of Investments in Subsidiaries and in Associated Companies

Following is the list of investments in the Company's material subsidiaries and associates:

Company name	Share class	No. of shares	Total par value of issued and paid-up share capital	Par value of share capital held by the Company	% holding in the security	% holding in capital	% holding in voting rights	% holding in power to appoint directors	Value of investment in the Company's separate financial statements as at Dec. 31, 2020	Value of loans to the subsidiaries as at Dec. 31, 2020 (1)
									NIS millions	
Strauss Coffee B.V.	Ordinary EUR 735	191,228	EUR 140,552,580	EUR 105,273,882	100	100	100	100	1,284	-
Três Corações Alimentos S.A (2)(3)	Ordinary R$ 0.01	27,553,075,054	R$ 275,530,750.54	R$ 137,765,375.27	50	50	50	50	496	-
Strauss Russia LLC (2)	-	3,500,000	-	-	100	100	100	100	49	69
Sabra Dipping Company, LLC (4)	-	100	-	-	50	50	50	50	351	-
Strauss Health Ltd.	Ordinary NIS 1.00	6,500,000	NIS 6,500,000	NIS 5,200,000	80	80	80	80	272	32
Uri Horazo Yotvata Dairies Ltd. (5)	Ordinary NIS 1.00	34,342	34,342NIS	17,171NIS	50	50	50	50	129	-
	Casting NIS 1.00	1	1NIS	1NIS	-	-	-	-	-	
	Management NIS 1.00	5	5NIS	2NIS	-	-	-	-	-	
Strauss Water Ltd.	Preferred A NIS 0.01	700,014	NIS 7,000	NIS 7,000	100	100	100	100	129	376
	Preferred B NIS 0.01	3,863,712	NIS 38,637	NIS 38,637	100	100	-	-	-	
	Ordinary NIS 0.01	490,000	NIS 4,900	NIS 4,900	100	100	-	-	-	
	Ordinary A NIS 0.01	92,566	NIS 926	NIS 926	100	100	-	-	-	

(1) For information on loans to the subsidiaries, see Note 3.1 to Appendix B – Separate Financial Information as at 31 December 2020.
(2) Held by Strauss Coffee B.V.
(3) Company jointly controlled by the Group (50%) and São Miguel Group (50%).
(4) Company jointly controlled by the Group (50%) and PepsiCo (50%).
(5) Held by Strauss Health Ltd.

Regulation 12: Changes in Investments in Subsidiaries and Associated Companies

In 2020, there were no changes in investments in material companies directly held by the Company.

Regulation 13: Income of Subsidiaries and Associated Companies and Revenues from Them as at Balance Sheet Date (NIS Millions)

Following is information on the total comprehensive income and profit (loss) before and after tax of the Company's material subsidiaries and associated companies (the profit (loss) figures are the consolidated data of these companies in the Company's consolidated financial statements), dividends, interest and management fees received by the Company or which it is entitled to receive, as at December 31, 2020:

Name of subsidiary/associate	Profit (loss) before tax	Profit (loss) after tax	Dividend	Reimbursement of management expenses (1)	Interest expenses	Other comprehensive loss	Total profit (loss)
Strauss Coffee B.V.	323	274	191	36	-	(291)	(17)
Três Corações Alimentos S.A (2) (3)	89	89	36	-	-	(207)	(118)
Strauss Russia LLC (2)	(7)	(8)	-	-	-	(5)	(13)
Sabra Dipping Company, LLC (4)	124	123	84	1	-	(30)	93
Strauss Health Ltd.	278	211	80	46	-	-	211
Uri Horazo Yotvata Dairies Ltd. (5)	80	60	27	16	-	-	60
Strauss Water Ltd.	64	57	-	2	(5)	(2)	55

(1) Including management fees.
(2) Held by Strauss Coffee B.V.
(3) Company jointly controlled by the Group (50%) and São Miguel Group (50%).
(4) Company jointly controlled by the Group (50%) and PepsiCo (50%).
(5) Held by Strauss Health Ltd.

Regulation 20: Trading on the Tel Aviv Stock Exchange

In the reporting year, 313,081 Ordinary Shares of NIS 1 par value of the Company were listed on the Tel Aviv Stock Exchange (TASE) – 285,642 Ordinary Shares of NIS 1 par value in respect of the exercise of option warrants granted to senior employees of the Group, and 27,439 Ordinary Shares of NIS 1 par value arising from the exercise of restricted shares (PSUs), which were granted to the former CEO of the Company.

In the reporting year, trading on TASE in the Company's debentures (Series D) was terminated following the full early redemption of said debentures initiated by the Company and implemented on December 28, 2020. For further information, see the Immediate Reports of the Company of December 10, 2020 and January 13, 2021 (reference no. 2020-01-134490 and 2021-01-005631, respectively).

Regulation 21: Payments to Interested Parties and Senior Officers

Details of recipients of remuneration				Compensation for services (at cost) in NIS thousands – excluding share-based payment				
Name	Title	Scope of position	Percentage of share capital held, holding percentage in full dilution [and full dilution according to the amount of the monetary benefit inherent in the options] (a)	Annual salary	Accompanying benefits (b)	Bonus [if relevant - amount deferred according to Remuneration Policy] (c)	Management fees / consulting fees / commission / other	Total excluding share-based payment
Ms. Ofra Strauss (1)	Chairperson of the Board of Directors of the Company	100%	0%	2,100	1,108	1,622 [47]	-	4,830
Mr. Giora Bardea (2)	Company President and CEO	100%	0% In full dilution – 0.76% [0.08%]	1,836	977	1,418 [41]	-	4,231
Mr. Tomer Harpaz (3)	CEO of Sabra and Obela	100%	0%	1,790	459	2,780 [0]	-	5,029
Mr. Zion Balas (4)	CEO of Strauss Coffee	100%	0% In full dilution – 0.22% [0.04%]	1,524	1,042	711 [0]	-	3,277
Mr. Shahar Florence (5)	Chief Growth & Innovation Officer	100%	0% In full dilution – 0.27% [0.04%]	1,380	884	772 [82]	-	3,036
Remaining directors (6)		--					2,912	2,912

Details of recipients of remuneration		Compensation for services (at cost) in NIS thousands		
Name	Title	Total excluding share-based payment	Share-based payment (d)	Total cost of compensation
Ms. Ofra Strauss	Chairperson of the Board of Directors of the Company	4,830	-	4,830
Mr. Giora Bardea	Company President and CEO	4,231	2,575	6,806
Mr. Tomer Harpaz	CEO of Sabra and Obela	5,029	-	5,029
Mr. Zion Balas	CEO of Strauss Coffee	3,277	856	4,133
Mr. Shahar Florence	Chief Growth & Innovation Officer	3,036	892	3,928

Notes to the Table:

(a) Full dilution – Full dilution data are proximate to the publication date of the report, and are calculated under the theoretical assumption of the full exercise of 5,094,960 option warrants granted to senior employees of the Group and the full exercise of 27,439 PSUs granted to the former CEO for shares of the Company, at a ratio of 1:1, excluding dormant shares and excluding 1,146,655 options granted to senior employees and officers, approved by the Remuneration Committee and the Board of Directors of the Company on March 21, 2021, which have not yet been allotted on the date of this report.

Full dilution data according to the amount of the monetary benefit inherent in the options: It is emphasized that according to the terms of the option plan, in practice, upon exercise of the options, the offerees will not be allotted the entire amount of underlying shares, but only shares of a quantity that reflects the amount of the monetary benefit inherent in the options, which is equal to the amount resulting from one of the following calculations according to the exercise orders given by the offeree: (1) where the offeree gave an order to exercise stating the minimum exercise price (“**Limit Order**"): the amount of the difference between the minimum exercise price stated in the order and the exercise price multiplied by the number of option warrants for which a partial exercise notice was sent, divided by the minimum exercise price; (2) if the offeree did not give a Limit Order: the amount of the difference between the closing price of an ordinary share on the last trading day prior to the exercise date (“**Market Price**”) and the exercise price multiplied by the number of options for which the exercise notice was sent, divided by the Market Price. Full dilution according to the amount of the monetary benefit inherent in the options is calculated assuming the full exercise of 5,094,960 option warrants granted to senior employees in the Group for 588,240 shares (according to the amount of the monetary benefit inherent in the option warrants, based on the intrinsic value of the option warrants according to the closing price of the Company’s share on TASE on March 18, 2021) and the full exercise of 27,439 PSUs granted to the former Company CEO, excluding dormant shares and excluding 1,146,655 options granted to senior employees and officers approved by the Remuneration Committee and the Board of Directors of the Company on March 21, 2021, which have not yet been allotted on the date of this report.

It is further noted that exercise of the PSUs is contingent on conditions, including accomplishment of a sales budget target outside of Israel.

For the terms and conditions of the options plan and those of the PSU plan, see Note 23.1 to the Financial Statements of the Company as at December 31, 2020.

(b) Accompanying benefits – With respect to the recipients of remuneration specified in the table, who are employed in the Company (including the Chairperson of the Board) – the amount set forth in the "accompanying benefits" column includes wage-related benefits in accordance with the Company's procedures, such as car maintenance (including "cash for car"), mobile telephone and social benefits, including adjustment pay (in the form of a bonus or adjustment period in a case of retirement). It is noted that Company employees, including officers, are entitled to reimbursement of reasonable business expenses, according to the Company's procedures.

(c) Bonus – The amount stated in the "bonus" column is the amount of the bonus for 2020 and does not include bonus amounts that were paid in 2020 in respect of 2019. The amount specified in this column also includes, among other things, a signing/induction bonus in the event of induction into the Company as well as special bonuses for attaining long-term goals insofar as relevant. As a rule, according to the remuneration policy, bonuses paid to officers of the Company are based on the extent of accomplishment of financial targets derived from the Group's budget as approved by the Board of Directors from time to time (including revisions made thereto during the course of the year) and the extent of accomplishment of functional targets. In general, the amount of the bonus paid to officers of the Company includes a portion deferred to the following year when the amount of the incentive exceeds the sum of the salaries defined as the "target incentive" (which reflects full accomplishment of the targets). Said portion will be paid in the following year shortly after the publication of the annual financial statements, provided that in said following year the threshold condition for the receipt of the yearly incentive for that year was met. In the event that the threshold condition is not met in the following year, the amount will be deferred for an additional year and paid in the third year, provided that in that year the threshold condition for the receipt of the yearly incentive for the year was met. In the event the aforementioned conditions were not met, the deferred amount will not be paid.

(d) Share-based payment – The amount stated in the "share-based payment" column is the expense recorded by the Company in 2020 in accordance with IFRS 2, in respect of the options and PSUs granted.

Additional information:

(1) Ms. Ofra Strauss – Ms. Strauss has served as active Chairperson of the Board of Directors of the Company since June 2001. Until January 2021 Ms. Strauss was employed under a personal employment agreement, and commencing in February 2021, she is employed under a management agreement with a company that is wholly owned and controlled by her.

Ms. Strauss is entitled to a calculated annual incentive based on financial targets only, with no discretionary incentive, and to a special bonus, as specified in the Remuneration Policy. The amount of the annual incentive payable to Ms. Strauss for 2020 is NIS 1,622 thousand for the accomplishment of financial targets only with a score (rounded) of 3.2 (on a scale of 1-5). The extent of accomplishment of financial targets is based on the non-GAAP reports. The financial score is derived from sales of approximately NIS 8,350 million, resulting in a score of 1.6, a gross profit margin of 38.7%, resulting in a score of 2.4, operating profit of NIS 925 million, resulting in a score of 2.4, and free cash flow of NIS 535 million, resulting in a score of 5. As described in note (c) above, part of the bonus will be deferred to next year and will be paid proximate to the publication of the Annual Financial Statements for 2021, provided, however, that in 2021 the threshold condition for the receipt of the yearly incentive for 2021 was satisfied. It is noted that in light of the satisfaction of the threshold conditions for the receipt of the annual incentive for 2020, according to the provisions of the Remuneration Policy, shortly after the Financial Statements for 2020, Ms. Strauss will be paid the deferred bonus for 2019 at an amount of approximately NIS 969 thousand.

For further information on the Chairperson's terms of office and employment, see the Immediate Report of the Company of August 22, 2019, reference no. 2019-01-072900.

(2) Mr. Giora Bardea – Mr. Bardea has served as CEO of the Company since September 2018 (before then, he served as Deputy CEO and acting CEO).

Mr. Bardea is entitled to a calculated annual incentive based on financial targets only, and to a discretionary incentive and special bonus, as specified in the Remuneration Policy. The amount of the annual incentive for 2020 is NIS 1,418 thousand, with the calculated annual incentive component amounting to NIS 1,418 thousand for the extent of accomplishment of financial targets as described in par. (1) above. As described in note (c) above, part of the bonus will be deferred to next year and will be paid proximate to the publication of the Annual Financial Statements for 2021, provided, however, that in 2021 the threshold condition for the receipt of the yearly incentive for 2021 was satisfied. It is noted that in light of the satisfaction of the threshold conditions for the receipt of the annual incentive for 2020, according to the provisions of the Remuneration Policy, shortly after the Financial Statements for 2020, Mr. Bardea will be paid the deferred bonus for 2019 at an amount of approximately NIS 847 thousand.

On or about the date of the report, Mr. Bardea holds a total of 921,794 non-marketable option warrants of the Company, as follows: (1) 8,461 warrants at an exercise price of NIS 70.13. Mr. Bardea's entitlement to receive the option warrants was established on August 19, 2018. The right to exercise the option warrants will inure to Mr. Bardea for 4 years from the vesting date. (2) 160,000 option warrants of the Company, their exercise price being NIS 63.49 linked to the Consumer Price Index published on March 15, 2017; entitlement to the receipt thereof was established in two equal tranches in March 2019 and March 2020. (3) 353,333 option warrants at an exercise price of NIS 82.54 linked to the Consumer Price Index published on November 15, 2018. On September 5, 2020, entitlement to exercise 176,667 option warrants was established, and on September 5, 2021, entitlement to exercise 176,666 option warrants will be established. (4) 400,000 option warrants at an exercise price of NIS 102.30; entitlement to the receipt thereof will be established in two equal tranches in August 2022 and August 2023. The right to exercise each tranche will inure to Mr. Bardea for a period of four years from the vesting date. With respect to grant (3) described above, in the event of termination of employment, other than in circumstances in which severance pay may be denied by law, the unexercised options will not expire and the exercise period will remain in accordance with the original exercise period of each tranche. In addition, the Company will be entitled, with the approval of the Remuneration Committee and the Board of Directors, to approve early vesting of options that are due to vest within nine months from the date of termination of employment.

For further information on the CEO's terms of office and employment, see the Immediate Report of the Company of August 22, 2019, reference no. 2019-01-072900.

(3) Mr. Tomer Harpaz – Mr. Harpaz has served as CEO of the dips and spreads companies Sabra and Obela since March 12, 2018 (from June 2014 until that date, he served as CEO of Strauss Coffee and prior thereto, from July 2010 he served as SVP for Business Development and Strategy and, from January 2014, also served as temporary CEO of the coffee company). Mr. Harpaz's employment is for an indefinite period. His employment agreement does not determine an advance notice obligation for either of the parties, and his employment may be terminated with or without advance notice.

Mr. Harpaz is entitled to an annual salary of USD 520,000 and to the customary accompanying and social benefits for senior officers of Sabra (pension, health insurance, life insurance, 30 days' paid absence, company car and expense reimbursement) and to additional benefits according to Sabra's employment policy for expatriates, such as home leave once a year and expense reimbursement (up to USD 1,000 per year) for the preparation of an annual tax return, as well as reimbursement for school fees of children up to the age of 18 at an amount of up to USD 50,000 (net) per year, and an eight-month adjustment period if he does not return to work in one of Strauss's companies at the end of his employment in Sabra.

Mr. Harpaz is entitled to an annual bonus of 75% of his annual salary (i.e. USD 390,000) for the full satisfaction of financial and personal targets based on Sabra's objectives. Mr. Harpaz's bonus for 2020 is approximately NIS 1,073 thousand for the accomplishment of financial targets with a score of 53.2, derived from sales of USD 419.4 million, which constitutes 91.4% accomplishment of the target, a gross profit margin of 44%, which constitutes 93.4% accomplishment of the target, operating profit of USD 31.9 million, which constitutes 74.3% accomplishment of the target, and for the accomplishment of 120 of personal targets.

Mr. Harpaz is entitled to participate in Sabra's long-term incentive program, which is based on strategic goals and growth targets for 3 years from the date of commencement of the program cycle (a new cycle begins each year with different targets for the next 3 years). The award under this plan is USD 500,000 per cycle for full accomplishment of the cycle targets. Mr. Harpaz is entitled to participate in the cycle that began in 2018 and ends at the end of 2020, and payment in its respect, if any, will be made in the first quarter of 2021. In 2019 the long-term remuneration model in Sabra was changed to a plan in which compensation at the end of a 3-year cycle is based on the growth rate of the EBIT margin and the sales growth rate in the 3 years of the cycle. The bonus in this plan is USD 550,000 per cycle for full accomplishment of the cycle targets. Mr. Harpaz is entitled to participate in the cycle that began in 2019 and ends in 2021, and payment in its respect, if any, will be made in the first quarter of 2022; and in the cycle that began in 2020 and ends in 2022, and payment in its respect, if any, will be made in the first quarter of 2023.

The amount of Mr. Harpaz's bonus for 2020 includes an annual incentive of NIS 1,073 thousand and NIS 1,708 thousand in respect of a provision for the long-term incentive.

In the case of termination, other than in a case of termination for cause, Mr. Harpaz will be entitled to a relative part of the bonus, according to the actual number of months of work.

(4) Mr. Zion Balas – Since March 12, 2018 Mr. Balas has served as CEO of Strauss Coffee (until then, from June 2009 Mr. Balas served as CEO of Strauss Israel, and prior thereto, from 2004 he served as CEO of the Group's Sales Division). According to his terms of employment as CEO of Strauss Coffee, Mr. Balas's employment is for an indefinite period and may be terminated by either party with at least 90 days' advance written notice to the other (with an option to shorten the notice period at the Company's initiative or with its consent). The employment relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Balas his salary and accompanying benefits (including social benefits) for a further six months, other than in circumstances where severance pay may be denied by law. Mr. Balas's monthly salary is linked to the cost-of-living increments paid in the Israeli economy under extension orders.

The amount of the bonus payable to Mr. Balas for 2020 is approximately NIS 711 thousand with the calculated annual incentive component amounting to NIS 603 thousand. The financial score consists of 20% accomplishment of the Group's financial targets as described in par. (1) above plus a net profit target of NIS 551 million, resulting in a score of 3.3, and 80% accomplishment of Strauss Coffee's financial goals. The extent of accomplishment of financial targets is based on the non-GAAP reports. Strauss Coffee's financial score is composed of sales of NIS 3,279 million, resulting in a score of 0, sales volumes of 275 thousand tons, resulting in a score of 3.7, gross profit of NIS 1,108 million, resulting in a score of 0, operating profit of NIS 354 million, resulting in a score of 0, free cash flow of NIS 266 million, resulting in a score of 3.2, and net profit of NIS 274 million, resulting in a score of 0, as well as a score of 3.95 for functional targets (including targets for the management of the COVID-19 crisis and protection of food safety and employees' health). An additional sum of NIS 108 thousands is a discretionary bonus approved by the Remuneration Committee and the Board of Directors. It is noted that in light of the satisfaction of the threshold conditions for the receipt of the annual incentive for 2020, according to the provisions of the

Remuneration Policy, shortly after the Financial Statements for 2020 Mr. Balas will be paid the deferred bonus for 2019 at an amount of approximately NIS 492.5 thousand.

As at the date of the report, Mr. Balas holds a total of 266,666 non-marketable option warrants of the Company, as follows: (1) 133,333 option warrants at an exercise price of NIS 63.49 linked to the Consumer Price Index published on March 15, 2017; on March 27, 2019 entitlement to exercise 66,666 option warrants was established, and on March 27, 2020, entitlement to exercise 66,667 option warrants was established. (2) 133,333 additional option warrants at an exercise price of NIS 90.50 linked to the CPI published on February 15, 2019; on March 12, 2021 entitlement to exercise 66,667 option warrants will be established, and on March 12, 2022 entitlement to exercise 66,666 option warrants will be established. The right to exercise each tranche will inure for a period of four years from the date on which entitlement to receive the tranche was established.

(5) Mr. Shahar Florence – Mr. Florence has served as the Group's Chief Growth and Innovation Officer since April 1, 2019 (prior thereto, from November 1, 2008 he served as CFO of the Group). Mr. Florence's employment is for an indefinite period, and may be terminated by either party with advance written notice of no less than 90 days. The employment relationship will survive the end of the above advance notice period, and the Company will continue to pay Mr. Florence his salary and accompanying benefits (including social benefits) for a further six months, other than in circumstances where severance pay may be denied by law. Mr. Florence's monthly salary is linked to the cost-of-living increments paid in the Israeli economy under extension orders.

The bonus payable for 2020 is a calculated incentive at an amount of NIS 772 thousand according to the extent of accomplishment of financial targets as provided in par. (1) above plus a net profit target of NIS 551 million, resulting in a score of 3.3, as well as a score of 3.53 for the accomplishment of functional targets (including formulation of the Group's business strategy and implementation of the Group's IT strategy). As provided in note (c) above, part of the bonus will be deferred to next year and will be paid proximate to the publication of the Annual Financial Statements for 2021, provided that in 2021 the threshold condition for the receipt of the yearly incentive for 2021 was satisfied. It is noted that in light of the satisfaction of the threshold conditions for receipt of the annual incentive for 2020, according to the provisions of the Remuneration Policy, shortly after the Financial Statements for 2020 Mr. Florence will be paid the deferred bonus for 2019 at an amount of NIS 477.5 thousand.

As at the date of the report, Mr. Florence holds a total of 333,333 non-marketable option warrants of the Company as follows: (1) 66,667 option warrants at an exercise price of NIS 61.68; on March 22, 2019, entitlement to exercise 66,667 options was established. (2) 133,333 option warrants at an exercise price of NIS 74.98, linked to the Consumer Price Index published on April 15, 2018; on May 3, 2020, entitlement to exercise 66,667 options was established, and on May 3, 2021 entitlement to exercise another 66,666 options will be established. (3) 133,333 option warrants at an exercise price of NIS 102.66, linked to the CPI published on March 15, 2020; entitlement to exercise 66,667 option warrants will be established on March 24, 2022, and on March 24, 2023 entitlement to exercise 66,666 option warrants will be established. The right to exercise each tranche will inure for a period of four years from the date on which entitlement to receive the tranche was established.

(6) Payments to the other directors include the total payments received by all directors of the Company, with the exception of Ms. Ofra Strauss. It is noted that the annual compensation and participation fees paid to directors who are not employed by the Company are in accordance with the maximum amount determined in the Companies Regulations (Rules Regarding Compensation and Expense Reimbursement of External Directors), 2000; for a director recognized as an expert director, compensation is paid at the maximum amount payable to an expert director according to said regulations, all of the foregoing in accordance with the Company's ranking.

(7) For the exemption, indemnification and insurance of directors and officers of the Company, see Note 24.4.2 to the Financial Statements of the Company as at December 31, 2020 in Chapter C above, and also Regulation 29A below.

Regulation 21A: Corporate Control

Strauss Holdings Ltd. is the direct controlling shareholder of the Company (approximately 57.2% of the equity and voting rights in the Company). The controlling shareholder of Strauss Holdings is Michael Strauss's Assets Ltd. ("Michael's Assets") (approximately 75.64% of the equity and voting rights in Strauss Holdings).

The Company was informed that a probate order has been issued with respect to the estate of Mr. Michael Strauss OBM, which holds the shares of Michael's Assets (the "Shares in the Estate Account"), and that as a result of the expected distribution of the Shares in the Estate Account, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss ("Michael's Children") will jointly hold shares of Michael's Assets (jointly, approximately 94.6% of the equity and voting rights in Michael's Assets), granting them control of Michael's Assets and, indirectly, control of the Company. Michael's Children are in agreement concerning cooperation in Michael's Assets, according to which they will vote as one in the general meeting of Michael's Assets.

In light of the foregoing, after the distribution of the estate, Ms. Ofra Strauss, Ms. Irit Strauss and Mr. Adi Strauss are the controlling shareholders of the Company.

Regulation 22: Transactions with a Controlling Shareholder

Following is information, to the best of the Company's knowledge, on each transaction with the controlling shareholder or in the approval of which the controlling shareholder has a personal interest (to which the Company or a subsidiary or an affiliated company of the Company are a party), which was contracted in 2020 or at a date subsequent to the reporting year until the date of filing of this report or which is still in force on the date of publication of this report. See also Note 37 to the Financial Statements of the Company as at December 31, 2020. It is noted that such transactions, even if they are not extraordinary, are brought for approval by the Company's Audit Committee and the Board of Directors each year in accordance with the procedure adopted by the Company.

Transactions Enumerated in Section 270(4) of the Companies Law

1) Employment agreement with Ms. Ofra Strauss, Chairperson of the Board of Directors – for information, see Regulation 21 above.

2) Terms of office of Mr. Adi Strauss, a director of the Company – Mr. Adi Strauss is entitled to an expert director's fee in accordance with the terms of office in the Company for an expert director, for three years commencing on the date of approval by the General Meeting of the Company of September 30, 2020 (see the Immediate Report of October 1, 2020, reference no. 2020-01-097921); and is entitled to inclusion in the Company's current D&O insurance policy (see the Immediate Report of May 25, 2020, reference no. 2020-01-051978). Further, he is entitled to a letter of undertaking to indemnification in the form of the Company's current letter of undertaking to indemnification for directors and officers of the Company (see Immediate Reports of August 22, 2019 and September 26, 2019, reference no. 2019-01-072900 and 2019-01-099991, respectively). Mr. Adi Strauss is also entitled to a letter of exemption in the same form as furnished to officers of the Company who are not among the controlling shareholders and their relatives (see Immediate Reports of July 9, 2018 and May 23, 2018, reference no. 2018-01-062109 and 2018-01-041586, respectively).

3) Non-compete, undertakings of indemnification and grant of a right to use the name "Strauss" in accordance with the merger transaction with Strauss – for information, see section 21.1 in the Description of the Company's Business report as at December 31, 2020. As stated in that section, the Strauss family members have undertaken not to compete against the Company and not to use the Strauss name and the Strauss brand in specific areas and during specific periods, all of the foregoing as set forth in said section.

Transactions that Are Not Enumerated in Section 270(4) of the Companies Law

4) In accordance with the resolutions of the Company's Audit Committee, the first of which is dated February 21, 2011 and the last was passed in March 2021, the Company has criteria, guidelines and rules for the classification of a transaction of the Company (including companies under its control) with the controlling shareholder of the Company or in which the controlling shareholder has a personal interest as non-extraordinary and negligible. The criteria constitute criteria pursuant to section 117(a1) of the Companies Law for the review of the extraordinariness of such transactions, and guidelines for the classification of a transaction as negligible in accordance with regulation 41 of the Securities Regulations (Annual Financial Statements), 2010. Among other things, it was determined that said criteria and guidelines will also serve to examine the scope of disclosure in the Periodic Report with respect to a transaction between the Company and the controlling shareholder, or in the approval of which the controlling shareholder has a personal interest. The criteria and guidelines include, *inter alia*, guidelines regarding transactions of the same type, which are not interdependent, that are executed frequently and repeatedly every period, interrelated or inter-conditional transactions and multiannual transactions, as described below.

The criteria were determined, *inter alia*, noting the following relevant factors: The Company is one of the largest industrial groups in Israel, with very widespread operations in Israel and abroad, the scope of the Company's assets according to its GAAP reports, the diversity of the Company's activities, the nature of the transactions it executes, and the extent of their cumulative impact on the Company's activity and its business results. The Audit Committee may deviate from the abovementioned criteria with respect to a particular transaction in light of its circumstances and for reasons that will be recorded.

According to the criteria, a transaction for the provision or receipt of services and/or the sale or purchase of products and/or assets will be considered a non-extraordinary transaction if it is executed in the ordinary course of business, on market terms and conditions, and its financial scope is less than 5% of the criterion determined in its respect, and insofar as this is not a transaction for the sale of the products of the Company and/or corporations under its control, offered to customers of the Company – the scope of the transaction is not more than NIS 30 million linked to the December 2020 index. A transaction for the provision or receipt of services and/or the sale or purchase of products and/or assets will be considered a negligible transaction if it is a transaction that is not an extraordinary transaction and its scope is less than 0.5% of the criterion determined in its respect or than NIS 8.5 million linked to the December 2020 index, whichever is the lower.

The scope of the transaction will be determined according to the following criteria and will be calculated on the basis of the Company's most recent audited and reviewed consolidated annual financial statements: In a transaction for the sale of the Company's products – the scope of the transaction will be examined against the total annual sales turnover in the annual financial statements; in a transaction for the purchase and sale of raw materials serving the Company – the scope of the transaction will be examined against the total annual COGS in the annual financial statements; in a transaction for the purchase and sale of services, including rentals and advertising – the scope of the transaction will be examined against the relevant expense item (COGS, general and administrative expenses, selling and marketing expenses) in the most recent annual financial statements. In a transaction in which the Company does not own all rights and obligations in the transaction, the transaction will be examined according to the Company's relative share of the transaction.

"Ordinary course of business" was defined such that among other things, a review must be made as to whether in the past twenty-four months transactions of the type of the present transaction can be identified (in terms of the subject and scope), including ongoing transactions in which respect the contract is in effect on the date of the review (or if it is an alternative transaction to an ongoing transaction in which the Company was engaged until recently), or which it is the Company's practice to execute on a routine basis as part of its business with third parties, or is the practice of companies in the Company's area of activity to execute on a routine basis. In such cases, the transaction will be considered a transaction in the Company's ordinary course of business. The Audit Committee may determine that a transaction will be considered as executed in the ordinary course of business also in other circumstances, which will be recorded.

"Market terms and conditions" were defined as one of the following: (1) the terms and conditions of the transaction are similar to those of at least two similar transactions in terms of their characteristics, which the Company executed in the period proximate to the date of contracting in the transaction under review (including binding offers made by the Company to its customers, and binding offers made by suppliers/service providers to the Company), provided that they were executed with parties that are not on the list of interested parties; or (2) the terms and conditions of the transaction are similar to those of at least two transactions in the relevant market, which are known to the Company, and are similar in their characteristics and were executed in the period proximate to the date of contracting in the transaction under review, provided that they were executed by unrelated parties; or (3) a price determined in a regulated sellers' and buyers' market, such as the price of marketable securities or commodities, provided that marketability in that market with respect to the relevant asset or product or service is sufficient; or (4) the Audit Committee has determined that the transaction is "on market terms and conditions".

It is noted that according to section 117(2a) of the Companies Law, in March 2021 the Audit Committee determined that transactions with the controlling shareholder or in which the controlling shareholder has a personal interest, which are not extraordinary and are not negligible, require the approval of the Company's Audit Committee as well as an oversight and control mechanism over the implementation of the criteria as provided above. In addition, the Audit Committee defined criteria with respect to the obligation to hold a competitive or other proceeding in connection with the Company's transactions with the controlling shareholder or transactions in which the controlling shareholder has a personal interest, in accordance with section 117(1b) of the Companies Law.

According to the abovementioned criteria, negligible transactions in which the Company (including companies under its control) contracted in 2020 mainly included transactions pertaining to the receipt of hospitality services and the sale of the products of the Company (including companies under its control).

5) In 2020, no transactions were executed and as at the date of this report, there are no transactions still in effect with the controlling shareholder or in which the controlling shareholder has a personal interest, which are not enumerated in Section 270(4) of the Companies Law and which are not negligible transactions, save for the transactions specified hereunder.

Purchase of advertising time – in 2020, the Group purchased advertising time through a media company, *inter alia*, from Reshet, a TV franchiser under the Second Authority for Television and Radio Law, 1990. To the best of the Company's knowledge, the controlling shareholder of the Company indirectly holds its shares. The purchase of advertising time was made in the ordinary course of business, on the customary terms and at market prices, and as part of the purchase of advertising time from other commercial broadcasting entities (such as Keshet and Channel 24) according to rating considerations and the Group's marketing needs.

Ahihud recycling reservoir – in 2008 Strauss Health built a wastewater recycling reservoir on land owned by the controlling shareholder, Strauss Holdings Ltd., in Ahihud. Since the construction date and as at the date of this report, Strauss Holdings has not charged the Company any fees for the use of the land. The Company bears the costs of holding the land, such as the payment of municipal rates and taxes.

Regulation 24: Holdings of Interested Parties and Senior Officers

For information on the holdings of interested parties and senior officers (including a list of the treasury shares held by the Company), see the Company's Immediate Report of January 7, 2021 (reference no. 2021-01-002787).

Regulation 24A: Authorized Capital, Issued Capital and Convertible Securities

For details, see Notes 23. and 26.2 to the Financial Statements of the Company as at December 31, 2020 and the definition of "full dilution" in Regulation 21 above.

Regulation 24B: Shareholder Register

For information on the Company's shareholder register, see the Company's Immediate Report of January 24, 2021 (reference no. 2021-01-010023).

Regulation 25A: Registered Office

Address: 49 Hasivim St., Petah Tikva 4959504

Tel: 03-6752499, Fax: 03-6752279

Email address: mike.avner@strauss-group.com

Regulation 26: Directors of the Company

Following are the details of directors of the Company serving on the Board of Directors as of the date of the report[2]:

Director's name	Ofra Strauss, Chairperson of the Board of Directors	Adi Strauss	Ronit Haimovitch	Tzipi Ozer-Armon[3]	Gil Midyan	Meir Shanie
Identity no.	56616584	022889323	56417843	059685891	026721647	008409732
Date of birth	August 22, 1960	February 27, 1967	May 12, 1960	May 9, 1965	February 18, 1961	September 8, 1945
Address for service of judicial documents	31 Hamatsbi'im St., Tel Aviv	37 Havradim St., Ganei Yehuda	3 Nissim Aloni St., Tel Aviv	6A Frankfurt St., Tel Aviv	6 Herzl Rosenblum Street, Tel Aviv	28 Hanof St., Savyon
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	February 1996	August 2011	August 2003	October 2020	July 2018	September 1997
Education	LL.B. – Tel Aviv University	English Studies - Cambridge, England; Business Administration, Sheffield University, England	BA in Economics and Management – Technion, Haifa; MA in Economics – Technion, Haifa	BA in Economics –Tel Aviv University; MBA – Tel Aviv University; Advanced Management Program (AMP) – Harvard Business School, Massachusetts, USA	MA in Economics and Management – Technion, Haifa	BA in Economics and Accounting – Tel Aviv University; MBA – Tel Aviv University; certified public accountant

[2] Mr. Arie Ovadia ceased to serve as a director of the Group and on the board committees of which he was a member on December 31, 2020. For information, see the Immediate Report of December 30, 2020 (reference no. 2020-01-141828).
[3] Ms. Tzipora (Tzipi) Ozer-Armon began serving as a director of the Group on October 28, 2020. For information, see the Immediate Report of October 29, 2020 (reference no. 2020-01-117186).

Director's name	Ofra Strauss, Chairperson of the Board of Directors	Adi Strauss	Ronit Haimovitch	Tzipi Ozer-Armon[3]	Gil Midyan	Meir Shanie
Occupation in the past five years	Chairperson of the Board of Directors	Business manager	CEO of Strauss Investments (1993) Ltd.; director of Strauss Holdings Ltd.	CEO of Lumenis Ltd. (since 2012); independent director of ICL (since 2020); external director of Itamar Medical Ltd. (since 2016)	Chairman of the Board of Chemital Shielding Ltd; CEO of Midyan Investments Ltd; Director of Strauss Holdings Ltd.	Self-employed
Kinship with another interested party	Sister of Adi Strauss and Irit Strauss[4]	Brother of Ofra Strauss and Irit Strauss[5]	None	None	Cousin of Ofra Strauss, Adi Strauss and Irit Strauss	None
Position in the Company, subsidiary, related company or in an interested party of the Company	Chairperson of the Board of Directors of the Company, director of subsidiaries of the Company, director of Strauss Holdings Ltd.	Chairman of the Board of Strauss Holdings Ltd., director of a subsidiary	CEO of Strauss Investments (1993) Ltd.; director of Strauss Holdings Ltd.	None	Director in Strauss Holdings Ltd.	None

[4] For further information, see Regulation 21A above.
[5] For further information, see Footnote#4 above.

Director's name	Ofra Strauss, Chairperson of the Board of Directors	Adi Strauss	Ronit Haimovitch	Tzipi Ozer-Armon	Gil Midyan	Meir Shanie
Additional corporations in which he/she serves as a director	Strauss Holdings Ltd.; investee companies and related companies of the Company; Aharon Institute, IDC Herzliya; business board of the Co-Impact venture	Strauss Holdings Ltd.; Adi's Investments Ltd.; Adi's Lifestyle Ltd.; Adi's Herbert Samuel Ltd.; Adi's Ahad Haam Ltd.; Adi's Marina Ltd.; R.S.T. Marina (Herzliya) Ltd.; Idan Marina Ltd.; Marina H. Hotel Management Ltd.; Adi's Assets (Herzliya) Ltd.; Adi's Hospitality Ltd.	Strauss Holdings Ltd.; Rav Etgar Ltd.; Reshet-Noga Ltd.; Hashachar Haole Holdings Ltd., Consulting and Investment Management Ltd.; Pistacia Path Ltd.; Or Mania Ltd.; I-Fact Ltd.; Acro Real Estate Development Ltd.; Acro Properties Ltd; Deep Blue Yachting Ltd.; Ocean Blue Holdings Ltd.; Ocean Blue Yachting Ltd.	ICL; Itamar Medical Ltd.	Strauss Holdings Ltd.; Chemital Shielding Ltd.; Midyan Investments Ltd.; Raya Strauss Ben Dror Assets Ltd.; Otago Investment Management Ltd.; Juran Imaging Ltd.; Mittinkaz Ltd.; Sympool IO Ltd.	Shani-Aharoni Investments Ltd.; family-owned companies, Delek San Ltd.; Fidel; Xenia Venture Capital Ltd.; Chemi San Ltd.; Energix Renewable Energies Ltd.
Membership on committee/s of the Board of Directors	Chair of the Human Resources, Nominating and Corporate Governance Committee; chair of the Risk Management (ad hoc) Committee; member of the Finance and Investment Committee	Human Resources, Nominating and Corporate Governance Committee; Finance and Investment Committee	No	No	No	Human Resources, Nominating and Corporate Governance Committee

Director's name	Ofra Strauss, Chairperson of the Board of Directors	Adi Strauss	Ronit Haimovitch	Tzipi Ozer-Armon	Gil Midyan	Meir Shanie
Does the Company view him/her as having accounting and financial expertise to comply with the minimum number of such directors determined by the Board	No	No	Yes	Yes	No	Yes

Director's name	David Mosevics	Galia Maor	Dalia Narkys (external director)	Dorit Salinger (external director)	Dalia Lev (external director)	Joshua (Shuki) Shemer (independent director)
Identity no.	007130271	01154780	51928695	056615487	007555337	005360029
Date of birth	July 26, 1946	February 11, 1943	May 2, 1953	August 12, 1960	August 2, 1947	December 7, 1947
Address for service of judicial documents	3 Daniel Frisch, Tel Aviv	10 Haparsa St., Ramat Gan	1 Aharon Becker St., Tel Aviv	11 Hama'avak St., Givatayim	16 Bnei Moshe St., Tel Aviv	47 David Hamelech Blvd., Tel Aviv
Citizenship	Israeli	Israeli	Israeli	Israeli	Israeli	Israeli
Commencement of term of office	December 1977	May 2013	February 2017	August 2019	August 2019	March 2018
Education	LL.B., Hebrew University of Jerusalem	BA in Economics and Statistics – the Hebrew University of Jerusalem; MBA – the Hebrew University of Jerusalem	Bachelor of Business Administration, College of Management Academic Studies; Executive Management Course, Tel Aviv University; Executive Education Programs, INSEAD Business School, France; Directors and Officers Course, IDC Herzliya; Advanced Directors Course, IDC Herzliya	BA in Economics and Management – Technion; MBA (Financing Major), Tel Aviv University	BA in Accounting – Hebrew University of Jerusalem; LL.M. – Bar-Ilan University; Advanced Management Program (AMP) – Harvard Business School, Massachusetts, USA; certified public accountant; Israel Bar Association certified mediator	Graduate of the Hebrew University and Hadassah Medical School; Professor (emeritus) of Internal Medicine, Sackler Faculty of Medicine, Tel Aviv University; Diploma studies (magna cum laude) in Medical Administration, University of Haifa
Occupation in the past five years	Attorney at a private law firm	2012-2018 Director of Teva Pharmaceutical Industries Ltd.; 2012-2017 Director of Equity One Inc.	Dalia Narkys Consultants	Commissioner of Capital Markets, Insurance and Savings until August 2018	Director of Paz Oil Company, independent director of Strauss Group Ltd., external director of the First International Bank	Active Chairman of Assuta Medical Centers Ltd.; director of companies as enumerated below; Chair of the Bank of Israel Administrative Committee; director of El Al (until 2017); director of Compugen (until 2017)

Director's name	David Mosevics	Galia Maor	Dalia Narkys (external director)	Dorit Salinger (external director)	Dalia Lev (external director)	Joshua (Shuki) Shemer (independent director)
Kinship with another interested party	None	None	None	None	None	None
Position in the Company, subsidiary, related company or in an interested party of the Company	None	None	External director	External director	External director	Independent director
Others corporations in which he/she serves as a director	None	Perihelion G.J. Ltd.	Isracard Ltd.; Premium Express Ltd.; Europay (Eurocard) Israel Ltd.; Hevrat Hamatnasim Community Center Company	Dorit Salinger Ltd.	Balgal Ltd.; Bank Hapoalim B.M.	Active Chairman of Assuta Medical Centers Ltd.; Maccabi Health Services Ltd.; Bayit Balev Ltd.; MaccabiDent Ltd.; HIL Applied Medical
Membership on committee/s of the Board of Directors	Audit Committee; Human Resources, Nominating and Corporate Governance Committee	Chair of the Finance and Investment Committee; Human Resources, Nominating and Corporate Governance Committee; Financial Statements Review Committee; Risk Management (ad hoc) Committee	Chair of the Remuneration Committee; Audit Committee; Financial Statements Review Committee; Human Resources, Nominating and Corporate Governance Committee; Risk Management (ad hoc) Committee	Chair of the Audit Committee; Remuneration Committee; Risk Management (ad hoc) Committee; Finance and Investment Committee	Chair of the Financial Statements Review Committee; Audit Committee; Remuneration Committee; Risk Management (ad hoc) Committee	Financial Statements Review Committee; Audit Committee; Risk Management (ad hoc) Committee
Does the Company view him/her as having accounting and financial expertise to comply with the minimum number of such directors determined by the Board	No	Yes	Yes	Yes	Yes	Yes

Regulation 26A: Senior Officers

Following are the details of senior officers of the Company serving on the date of the report:

Officer's name	Giora Bardea	Michael Avner	Ariel Chetrit	Hila Mukevisius	Shahar Florence	Zion Balas
Identity no.	51921195	65261398	028131712	027458389	059764407	59167858
Date of birth	May 4, 1953	December 6, 1955	January 16, 1971	October 2, 1974	August 20, 1965	November 28, 1964
Commencement of term of office	September 2018	April 1994	April 2019	May 2019	April 2019	February 2018
Position in the Company	CEO and President of Strauss Group	Senior Vice President, CLO and Company Secretary	CFO, Strauss Group	Vice President of Human Resources, Strauss Group	Vice President of Growth and Innovation, Strauss Group	CEO, Strauss Coffee
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company	Alternate director of a related company of the Company	Director of subsidiaries of the Company	None	Director of subsidiaries of the Company	Director of subsidiaries of the Company
Education	BA in Humanities, Tel Aviv University; graduate of the Advanced Management Program (AMP), Harvard Business School, Massachusetts, USA	LL.B. – Tel Aviv University	BA in Economics and Accounting – Hebrew University of Jerusalem; MBA – Hebrew University of Jerusalem; certified public accountant	BA in Behavioral Sciences, College of Management Academic Studies; MA in Diplomacy and Security, Tel Aviv University	BA in Economics and Accounting – Tel Aviv University	BA and MA in Industrial Engineering and Management – Technion, Haifa
Occupation in the past five years	Deputy CEO, Strauss Group until September 4, 2018	Senior VP, CLO and Company Secretary	CFO of Strauss Israel until March 31, 2019	Global Vice President of Human Resources, Netafim, until April 30, 2019	Group CFO until March 31, 2019	CEO of Strauss Israel until February 2018
Kinship with another interested party	None	None	None	None	None	None

Officer's name	Eyal Dror	Tomer Harpaz	Ronen Zohar	Yaniv Reuven	Shlomo Ben-Shimol
Identity no.	028005999	25257304	56216013	024216160	12308789
Date of birth	November 20, 1970	February 28, 1973	February 9, 1960	January 30, 1969	July 2, 1956
Commencement of term of office	February 2018	March 2018	April 2015	January 2015	1999
Position in the Company	CEO of Strauss Israel	CEO of Sabra and Obela	CEO of Strauss Water	CFO, Strauss Group Headquarters	Internal auditor
Position in the Company, subsidiary, related company or in an interested party of the Company	Director of subsidiaries of the Company	None	None	None	None
Education	BA in Communications and Management, College of Management Academic Studies; MBA, College of Management Academic Studies	LL.B., University of East Anglia, Norwich, England; Postgraduate diploma in Business Administration, Hull University, London, England	BA in Food Sciences, the Hebrew University of Jerusalem	BA in Business Administration and Accounting, College of Management Academic Studies; certified public accountant	BA in Economics and Accounting – Tel Aviv University; certified accountant and internal auditor (CIA)
Occupation in the past five years	CEO of the Confectionery Division, Strauss Israel, until 2017	CEO of Strauss Coffee B.V. until 2018	CEO of Sabra	Strauss Group controller	Partner in the accounting firm of Deloitte - Brightman Almagor Zohar & Co.
Kinship with another interested party	None	None	None	None	None

Regulation 26B: Authorized Signatories in the Company

The Company does not have independent authorized signatories.

Regulation 27: The Company's Auditor

Somekh Chaikin, 17 Ha'Arba'a St., Millennium Tower, Tel Aviv 64739.

Regulation 28: Modification of the Memorandum or Articles of Association in the Reporting Year

No changes to the Memorandum or to the Articles of Association were made.

Regulation 29:

A. Recommendations and Resolutions of the Board of Directors

(1) Payment of a dividend or execution of a distribution, as defined in the Companies Law, in any other manner, or distribution of bonus shares

For further information, see section 2.3 in the report of the board of directors of the company as at December 31, 2021.

(2) Change in the authorized or issued share capital – for the change in the issued capital due to the exercise of options and restricted share units, see Regulation 20 above.

(3) Early redemption of debentures – on December 10, 2020 the Board of Directors of the Company resolved to effect a full early redemption, initiated by the Company, of the Company's debentures (Series D), which was effected on December 28, 2020. For further information, see the Immediate Reports of December 10, 2020 and January 13, 2021 (reference no. 2020-01-134490 and 2021-01-005631, respectively).

B. Resolutions of Special General Meetings

(1) Special General Meeting of January 29, 2020, in which Ms. Dalia Narkys was reappointed to the office of external director of the Company. For further information, see the summons to the meeting dated December 25, 2019 (reference no. 2019-01-113448).

(2) Annual and Special General Meeting of September 30, 2020, in which the Company auditor was reappointed; Mr. Adi Strauss, Ms. Galia Maor and Prof. Arie Ovadia were reappointed to the office of directors of the Company; the award of equity based compensation to the Company CEO, Mr.

Giora Bardea, was approved as part of the option plan for senior employees of the Group; compensation for Mr. Adi Strauss (who is a relative of the controlling shareholders of the Company) as an expert director was approved for a period of three years; and the Company's Remuneration Policy was amended with respect to insurance arrangements. For further information, see the summons to the meeting dated August 20, 2020, August 23, 2020, September 29, 2020 and October 1, 2020 (reference no. 2020-01-081673, 2020-01-082870, 2020-01-082849, 2020-01-105765, 2020-01-105825 and 2020-01-097921).

Regulation 29A: Company Resolutions

Exemption, insurance or an undertaking to indemnification of officers

1. For the provisions of the Remuneration Policy of the Company with regard to the exemption, insurance and indemnification of officers of the Company, see Part I of the Remuneration Policy that was approved on September 30, 2020 in the General Meeting of Shareholders of the Company; see the Immediate Report of October 1, 2020 (reference no. 2020-01-097921).

2. For the grant of letters of exemption from liability to officers of the Company, including those who are among the controlling shareholders of the Company and their relatives, see Note 24.4.2 to the Financial Statements of the Company as at December 31, 2020; and see also the Immediate Report with regard to the convening of an Annual and Special General Meeting dated May 23, 2018 (reference no. 2018-01-041586) and the Immediate Report with regard to the results of the meeting dated July 9, 2018 (reference no. 2018-01-062109); and with regard to the grant of a letter of exemption to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above; with regard to the grant of a letter of exemption to Ms. Tzipi Ozer-Armon, see the Immediate Report of October 30, 2020 (reference no. 2020-01-108718).

3. For information on the terms and conditions of the Company's D&O insurance policy, including those who are among the controlling shareholders of the Company and their relatives, see Note 24.4.2 to the Financial Statements of the Company as at December 31, 2020, and with regard to the inclusion of Ms. Ofra Strauss and Mr. Adi Strauss in the policy, see also Regulation 22 above. With regard to the inclusion of Ms. Tzipi Ozer-Armon in the policy, see the Immediate Report of October 30, 2020 (reference no. 2020-01-108718).

4. For information on an undertaking to indemnify officers of the Company, including those who are among the controlling shareholders of the Company and their relatives, which was approved in a resolution of the General Meeting of the Company on June 6, 2011, see Note 24.4.2 to the Financial Statements of the Company as at December 31, 2020; and with regard to the grant of an undertaking to indemnification to Ms. Ofra Strauss and Mr. Adi Strauss, see also Regulation 22 above. See also the Company's Immediate Report in regard to the convening of an Annual and Special General Meeting of the Company, dated October 18, 2017, and the Immediate Report in regard to the results of the meeting, dated November 9, 2017 (reference no. 2017-01-100227 and 2017-01-105120, respectively), which approved an amendment to the letters of undertaking to indemnification granted by the Company to directors and officers of the Company, including

directors and officers who are among the controlling shareholders and their relatives. With regard to the grant of a letter of undertaking to indemnification to Ms. Tzipi Ozer-Armon, see the Immediate Report of October 30, 2020 (reference no. 2020-01-108718).

Names of signatories and their positions:	**Strauss Group Ltd.**

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Company CEO

Date: March 21, 2021

Strauss Group LTD.

Corporate Governance Questionnaire

CORPORATE GOVERNANCE QUESTIONNAIRE[1]

INDEPENDENCE OF THE BOARD OF DIRECTORS		Correct	Incorrect
1.	Throughout the reporting year, two or more external directors held office in the corporation. In this question, a “correct” answer may be marked, if the period in which there were no two outside directors holding office in the corporation does not exceed 90 days, as provided in Section 363.a(b)(10) of the Companies Law. However, any answer (correct/incorrect) shall indicate the time period (in days) in which two or more outside directors did not hold office in the corporation during the reporting year (including a period approved retrospectively, while distinguishing between different directors): Director A: Dalia Narkys Director B: Dalia Lev Director C: Dorit Salinger Number of external directors holding office in the corporation as of the date of release of this Questionnaire: 3	√	
2.	The rate[2] of independent directors[3] holding office in the corporation on the date of release of this Questionnaire: 4/12. The rate of independent directors stated in the articles of association[4] of the corporation[5]: ________ ☒ Irrelevant (no provision was stated in the articles of association).	_____	_____

[1] Published within the framework of legislative proposals for the improvement of financial statements on March 16, 2014.
[2] In this Questionnaire, “**rate**” – a certain number out of the total number of directors. Thus, e.g. 3/8.
[3] Including “external directors”, as defined in the Companies Law.
[4] For purposes of this question, “articles” – including in accordance with a specific provision of law applying to the corporation (e.g. for a bank corporation – guidelines of the Supervisor of Banks).
[5] A debenture company is not required to complete this section.

INDEPENDENCE OF THE BOARD OF DIRECTORS		Correct	Incorrect
3.	In the reporting year, an inquiry was made with the external directors (and the independent directors) and it was found that in the reporting year they complied with the provision of Section 240(b) and (f) of the Companies Law regarding the absence of any linkage of the external (and independent) directors holding office in the corporation, and that they also fulfilled the conditions required for holding office as an external (or independent) director.	√	
4.	All of the directors who held office in the corporation during the reporting year do not, directly or indirectly, report[6] to the CEO (excluding a director who is a representative of the company's employees, if there is an employee representative body in the corporation). If your answer is "incorrect", (i.e., the director reports to the CEO as aforesaid) - the number of directors not complying with the aforesaid restriction shall be indicated: ______.	√	
5.	All directors who disclosed the existence of a personal interest in the approval of a transaction on the meeting agenda were not present during discussions and did not participate in such vote (other than discussions and/or a vote in the circumstances described in Section 278(b) of the Companies Law): If your answer is "incorrect" – Was this for the purpose of the presentation of a specific issue by him/her pursuant to the provisions of the last part of Section 278(a): ☐ Yes ☐No (kindly mark X in the appropriate box). Kindly indicate the number of meetings in which such directors were present during discussions and/or participated in the vote, other than in circumstances as provided in subsection a: ____________.	√	

[6] For purposes of this question – the mere holding of office as a director in an investee company which is controlled by the corporation shall not be deemed "reporting"; conversely, a director's office in a corporation acting as an officer (other than a director) and/or employee in an investee which is controlled by the corporation shall be deemed "reporting" for purposes of this question.

INDEPENDENCE OF THE BOARD OF DIRECTORS		Correct	Incorrect
6.	The controlling shareholder (including his relative and/or a person acting on his behalf), who is not a director or senior officer of the corporation, was not present at board meetings held in the reporting year. If your answer is "incorrect" (i.e. the controlling shareholder and/or his relative and/or a person acting on his behalf who is not a board member and/or senior officer of the corporation attended board meetings as aforesaid) – the following details regarding the presence of any such additional person at board meetings shall be disclosed: Identity: ___________. Position in the corporation (if any): ____________. Information on the linkage to the controlling shareholder (if the person is not the controlling shareholder himself): _________________. Was it for the purpose of presentation of a certain subject by him: ☐ Yes ☐No (kindly mark X in the appropriate box). The rate of his presence[7] at meetings of the board held in the reporting year for the purpose of presentation of a certain subject by him: __________; other presence: ________. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	

[7] Distinguishing between the controlling shareholder and his relative and/or a party acting on his behalf.

COMPETENCIES AND QUALIFICATIONS OF THE DIRECTORS				
			Correct	Incorrect
7.	There is no provision in the corporation's articles of association that limits the possibility of immediately terminating the office of all directors of the corporation, who are not external directors (in this context - assertion by an ordinary majority is not deemed a limitation)[8]. If your answer is "incorrect" (i.e., such limitation exists), the following shall be indicated -		√	
	a.	The time period prescribed in the articles of association for the term of office of a director: ________.		
	b.	The required majority prescribed in the articles of association for termination of the directors' office: _________.		
	c.	Quorum in the general meeting prescribed in the articles for termination of the directors' office: _________.		
	d.	Majority required for the amendment of those provisions in the articles of association: _________.		
8.	The corporation has a training plan for new directors in the corporation's field of business and in the field of law that governs the corporation and the directors, and has a prepared a plan for training directors holding office, tailored, *inter alia*, to the director's role in the corporation. If your answer is "correct", please indicate whether the plan was implemented in the reporting year: ☒Yes ☐No (kindly mark X in the appropriate box).		√	
9.	a.	The corporation has prescribed a minimum number of directors in office who are required to possess accounting and financial expertise. If your answer is "correct", please indicate the minimum number determined: 3.	√	

8 A debenture company is not required to complete this section.

COMPETENCIES AND QUALIFICATIONS OF THE DIRECTORS				
			Correct	Incorrect
	b.	Number of directors serving in office in the corporation in the reporting year – Possessing accounting and financial expertise[9]: 8. Possessing professional qualifications[10]: 12. In the event of changes in the number of such directors in the reporting year, please provide the figure for the lowest number (excluding during a period of 60 days from the date of the change) of directors of each kind who served in office in the reporting year.	-----	-----
10.	a.	Throughout the reporting year, the composition of the board included members of both genders. If your answer is "incorrect", please indicate the time period (in days) in which the aforesaid was not met: ____. In this question, you may answer "correct" if the time period in which directors of both genders did not hold office does not exceed 60 days. However, in any answer (correct/incorrect), please indicate the time period (in days) in which directors of both genders did not hold office in the corporation: 0.	√	
	b.	Number of directors of each gender serving on the board of the corporation on the date of publication of this questionnaire: Men: 5, Women: 7	-----	-----

[9] Following an evaluation by the board, according to the provisions of the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and a Director with Professional Qualifications), 2005.
[10] See Footnote #9.

MEETINGS OF THE BOARD OF DIRECTORS (AND CONVENING OF THE GENERAL MEETING)			Correct	Incorrect
11.	a.	Number of meetings of the board held in each quarter in the reporting year: Q1 (2020): 4 Q2: 3 Q3: 2 Q4: 5	-----	------
	b.	Alongside each of the names of the directors serving in office in the corporation during the reporting year, please indicate their participation rate[11] in board meetings (in this subsection - including meetings of the board committees of which they are members, as stated below) held during the reporting year (in reference to his term of office): (Add additional rows according to the number of directors).	-----	------

Director's Name	Rate of Participation in **Board** Meetings	Rate of Participation in **Audit Committee**[12] Meetings	Rate of Participation in Meetings of the **Financial Statements Review Committee**[13]	Rate of Participation in **Remuneration Committee**[14] Meetings	Rate of Participation in Meetings of Other Board Committees of which He Is a Member (stating name of committee)
Ofra Strauss	13/14	________	________	________	Finance and Investment Committee – 6/8 HR, Nominating and Corporate Governance Committee – 4/4 Ad hoc Risk Management Committee – 5/5

[11] See Footnote #2.
[12] For a director who is a member of this committee.
[13] For a director who is a member of this committee.
[14] For a director who is a member of this committee.

MEETINGS OF THE BOARD OF DIRECTORS (AND CONVENING OF THE GENERAL MEETING)

								Correct	Incorrect
		Adi Strauss	14/14	______	______	______	Finance and Investment Committee – 6/8 HR, Nominating and Corporate Governance Committee – 4/4		
		Ronit Haimovitch	14/14	______	______	______	______		
		Meir Shanie	14/14	______	______	______	HR, Nominating and Corporate Governance Committee – 3/4		
		David Mosevics	14/14	16/16	______	______	HR, Nominating and Corporate Governance Committee – 4/4		
		Dalia Narkys	14/14	16/16	4/4	8/8	HR, Nominating and Corporate Governance Committee – 4/4 Ad hoc Risk Management Committee – 4/5		
		Dalia Lev	13/14	16/16	4/4	7/8	Ad hoc Risk Management Committee – 5/5		
		Dorit Salinger	14/14	16/16	______	8/8	Finance and Investment Committee – 8/8 Ad hoc Risk Management Committee – 5/5		

MEETINGS OF THE BOARD OF DIRECTORS (AND CONVENING OF THE GENERAL MEETING)								Correct	Incorrect
		Arie Ovadia[16]	14/14	________	4/4	8/8	Finance and Investment Committee – 8/8		
		Galia Maor	14/14	________	4/4	________	Finance and Investment Committee – 8/8 HR, Nominating and Corporate Governance Committee – 4/4 Ad hoc Risk Management Committee – 5/5		
		Joshua Shemer	13/14	16/16	3/4	________	Ad hoc Risk Management Committee – 4/5		
		Gil Midyan	14/14	________	________	________	________		
		Tzipora (Tzipi) Ozer-Armon[17]	5/5	________	________	________	________		
12.	In the reporting year the board held at least one discussion on the management of the corporation's business by the CEO and officers reporting to him, in their absence, after they were given the opportunity to express their position.							√	

[16] Mr. Arie Ovadia ceased to serve as a director of the Company on December 31, 2020.
[17] Ms. Tzipora Ozer-Armon began serving as a director of the Company on October 28, 2020.

SEPARATION BETWEEN THE ROLES OF THE CEO AND CHAIRMAN OF THE BOARD			
		Correct	Incorrect
13.	Throughout the reporting year, a chairman of the board served in office in the corporation. In this question, you may answer “correct” if the time period in which a chairman of the board did not hold office does not exceed 60 days as provided in Section 363a.(2) of the Companies Law. However, in any answer (correct/incorrect), please indicate the time period (in days) in which a chairman of the board did not hold office in the corporation as aforesaid: 0.	√	
14.	Throughout the reporting year, a chief executive officer served in office in the corporation. In this question, you may answer “correct” if the time period in which a CEO did not hold office does not exceed 90 days as provided in Section 363a.(6) of the Companies Law. However, in any answer (correct/incorrect), please indicate the time period (in days) in which a CEO did not hold office in the corporation as aforesaid: 0.	√	
15.	In a corporation in which the chairman of the board serves also as the CEO of the corporation and/or exercises his powers, the dual office was approved in accordance with Section 121(c) of the Companies Law[18]. ☒ Irrelevant (insofar as such dual office does not exist in the corporation).	-----	-----
.16	The CEO is <u>not</u> a relative of the chairman of the board. If your answer is “incorrect” (i.e. the CEO is a relative of the chairman of the board) -	√	
	a. Please state the kinship between the parties: _____________.	-----	-----
	b. The office was approved in accordance with Section 121(c) of the Companies Law[19]: ☐ Yes ☐ No (Kindly mark X in the appropriate box)	-----	-----
17.	The controlling shareholder or his relative does <u>not</u> serve as the CEO or as a senior officer in the corporation, other than as a director. ☐ Irrelevant (the corporation does not have a controlling shareholder).	√	

[18] In a debenture company – approved according to Section 121(d) of the Companies Law.
[19] In a debenture company – approved according to Section 121(d) of the Companies Law.

AUDIT COMMITTEE				
			Correct	Incorrect
18.	The following <u>did not</u> serve on the audit committee in the reporting year:		_____	_____
	a.	The controlling shareholder or his relative. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
	b.	The chairman of the board.	√	
	c.	A director who is employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him.	√	
	d.	A director who regularly renders services to the corporation or to the controlling shareholder of the corporation or to a corporation controlled by him.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. ☐Irrelevant (the corporation does not have a controlling shareholder).	√	
19.	No person who is not entitled to be a member of the audit committee, including a controlling shareholder or his relative, was present at the meetings of the audit committee, other than pursuant to the provisions of Section 115 (e) of the Companies Law.		√	
20.	The quorum for discussion and adoption of resolutions in all meetings of the audit committee held in the reporting year was a majority of the committee members, where the majority of attendees were independent directors and at least one of them was an external director. If your answer is “incorrect” – please indicate the rate of meetings in which said requirement was not met: _______.		√	
21.	In the reporting year, the audit committee held at least one meeting in the presence of the internal auditor and the external auditor, and in the absence of officers of the corporation who are not members of the committee, with regard to deficiencies in the business management of the corporation.		√	
22.	At all meetings of the audit committee at which a person who is not entitled to be a member of the committee was present, this was approved by the committee chairman and/or at the request of the committee (with respect to the CLO and corporate secretary who is not a controlling shareholder or his relative).		√	

AUDIT COMMITTEE		Correct	Incorrect
23.	Arrangements determined by the audit committee were in effect in the reporting year with respect to the manner of handling employee complaints pertaining to deficiencies in the conduct of the corporation's business, and to the protection to be granted to employees making such complaints.	√	
24.	The audit committee (and/or the financial statements review committee) was satisfied that the scope of the auditor's work and his fee with respect to the financial statements in the reporting year were adequate for the purpose of performing a proper audit and review.	√	

DUTIES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE (HEREINAFTER – FSRC) IN ITS PRELIMINARY WORK PRIOR TO APPROVAL OF THE FINANCIAL STATEMENTS			Correct	Incorrect
25.	a.	Please indicate the time period (in days) prescribed by the board of directors as reasonable for furnishing the committee's recommendations in contemplation of the board discussion for the approval of the financial statements: 2 business days.	-----	-----
	b.	The number of days that passed in practice from the date on which the recommendations were furnished to the board until the date of the board discussion for the approval of the financial statements: Q1 statements (2020): 2 Q2 statements: 3 Q3 statements: 2 Annual statements: 2	-----	-----
	c.	The number of days that passed from the date on which the draft financial statements were furnished to the directors until the date of the board discussion for the approval of the financial statements: Q1 statements (2020): 6 Q2 statements: 7 Q3 statements: 6 Annual statements: 8		

DUTIES OF THE FINANCIAL STATEMENTS REVIEW COMMITTEE (HEREINAFTER – FSRC) IN ITS PRELIMINARY WORK PRIOR TO APPROVAL OF THE FINANCIAL STATEMENTS				
			Correct	Incorrect
26.	The corporation's external auditor was present at all FSRC and board meetings in which the financial statements of the corporation referring to the periods included in the reporting year were discussed. If your answer is "incorrect" – please indicate the rate of his participation: ______.		√	
27.	All conditions set forth below were satisfied by the FSRC throughout the entire reporting year until the annual statements were published:		-----	-----
	a.	The number of its members was not less than 3 (on the date of the discussion by the FSRC and approval of the financial statements as aforesaid).	√	
	b.	All conditions set forth in Sections 115(b) and (c) of the Companies Law (with respect to the office of members of the audit committee) were satisfied.	√	
	c.	The chairman of the FSRC is an external director.	√	
	d.	All committee members are directors, and most of its members are independent directors.	√	
	e.	All of its members are able to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	f.	The FSRC members made a declaration prior to their appointment.	√	
	g.	The quorum for discussion and adoption of resolutions by the FSRC was the majority of its members, provided that most of those present were independent directors and included at least one outside director.	√	
	If your answer to one of more of the subsections of this question is "incorrect", please indicate with respect to which report (periodic/quarterly) said condition was not satisfied, and the condition that was not satisfied: ________.		-----	-----

REMUNERATION COMMITTEE				
			Correct	Incorrect
28.	In the reporting year the committee comprised at least three members, and the external directors constituted a majority thereof (on the date of the discussion by the committee). □ Irrelevant (no discussion was held).		√	
29.	The terms of office and employment of all members of the remuneration committee in the reporting year are in accordance with the Companies Regulations (Rules for Remuneration and Reimbursement of Costs to an External Director), 2000.		√	
30.	The following did not sit on the remuneration committee in the reporting year -		_____	_____
	a.	The controlling shareholder or his relative. □ Irrelevant (the corporation does not have a controlling shareholder).	√	
	b.	The chairman of the board.	√	
	c.	A director employed by the corporation or by the controlling shareholder of the corporation or by a corporation controlled by him.	√	
	d.	A director who regularly renders services to the corporation or to the controlling shareholder of the corporation or to a corporation controlled by him.	√	
	e.	A director whose primary livelihood depends on the controlling shareholder. □ Irrelevant (the corporation does not have a controlling shareholder).	√	
31.	The controlling shareholder or his relative was not present in the reporting year in meetings of the remuneration committee, unless the committee chairman determined their presence necessary to present a certain issue.		√	
32.	The remuneration committee and the board did not exercise their power under Sections 267a(c), 272(c)(3) and 272(c1)(1)(c) to approve a transaction or remuneration policy despite the objection of the general meeting. If your answer is “incorrect”, please indicate – The type of transaction approved as aforesaid: _____________. The number of times their power was exercised in the reporting year: ___________.		√	

INTERNAL AUDITOR			
		Correct	Incorrect
33.	The chairman of the board or the CEO of the corporation is the organizational supervisor of the internal auditor in the corporation.	√	
34.	The chairman of the board or the audit committee approved the work plan in the reporting year. In addition, the audit items addressed by the internal auditor in the reporting year shall be specified: In 2020, the internal audit submitted cross-Group audit reports on the following: Management of the COVID-19 crisis from the aspects of human capital, supply chain, capital and liquidity, employee safety and health, information security and cybersecurity, review of the changes in internal control processes for the purpose of ISOX reporting and risk management. Also examined were business continuity, information flow and cloud security in all units in the Group. The audit subjects addressed by the internal auditor in the reporting year in the Israel territory (excluding Strauss Water) are safety and workplace accidents and injuries. In Strauss Water – Sales. In Strauss Coffee – The BeanZ venture, sales by the Elite Café chain, external quality assessment of the internal audit in the joint venture in Brazil, Três Corações (JV). In Sabra – Management of the COVID-19 crisis.	√	
35.	The scope of the internal auditor's employment in the corporation in the reporting year: 7,646 work hours.	_____	_____
	In the reporting year a discussion was held (by the audit committee or board of directors) on the internal auditor's findings.	√	
36.	The internal auditor is not an interested party of the corporation, a relative thereof, the auditor or a party acting on his behalf, nor does he maintain material business relations with the corporation, its controlling shareholder, his relative or corporations under their control.	√	

INTERESTED PARTY TRANSACTIONS			
		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company controlled by him) is neither employed by the corporation nor provides management services thereto. If your answer is "incorrect" (i.e. the controlling shareholder or his relative is employed by the corporation or provides management services thereto) the following shall be stated: - The number of relatives (including the controlling shareholder) employed by the corporation (including companies controlled by them and/or through management companies): 1 - Have the agreements for such employment and/or management services been approved by the organs specified in the law: ☒Yes ☐ No (Kindly mark X in the appropriate box). ☐ Irrelevant (the corporation does not have a controlling shareholder) _______.		X
38.	To the best of the corporation's knowledge, the controlling shareholder has no additional businesses in the corporation's field of business (in one or more fields). If your answer is "incorrect" – please indicate whether an arrangement has been defined for the demarcation of activities between the corporation and the controlling shareholder thereof: ☐Yes ☐ No (Kindly mark X in the appropriate box). ☐ Irrelevant (the corporation does not have a controlling shareholder) _______.	√	

Chairperson of the Board of Directors: Ofra Strauss

Chairperson of the Audit Committee: Dorit Salinger

Chairperson of the FSRC: Dalia Lev

Strauss Group LTD.

Annual Report on the Effectiveness of Internal Control

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

An Unofficial translation of the Hebrew version; the Hebrew version is the binding version

Auditors' Report to the Shareholders of Strauss Group Ltd. with respect to components of internal control over financial reporting pursuant to Section 9b(c) of the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited components of internal control over financial reporting by Strauss Group Limited and its subsidiaries (hereinafter jointly referred to as the "Company") as of December 31, 2020. These control elements were determined as explained in the next paragraph. The Company's board of directors and management are responsible for conducting effective internal control over financial reporting and assessing the effectiveness of internal control components over financial reporting, which is attached to the periodic report as of the above date. Our responsibility is to express an opinion on the components of internal control over the Company's financial reporting based on our audit.

The components of internal control that were audited were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", including the amendments thereto (hereinafter: "Auditing Standard (Israel) 911"). These components are: (1) entity-level controls, including controls over the process of preparing and closing financial reporting and general information systems controls; (2) controls over the selling process; (3) controls over the procurement process, with emphasis on payments to suppliers; (4) the inventory process, with emphasis on its measurement and pricing (all jointly hereinafter referred to as the "Audited Components of Control").

We conducted our audit in accordance with Auditing Standard (Israel) 911. This standard requires that we plan and perform the audit with the aim of identifying the Audited Components of Control to obtain reasonable assurance as to whether these components of control were effectively applied in all material respects. Our audit included gaining an understanding of internal control over financial reporting, identifying the Audited Components of Control, assessing the risk of material weakness in the Audited Components of Control, and examining and assessing the effectiveness of the design and operation of those components based on the risk assessed. Our audit of the control components also included performing such other procedures as we considered necessary under the circumstances. Our audit only addressed the Audited Components of Control, as opposed to internal controls over all material processes related to financial reporting, and therefore our opinion only addresses the Audited Components of Control. In addition, our audit did not address the mutual effects between the Audited Components of Control and those that are not audited, and therefore, our opinion does not take into account such potential effects. We believe that our audit provides an adequate basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and its components in particular, may not prevent or detect misstatement. In addition, drawing conclusions about the future on the basis of any current effectiveness assessment is subject to the risk that controls will become unsuitable due to changes in circumstances, or that the extent of performance of policies or procedures will undergo an adverse change.

In our opinion, the Company has, in all material respects, effectively applied the Audited .Components of Control as of December 31, 2020

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

We also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and our report of March 21, 2021 included an unqualified opinion on the existence of those financial statements based on our audit and the reports of other auditors.

Somekh Chaikin
Certified Public Accountants (Isr.)

March 21, 2021

ANNUAL REPORTON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE PURSUANT TO REGULATION 9B(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, Chief Growth and Innovation Officer;
4. Mike Avner, EVP, CLO and 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 performing such functions in practice, 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 Chief Executive Officer and the most senior financial officer or anyone performing such functions, in order to enable decisions in reference to the disclosure requirement to be made in a timely manner.

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 detected.

Management, under the supervision of the board of directors, carried out an examination and evaluation of internal control over financial reporting and disclosure in the Corporation, and the effectiveness thereof.

The evaluation of the effectiveness of internal control over financial reporting and disclosure carried out by management under the supervision of the board of directors included:

A risk assessment process based on a risk-based model related to financial reporting and disclosure for evaluating the processes, as well as determining the business units relevant to the assessment.

Based on its understanding of the reporting and disclosure risks in the corporation, Company management focused on the financial reporting items and disclosure items that may be more likely to be materially misstated, and examined the operational planning and effectiveness of the controls and procedures that provide a proper response to these risks.

Based on the model, the business processes and the existing internal controls over financial reporting and disclosure were documented.

In order to ensure that the controls defined are effective, tests were conducted for verification.

The internal control components that were assessed:

1. Entity Level Controls;
2. Controls over the process of editing and closing financial statements;
3. General controls over information systems (ITGC);
4. Controls over processes that are highly material to financial reporting and disclosure. The processes that the Company considers highly important to financial reporting and disclosure are: The sales process, with emphasis on invoicing and customer master data; the procurement process, with emphasis on payments to suppliers; and the inventory process, with emphasis on its measurement and pricing.

Based on the effectiveness assessment performed by management under the supervision of the board of directors, as detailed above, the board of directors and management of the Corporation reached the conclusion that internal control over financial reporting and disclosure in the Corporation as of December 31, 2020 is effective.

MANAGERS' DECLARATIONS:

A. Declaration by the Chief Executive Officer pursuant to Regulation 9B(d)(1):

I, Giora Bardea, declare that:

(1) I have reviewed the Periodic Report of Strauss Group Ltd. (the "Corporation") for the year 2020 (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, in all material respects, the financial condition, 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 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 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 Chief Executive Officer or anyone reporting to him directly or which involves other employees who play a significant role in 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 Generally Accepted Accounting Principles.

c. Have assessed the effectiveness of internal control over financial reporting and disclosure, and have presented in this report the conclusions of the board of directors and management pertaining to the effectiveness of said internal control as of the date of the Reports.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, pursuant to applicable law.

March 21, 2021

Giora Bardea, Chief Executive Officer

B. Declaration by the most senior financial officer pursuant to Regulation 9B(d)(2):

I, Ariel Chetrit, declare that:

(1) I have reviewed the Financial Statements and other financial information included in the reports of Strauss Group Ltd. (the "Corporation") for year 2020 (the "Reports");

(2) To my knowledge, the Financial Statements and other financial information included in 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, in all material respects, the financial condition, 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 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 insofar as it relates to the Financial Statements and other financial information included in the 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 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 reporting to him directly or which involves other employees who play a significant role in 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, insofar that it is relevant to the Financial Statements and other financial information included in the Reports, 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 our 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 Generally Accepted Accounting Principles;

c. Have assessed the effectiveness of internal control over financial reporting and disclosure, insofar that it refers to the Financial Statements and other financial information included in the Reports, as of the date of the Reports. My conclusions in respect of my assessment as aforesaid were presented to the board of directors and management and are incorporated in this Report.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, pursuant to applicable law.

March 21, 2021

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.

Consolidated financial statements as of and for the year ended 31 December 2020 and independent auditors’ report on consolidated financial statements

Contents

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Independent auditor's report

To the Directors and Shareholders of the Company
Três Corações Alimentos S.A.
Eusébio - CE

Opinion

We have audited the consolidated financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Fortaleza, February 28, 2021

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 Statements of Financial Position as of 31 December 2020 and 31 December 2019

(In thousand of Brazilian Reais)

Assets	Note	12/31/2020	12/31/2019
Current			
Cash and cash equivalents	7	627,002	538,045
Deposits	8	10,743	3,935
Trade receivables	9	456,646	449,177
Inventories	10	615,743	418,437
Recoverable taxes	11	93,069	73,506
Income tax receivables		11,656	3,197
Other current assets	12	17,707	14,899
		1,832,566	**1,501,196**
Non-current			
Judicial deposits	24	8,012	9,837
Loans to related parties	13	12,272	11,942
Recoverable taxes	11	140,426	70,203
Other non-current assets	12	63,411	15,580
Deferred tax assets	25.c	6,634	4,490
Investments	14	53,401	11,907
Fixed assets	15	636,233	539,342
Intangible assets	16	396,532	303,283
Right-of-use assets	17	80,920	76,137
		1,397,841	**1,042,721**
Total assets		**3,230,407**	**2,543,917**

Liabilities and equity	Note	12/31/2020	12/31/2019
Current			
Short term loans	18	621,269	660,798
Trade payables	19	472,106	319,383
Short term lease liabilities	17	27,277	18,932
Income tax payables		21	26,404
Employees and other payroll related liabilities	20	69,707	53,970
Proposed dividends	26.c	58,526	44,400
Interest on equity payable	21	44,724	63,918
Payable taxes	22	28,729	23,300
Other current liabilities	23	33,208	28,933
		1,355,567	**1,240,038**
Non-current			
Long term loans	18	417,932	47,306
Long term lease liabilities	17	65,324	68,154
Other non-current liabilities	23	44,332	3,803
Deferred tax liabilities	25.c	14,359	-
Provision for legal proceedings	24	66,757	15,047
		608,704	**134,310**
Equity			
Share capital	26.a	275,531	275,531
Translation reserve	26.b	(172,316)	(101,323)
Retained earnings	26.d	1,161,063	993,646
Equity attributable to owners of the Company		1,264,278	1,167,854
Non-controlling interests		1,858	1,715
Total Equity		**1,266,136**	**1,169,569**
Total liabilities and equity		**3,230,407**	**2,543,917**

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

(In thousand of Brazilian Reais)

	Note	12/31/2020	12/31/2019
Revenue	27	4,433,123	3,989,273
Cost of sales	28	(3,290,426)	(2,792,892)
Gross profit		**1,142,697**	**1,196,381**
Selling and marketing expenses	29	(697,050)	(694,883)
General and administrative expenses	30	(158,809)	(136,033)
Equity method		9,232	5,092
Other income (expenses), net		(3,371)	687
Operating profit		**292,699**	**371,244**
Financial income		16,619	11,731
Financial expenses		(43,226)	(33,179)
Net financial expenses	31	**(26,607)**	**(21,448)**
Profit before income tax		**266,092**	**349,796**
Income tax expenses	25.a	6,617	(50,600)
Profit for the year		**272,709**	**299,196**
Profit attributable to:			
Owners of the Company		274,293	299,687
Non-controlling interests		(1,584)	(491)
Total profit for the year		**272,709**	**299,196**

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

(In thousand of Brazilian Reais)

	12/31/2020	12/31/2019
Profit for the year	272,709	299,196
Other comprehensive income (loss) items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation differences	(70,993)	544
Comprehensive income for the year	**201,716**	**299,740**
Comprehensive income attributable to:		
Owners of the Company	203,300	300,231
Non-controlling interests	(1,584)	(491)
Total comprehensive income for the year	**201,716**	**299,740**

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

(In thousand of Brazilian Reais)

	Share capital	Legal reserve (Retained earnings)	Tax incentives (Retained earnings)	Profit to distribute (Retained earnings)	Translation reserve	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 year	-	-	-	-	-	299,687	299,687	(491)	299,196
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	544	-	544	-	544
Total other comprehensive gain (loss):	-	-	-	-	544	299,687	300,231	(491)	299,740
Internal equity changes									
Capitalization of tax incentives	985		(985)				-	-	-
Acquisition of subsidiary with non-controlling interests	-	-	-	-	-	-	-	3	3
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	2,203	2,203
State VAT and Federal tax incentives	-	-	72,558	-	-	(72,558)	-	-	-
Legal reserve	-	197	-	-	-	(197)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(69,100)	(69,100)	-	(69,100)
Dividends proposed	-	-	-	-	-	(44,400)	(44,400)	-	(44,400)
Reserve for profit to be distributed	-	-	-	113,432	-	(113,432)	-	-	-
	985	197	71,573	113,432	-	(299,687)	(113,500)	2,206	(111,294)
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 year	-	-	-	-	-	274,293	274,293	(1,584)	272,709
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(70,993)	-	(70,993)	-	(70,993)
Total other comprehensive gain (loss):	-	-	-	-	(70,993)	274,293	203,300	(1,584)	201,716
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	1,727	1,727
State VAT and Federal tax incentives	-	-	64,464	-	-	(64,464)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(48,350)	(48,350)	-	(48,350)
Dividends proposed	-	-	-	-	-	(58,526)	(58,526)	-	(58,526)
Reserve for profit to be distributed	-	-	-	102,953	-	(102,953)	-	-	-
	-	-	64,464	102,953	-	(274,293)	(106,876)	1,727	(105,149)
Balance at 31 December 2020	**275,531**	**55,106**	**449,550**	**656,407**	**(172,316)**	**-**	**1,264,278**	**1,858**	**1,266,136**

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

(In thousand of Brazilian Reais)

	12/31/2020	12/31/2019
Cash flows from operating activities		
Profit for the year	272,709	299,196
Adjustments for:		
Depreciation and amortization	88,269	74,838
Gains in tax lawsuits	(45,592)	(95,637)
Termination of lease contracts	(743)	(335)
Provision for legal proceedings	5,008	(1,270)
Other income, net	3,371	(687)
Equity method	(9,232)	(5,092)
Finance expenses, net	26,607	21,448
Income tax expenses	(6,617)	50,600
Change in:		
Trade receivables	33,458	(50,332)
Inventories	(156,756)	365
Recoverable and payable taxes, net	(23,581)	5,118
Judicial deposits	2,020	(1,769)
Trade payables	150,572	40,980
Employees and other payroll related liabilities	9,927	(1,808)
Other current and non-current assets and liabilities	7,346	333
Change in operating activities	**356,766**	**335,948**
Interest paid	(42,915)	(22,827)
Interest received	14,315	12,586
Income tax paid	(5,824)	(1,155)
Net cash flows provided by operating activities	**322,342**	**324,552**
Cash flows from investing activities		
Change in deposits	(5,832)	(223)
Payment for acquisition of operations, net of cash	(240,798)	(5,236)
Proceeds from sales of fixed assets	4,554	12,814
Acquisition of fixed assets	(111,197)	(152,587)
Investments in intangible assets	(4,738)	(7,864)
Long term loans to related parties	-	9,264
Net cash flows used in investing activities	**(358,011)**	**(143,832)**
Cash flows from financing activities		
Proceeds from loans	1,029,936	673,537
Repayment of loans	(780,122)	(406,617)
Payment of lease liabilities	(16,870)	(16,612)
Interest on equity paid	(63,918)	(54,668)
Dividend paid	(44,400)	(59,782)
Net cash flows provided by financing activities	**124,626**	**135,858**
Net increase in cash and cash equivalents	**88,957**	**316,578**
Net increase in cash and cash equivalents		
Cash and cash equivalents as at beginning of year	538,045	221,467
Cash and cash equivalents as at end of year	627,002	538,045
	88,957	**316,578**

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

1 General information

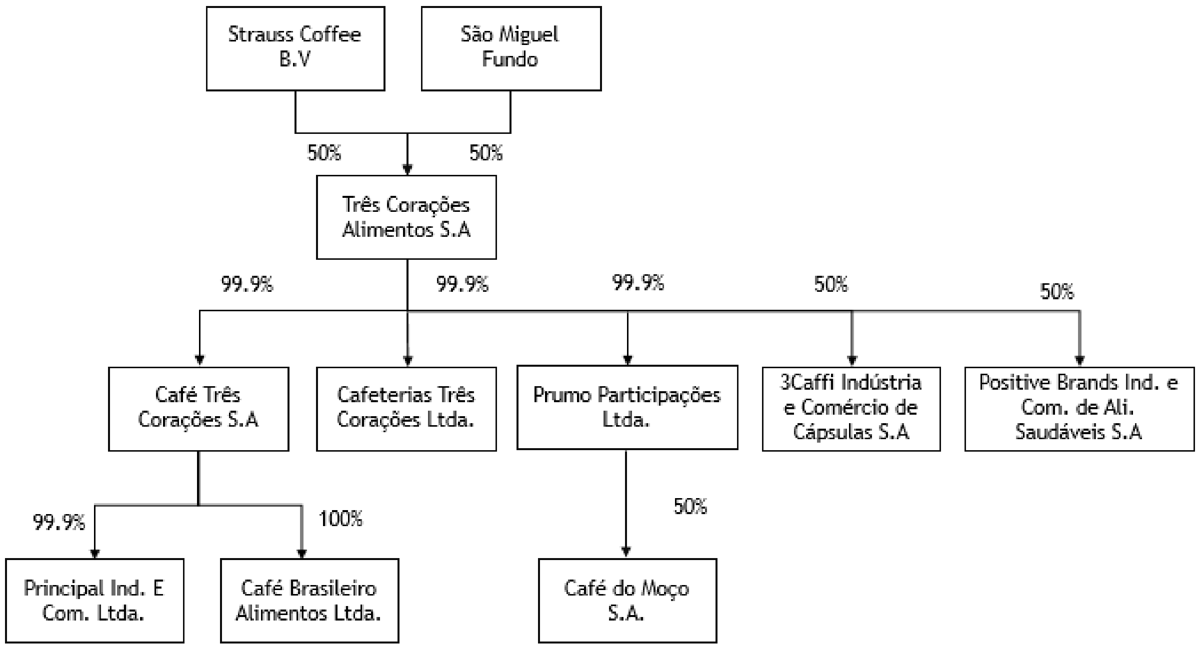
Três Corações Alimentos S.A. (the "Company") together with its subsidiaries (the "Group") are an industrial and commercial Group, which operate in Brazil, in producing and selling branded coffee products, multi-beverage single portion capsules and machines, powdered juices, chocolate drinks and corn 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 2.1).

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 2.2). 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 which are not consolidated in this report.

The Group is currently the largest group in roasted and ground coffee business in Brazil (information not audited 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, which is owned by subsidiary Café do Moço. Positive Brands' physical structure is located in the state of Espírito Santo.

As of 31 December 2020, the Group had the following structure:



Impacts of the 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, in order to respond in a timely manner and mitigate possible effects, as well as measuring its impact on the 2020 results as demonstrated in the financial statements.

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. Most of the back office activities started to work remotely since mid-March of 2020.

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

(i) Impacts on its supply chain, including also imported goods. The Group has been closely monitoring the delivery process of goods by all suppliers and has increased its inventory coverage for more days than usual. Additionally, due to the recent high exchanges rates of foreign currency, local 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 localized temporary shortages in the domestic markets, also causing price increases. Due to these reasons, the Company has been increasing its inventory levels whenever good acquisition opportunities appear, both to dilute average cost and to prevent eventual 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 31 December 2020. The Group assesses the payment capacity of customers and has established policies for extending the maturity of accounts receivable when possible and necessary. During the year, there has been no significant increase in trade receivable defaults by customers or in the expected credit losses. For further information on credit risk management see Note 32.i.

(iii) Exchange rate variations on exposed assets and liabilities: The Group uses derivatives financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates and does not have significant balances not covered by these financial instruments as at 31 December 2020. For further information on credit risk management see Note 32.iv.

Since June of 2020, 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. (Note 34).

In June of 2020, 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 and it is necessary in all cases to comply with complex safety and distancing protocols.

Until December, 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 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 31 December 2020.

(In thousands of Brazilian Reals)

2 Business combination

2.1 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 state of 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$ 38,405, of which the amount of R$ 31,400 was paid on the date of signing the agreement.

In accordance with the agreement under which Positive Brands joint venture was established, the remaining consideration of R$ 6,994, will be settled through additional contributions in proportion to Company's interests in accordance with the cash requirements of the business plan, approved by the parties. Payment of the contributions must be performed by January 1, 2022, with interest based upon 102% of the Brazilian Interbank CDI rate.

There was also a smaller contingent consideration, corresponding to the amount calculated over 100% of the confirmed working capital in the balance sheet of Positive Brands on January 31, 2020, exceeding 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 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 consideration, net identifiable assets acquired and goodwill are described as follows:

Purchase consideration	
Cash paid on the date of signing the agreement	31,400
Consideration to be paid as capital contribution	6,994
Contingent consideration paid	11
Total purchase consideration	38,405
Proportional interest in the net assets acquired - 50%	(7,680)
Goodwill	**30,724**

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

(In thousands of Brazilian Reals)

The 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
Intangible assets: brands	17,700
Intangible assets: customer portfolio	500
Trade payables	(715)
Payable taxes	(1)
Employees and other payroll related liabilities	(79)
Other current liabilities	(201)
Deferred tax liabilities	(6,188)
Net identifiable assets - 100%	**15,361**

The fair value of brands and customer portfolio, was 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 brands being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, excluding any cash flows related to contributory assets and the valuation is being determined by independent specialists.

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. If the call or put option is exercised, the acquisition price of the shares corresponds to the Fair Market Price of the share as agreed in the Shareholders' Agreement. 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'.

2.2 Acquisition of Mitsui Alimentos (Café Brasileiro)

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 was 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 different sites, one in the city of Cuiabá, state of Mato Grosso and the other in the city of Araçariguama, state of São Paulo.

(In thousands of Brazilian Reals)

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 the acquired entity 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. ("Café Brasileiro").

From the date of acquisition, Café Brasileiro contributed net revenues of R$ 94,010 and profit of R$2,521 to the Group's results. If the acquisition had occurred on 1 January 2020, management estimates that Café Brasileiro net revenue would have been R$ 172,021, and 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 following table summarizes the acquisition date fair value of each major class of consideration, including the contingent consideration that can be paid in the future only when there is the final decision of judicial proceedings, no matter how long this may take:

(In thousands of Brazilian Reals)

Purchase consideration	
Cash paid	217,050
Final purchase price adjustment paid	24,810
Contingent consideration (a)	23,785
Total consideration	**265,645**

(a) The fair value of the contingent consideration on the date of acquisition is 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	2,607		45,000
Recoverable taxes	58,107			58,107
Indemnification asset	-	46,702	(a)	46,702
Other credits	1,898			1,898
Fixed assets	29,170	20,160	(b)	49,330
Intangible assets	1,735			1,735
Intangible assets: brands	-	46,100	(c)	46,100
Intangible assets: customer portfolio	-	30,700	(c)	30,700
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)	(46,702)	(d)	(49,566)
Deferred tax	-	(33,853)	(e)	(33,853)
Total identifiable net assets acquired	**188,311**	**65,714**		**254,025**

(a) Acquirer'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) 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) 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 brands 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 had tax risks subject to inquiries from tax authorities. Management believes that the likelihood of an outflow of funds is probable. For this amount, an indemnification asset was also recognized.

(In thousands of Brazilian Reals)

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

Goodwill arising from the acquisition has been recognized as follows:

Consideration transferred	265,645
Fair value of identifiable net assets	(254,025)
Goodwill	**11,620**

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 as provided by the applicable legislation.

The net cash amount paid to the sellers was as below:

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

3 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved by management for issuance on 28 February 2021.

Details of the Group's accounting policies, including changes thereto, are included in Note 4 and Note 5.

(b) Basis of measurement

These consolidated financial statements have been prepared based on the historical cost, except when stated otherwise. For further information regarding the measurement of these assets and liabilities see Note 5.

(c) Functional and presentation currency

The Group's consolidated financial statements are presented in Brazilian Real (R$).

For each entity, the Group determines the functional currency and items included in the financial statements are measured using that functional currency. All Group entities have the same functional currency, except for the export business of green coffee, for which the functional currency is the United States Dollar.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of judgments and estimates

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have significant effects on the amounts recognized in the financial statements is included in the following notes:

Note 5(a) – Consolidation: whether the Group has significant influence and de facto control over an investee;

Note 14 – Equity-accounted investees: whether the Group has significant influence and de facto control over an investee or joint ventures;

Note 17 - Lease term: whether the Group is reasonably certain to exercise extension options.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

Note 2 – Business combination: fair value of the consideration transferred (including contingent consideration) and fair value of the assets acquired and liabilities assumed;

Note 9 - Measurement of ECL (Expected Credit Loss) allowance for trade receivables: key assumptions in determining the weighted-average loss rate;

Note 15 - Useful life of fixed asset items;

Note 16 - Impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;

Note 24 - Recognition and measurement of provisions for legal proceedings: key assumptions about the likelihood and magnitude of an outflow of resources;

Note 25 - Recognition of deferred tax assets: availability of future taxable profits against which tax loss carryforwards can be used and uncertain tax treatments; and

Note 32 - Financial instrument fair value measurements.

(i) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

When necessary, management reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the Standards, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). As of 31 December 2020 and 2019, the Group had no assets or liabilities classified at Level 3.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4 Changes in significant accounting polices

The Group has initially adopted Definition of a Business (Amendments to IFRS 3) from 1 January 2020. A number of other new standards are also effective from 1 January 2020 but they do not have a material effect on the Group's financial statements.

The Group applied Definition of a Business (Amendments to IFRS 3) to business combinations whose acquisition dates are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets. The details of accounting policies are set out in Note 5a(ii). See also Note 2 for details of the Group's acquisitions during the year.

5 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except if mentioned otherwise.

(a) Basis of consolidation

(ii) Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of financial instruments is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. Any goodwill that arises is tested annually for impairment. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as a bargain purchase gain.

(iii) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(iv) *Non-controlling interests (NCI)*

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(v) *Loss of control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(vi) *Interests in equity-accounted investees*

The Group's interests in equity-accounted investees comprise interests in a joint venture. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income (OCI) of equity- accounted investees, until the date on which joint control ceases.

(vii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of the Group companies at the exchange rate at the date of the transactions.

Exchange rate differences arising upon the settlement of monetary items or upon reporting monetary items at exchange rates different from that by which they were initially recorded during the period, or reported in previous financial statements, are charged to financing expenses.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

(ii) *Foreign operations*

The assets and liabilities derived from foreign operations are translated to Brazilian reals using the exchange rates at the reporting date. Income and expenses of foreign operations are translated to Brazilian reals using the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

When a foreign operation is disposed of, so that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes only part of its investment in an associate or joint venture that includes a foreign operation, while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as amortized cost, and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, which are initially measured at the transaction price, the Group initially measures a financial asset at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, at transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

For the purposes of SPPI assessment, 'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows and as such it would not meet this condition. In making this assessment, the Group considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual per amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in two categories:

Financial assets at amortized cost;

Financial assets at fair value through the profit or loss.

Financial assets at amortized cost
The Group measures financial assets at amortized cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to collect contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, trade receivables with third parties, trade receivables with related parties, loans to related parties and others.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

The rights to receive cash flows from the asset have expired; or
The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, when applicable, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

Classification, initial recognition and subsequent measurement
Financial liabilities are classified at measured amortized cost, at FVTPL or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Group’s financial liabilities include trade payables, loans and borrowings, distributions to shareholders (dividends and interest on equity), payables for acquisition and others.

Derecognition
The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(iii) Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iv) Derivative financial instruments and hedge accounting
The Group routinely uses derivative financial instruments in order to hedge against risks relating to prices of commodities and against foreign currency risks, arising from its operating, financing and investing activities. The derivative financial instruments are comprised mainly of forward transactions and when applicable, options on currencies and of forward transactions and options on commodities.

The Group designates certain derivatives as hedging instruments. Most of the currency hedge operations is currently related to importation of multi-beverage single portion machines.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and of the hedging instrument are expected to offset each other.

Fair value hedges
A hedge of the foreign currency risk of a firm commitment is accounted as a fair value hedge.

When a hedged item in a fair value hedge is a firm commitment to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognized in the statement of financial position.
When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability, with a corresponding gain or loss recognized in profit or loss.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

(d) Inventories

Inventory is measured at the lower of the weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to finish the sale.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct cost and related production overheads (based on normal operating capacity). Inventory includes certain spare parts and maintenance equipment, which will be used in up to one year.

Provision for slow-moving or obsolete inventory is recorded when deemed necessary by management.

(e) Investments

The investments in joint venture companies are valued by the equity method in the consolidated statement of financial position and in statement of income.

(f) Fixed assets

Recognition and measurement
Fixed assets are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation (see below) and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located (when the Group has an obligation to dismantle and remove the asset or to restore the site).

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of fixed assets are determined by comparing the net proceeds from disposal with the carrying amount of the asset, and are recognized net of each other within "other income" or "other expenses", if relevant, in profit or loss.

Subsequent expenditures
Costs of improvements and enhancements are added to the cost of the assets, whereas maintenance and repairs are charged to expense as incurred. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Leasehold improvements
The construction costs on leased property, which will be transferred to the lessor's ownership at the end of the rental period, are amortized over the expected rental period on a straight-line basis.

Depreciation
Depreciation is calculated to write off the cost of items of fixed assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Land is not depreciated.

The annual average rates for the principal depreciation groups, for current and comparative periods, are as follows (2020 and 2019):

	%
Buildings	2.01
Machinery and equipment	6.07
Vehicles	20.31
Furniture and other equipment	10.61
Leasehold improvements	2.02

Depreciation methods, useful lives and residual values are reassessed on every reporting date and the rates used for tax purposes may differ from the above rates.

(g) Intangible assets and goodwill

Goodwill
Goodwill arises on the acquisition of subsidiaries, and is presented as part of intangible assets. In subsequent periods, goodwill is measured at cost, less accumulated impairment losses.

Other intangible assets
The intangible assets include brands, trademarks, software, distribution networks, client portfolio, license agreements, and non-competition agreements, that were acquired as part of business combination.

Subsequent expenditure
Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditures on internally generated intangibles, are recognized in profit or loss as incurred.

Amortization
Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Goodwill and some brands are not amortized. For tax purposes, Goodwill may be amortized, according to Brazilian tax legislation.

The annual average rate for the principal amortization groups, for current and comparative periods, are as follows (2020 and 2019):

	%
Computer software	30.68
Brands and trademarks	20.77
List of customers (presented as “others” in Note 16)	10.00
Other	23.75

In case of changes in the useful lives as a result of its reassessment, the new useful life is applied prospectively.

(h) Impairment

(i) Non-financial assets

Timing of impairment testing
The carrying amounts of the Group's non-financial assets (other than inventories and deferred tax assets - see Notes 5.d and 5.m, respectively) are examined on each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For assets, including intangible assets, that have indefinite useful lives, the Group estimates the recoverable amounts at least once a year. An impairment loss is recognized if the carrying amount of an asset or of its cash-generating unit exceeds its recoverable amount.

For the purposes of impairment testing, the goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in the statement of income in accordance with the nature of the item that has been impaired. Impairment losses recognized in respect of cash-generating units (CGU) are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. Goodwill impairment losses are classified as other expenses in the statement of income.

Calculation of the recoverable amount
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less costs to sell). In assessing value in use, the estimated future cash flows are discounted to their present values using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversal of impairment
Impairment losses recognized in previous periods are reexamined every reporting period in order to determine whether there are any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only if the carrying amount after the reversal of the impairment loss does not exceed the carrying amount net of depreciation or amortization, that would have been determined if no impairment loss had been recognized. Reversals of impairment losses are included in the statement of income. Impairment losses in respect of goodwill are not reversed.

(ii) Non-derivative financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for financial assets measured at amortized cost. ECL is the probable weighted estimate of credit losses. The Group measures loss allowances for trade receivables at amount equal to the expected credit losses that result from all possible default events over the expected life of a financial instrument (lifetime ECLs).

For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group expects no significant recovery from the amounts written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(i) Provisions
A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. The Group considers the present value of the liability, to be equivalent to the future value, as the differences are not material.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, disclosure is provided of a contingent liability, except when the possibility of the outflow of economic benefits is considered remote.

(j) Government grants
Government grants are recorded in profit or loss when there is reasonable assurance that the grant will be received or compensated and the conditions established for the grant will be achieved by the Group. Afterwards, the grant is recognized in statement of income.

The types of government grants received by the Group and their respective tax treatment are described in Note 26.e.

(k) Revenue

Revenue is recognized when the control of the goods is transferred to the customer, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

Sale of goods

Revenue from sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., coffee machine's promotional campaigns). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. Some contracts for the sale of goods provide customers with a right of discounts and volume rebates. The rights of discounts and volume rebates give rise to variable consideration. The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer.

Warranty obligations

The Group typically provides warranties for general repairs of defects that existed at the time of sale, as required by law (Note 23). These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(l) Finance income and finance expenses

Financial income comprises interest income on deposits invested and gains on derivatives (other than commodities) that are recognized in the statement of income.

Financial expenses comprise interest expenses on loans and foreign currency variation gains and losses, net.

In the cash flow statements, interests received and interests paid are presented as part of cash flows from operating activities. Dividends paid are presented under financing activities.

(m) Income tax expenses

Income tax expenses comprise current and deferred tax. Income tax expenses are recognized in the statement of income, unless they relate to a transaction or event recognized directly in equity.

Current tax
Current tax (in Brazil: "IRPJ" and "CSLL") comprises the expected tax payable or receivable on the taxable income or loss for the year and, when applicable, any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date, considering also the effect of government grants as described in notes 25.c and 26.e.

Deferred tax
Deferred taxes are recognized in relation to temporary differences between accounting balances of assets and liabilities and the corresponding balance amounts used for tax purposes. Deferred income tax is not recognized for:

Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for tax loss carryforwards, tax credits and deductible temporary differences to the extent that it is probable that taxable income will be generated in the future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and is subject, as always, to uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(n) Short-term employee benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(o) Leases
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows (2020 and 2019):

	%
Buildings	1.93
Machinery and equipment	2.25
Vehicles	9.38

The right-of-use assets are also subject to impairment.

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

The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the fixed payments, including in-substance fixed payments.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets
The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

6 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not adopted early the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

(In thousands of Brazilian Reals)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current.

Reference to the Conceptual Framework – Amendments to IFRS 3.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.

7 Cash and cash equivalents

	R$	
	31/12/2020	**31/12/2019**
Bank balances	99,066	69,402
Cash on hand	183	554
Short term deposits:		
Deposits in banks (a)	527,753	468,089
	627,002	538,045

(a) Refers to short-term deposits, with high liquidity, classified as financial asset at fair value thought profit and loss, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These deposits refer substantially to Bank Deposit Certificate - "CDB", with interest calculated over resources kept in bank account for short periods, normally up to 30 days, with interest currently of 100% of the Brazilian Interbank Deposit rate - CDI (in 2019, 101% of CDI). The increase as of December 31, 2020 was mainly due to the anticipation of accounts receivable and new loans.

8 Deposits

	R$	
	31/12/2020	**31/12/2019**
Deposits with brokers (a)	10,743	3,935
	10,743	3,935

(a) Refers to deposits made as margin requirements, classified as financial assets at fair value thought profit and loss, with brokers responsible for derivative financial instrument operations, especially green coffee sell and buy options.

(In thousands of Brazilian Reals)

9 Trade receivables

	R$	
	31/12/2020	31/12/2019
Third parties	444,629	459,658
Foreign customers	53,787	30,030
Related parties (Note 13)	5,255	3,912
	503,671	493,600
Less:		
Provision for discounts (a)	(39,360)	(38,017)
Subtotal	464,311	455,583
Allowance for expected credit losses (b)	(7,665)	(6,406)
	456,646	449,177

(a) Refers to discounts calculated based on volume rebates or other conditions agreed with customers.

(b) Provision calculated based on an assessment of the risk per customer cluster, as detailed in note 32.b. Please, see below the aging list.

(In thousands of Brazilian Reals)

	R$									
	31/12/2020									31/12/2019
Days	**National Chains**	**Regional chains**	**Distributors**	**E-Commerce**	**Electro**	**Countryside**	**Export**	**Metropolitan**	**Total**	**Total**
Not past due	37,457	140,218	3,124	5,215	16,873	115,719	35,766	74,927	408,752	432,199
Past due 1 to 30	-	3,669	-	-	210	1,983	16,178	1,294	36,327	13,165
Past due 31 to 60	133	476	-	-	912	749	971	290	9,689	1,087
Past due 61 to 90	-	212	-	-	142	123	871	120	2,864	2,001
Past due 91 to 120	-	-	-	-	41	89	-	131	261	1,039
More than 120	406	570	-	1	-	3,141	-	2,300	6,418	6,092
Subtotal	37,996	145,145	3,124	5,215	18,178	121,804	53,786	79,062	464,311	455,583
Allowance for expected credit losses	(407)	(582)	-	-	(3)	(3,677)	-	(2,996)	(7,665)	(6,406)
	37,589	144,563	3,124	5,215	18,175	118,127	53,786	76,066	456,646	449,177

(In thousands of Brazilian Reals)

The movement in the allowance for expected credit losses of trade receivables during the period was:

	R$	
	2020	**2019**
Balance at 1 January	(6,406)	(6,741)
Provision for expected credit losses	(4,141)	(3,903)
Write-offs	2,882	4,238
Balance at 31 December	(7,665)	(6,406)

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated, and there is a low level of concentration with the biggest customers. The biggest customer represents 6.87% of 2020 gross revenue (6.73% in 2019). Further information about the credit risk exposures is disclosed in Note 32.b.

10 Inventories

	R$	
	31/12/2020	**31/12/2019**
Finished goods incl. green coffee	433,522	284,874
Work in progress	325	250
Raw material	103,942	73,466
Packaging and other materials	56,092	46,691
Import in progress	19,376	10,396
Advances to suppliers	2,486	2,760
	615,743	418,437

Inventory balances are presented net of provision for obsolescence. In 2020 the write-down of inventory to net realizable value amounted was R$ 1,134 (2019: R$ 958), recorded in the statements of income, as cost of sales. Inventory includes spare parts and maintenance equipment which will be used up within one year.

The increase in finished goods and green coffee inventories was mainly to meet future export contracts, which were higher due to the increase in the price of coffee and the progressive devaluation of the Brazilian real.

11 Recoverable taxes

	R$	
	31/12/2020	**31/12/2019**
State VAT – ICMS (a)	61,102	19,578
Federal VAT - PIS and COFINS (b)	154,903	118,775
Other	17,490	5,356
	233,495	143,709
Current assets	93,069	73,506
Non-current assets	140,426	70,203

(a) State VAT - ICMS

State VAT recoverable is mainly due to credits for purchases of inputs and raw materials and operations where advanced VAT was paid at the moment of the goods entrance in the respective state. However, for those cases where the presumed operation has not taken place due to goods subsequent movement to another state, the Company is entitled to a reimbursement of the VAT paid in advance to the state government (mainly Minas Gerais and São Paulo). The increase as of December 31, 2020 was mainly due to the acquisition of Mitsui Alimentos (Café Brasileiro) (see Note 2.2). state VAT also includes credits from the acquisition of fixed assets, available to offset in 48 months.

Part of state VAT credits was recorded in non-current assets, since management understands that it will not be available for use in less than a year because the authorities usually take long time to approve these credits. As of 31 December 2020 state VAT non-current balances were R$ 29,066 (R$ R$ 9,550 as of 31 December 2019).

(b) Federal VAT - PIS and COFINS

On 31 December 2020, the Federal VAT credits amounts increased mainly from the court decisions of non-inclusion of state VAT (ICMS) in the basis of calculation of Federal VAT (PIS and COFINS).

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

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. In calculating tax credits, the Group adopted the method established in the court decision, which considers the state VAT amounts mentioned in the sales invoices, following also the practice adopted by other companies in Brazil. As of 31 December 2020, the Group has recognized the amount of R$ 11,426 of recoverable taxes.

As of 6 February 2019 the Federal Regional Court of Fifth Region, judged definitively and favorably to Três Corações Alimentos S.A. the proceeding nº 0013304-93.2007.4.05.8100, which had requested the non-inclusion of state VAT in the basis of calculation of Federal VAT for the period from 2002 to 2018.

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

As of 31 December 2019, the Group has recognized the amount of R$ 105,996 of recoverable taxes related to the subject aforementioned.

The Group also recognized in 2020 an additional amount of R$ 34,166 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 27).

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.

Federal VAT also includes credits from purchases of packaging materials and freight services linked to local market sales with zero tax rate, as well as presumed credit on green coffee export revenue.

(In thousands of Brazilian Reals)

12 Other current and non-current assets

	R$	
	31/12/2020	31/12/2019
Advances to suppliers	494	340
Advances to employees	3,838	3,527
Prepaid expenses (a)	19,850	16,564
Special bank deposit for reinvestment	2,694	1,554
Non-current taxes	5,304	5,012
Long-term deposit	-	694
Indemnification assets (b)	46,702	-
Sundry	2,236	2,788
	81,118	30,479
Current assets	17,707	14,899
Non-current assets	63,411	15,580

(a) Prepaid expenses are mainly represented by advance payments for marketing campaigns and Away From Home expenses.

(b) The increase as of December 31, 2020 was mainly due to the acquisition of Mitsui Alimentos (Café Brasileiro) (see Note 2.2).

13 Related parties

The Group's related parties are the parent entities with 50% shareholding each, related parties of the parent entities investee entities of both the Group and the parent entities and members of the Board, senior management and their close family members, of both the Group and the parent entities.

The prices and credit terms in respect of transactions with related parties are determined according to customary commercial terms and for the transactions with 3Caffi according to master supply agreement.

	R$	
	31/12/2020	31/12/2019
Current assets		
Trade receivables (Note 9)		
3Caffi Indústria e Comércio de Cápsulas S.A.	5,246	3,912
Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A	9	-
	5,255	3,912
Non-current assets		
Loans to related parties		
3Caffi Indústria e Comércio de Cápsulas S.A.	12,272	11,942
	12,272	11,942
Current liabilities		
Trade payables (Note 19)		
Caffitaly System S.p.A. - Foreign supplier	-	2,168
3Caffi Indústria e Comércio de Cápsulas S.A. - National supplier	10,172	12,515
Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A	7,003	-
Três Corações Imóveis Arm. Gerais e Serv. Ltda. - National supplier	2,125	1,566
	19,300	16,249

(In thousands of Brazilian Reals)

	R$	
	31/12/2020	**31/12/2019**
Proposed dividends (Note 26.d)		
Strauss Coffee B.V	29,263	22,200
São Miguel Fundo de Investimento em Participações	29,263	22,200
	58,526	44,400
Interest on equity payable (Note 21)		
Strauss Coffee B.V. (net of tax withheld)	20,549	29,368
São Miguel Fundo de Investimento em Participações	24,175	34,550
	44,724	63,918
	123,942	124,567
Profit or loss		
Revenue		
3Caffi Indústria e Comércio de Cápsulas S.A.	26,818	18,713
Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A	24	-
Strauss Commodities AG	1,864	2,589
	28,706	21,302
Cost of sales		
3Caffi Indústria e Comércio de Cápsulas S.A.	108,638	89,639
Caffitaly System S.p.A.	6,444	9,946
Strauss Commodities AG	1,446	2,316
Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A	24	-
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	3,131	3,758
	119,683	105,659
Sales and general and administrative expenses		
Três Corações Imóveis Arm. Gerais e Serv. Ltda.	6,253	4,220
	6,253	4,220

(i) Trade receivables, trade payables, and sales

Trade receivables, trade payables and sales balances with related parties are due to operations of purchase and sale of goods and services. Part of the facilities used by the Group is leased from Três Corações Imóveis Armazéns Gerais e Serviços Ltda.

(ii) Loans to related party

Refers substantially to loans to 3Caffi Indústria e Comércio de Cápsulas S.A., for the construction of the capsule factory. These loans have due date above 181 days, with interest of 100% of the Brazilian Interbank Deposit rate - CDI.

14 Investments

	R$	
	31/12/2020	**31/12/2019**
Interest in joint ventures		
3Caffi Indústria e Comércio de Cápsulas Ltda. (a)	19,255	11,907
Positive Brands Indústria e Comércio de Alimentos Saudáveis S.A (b)	34,146	-
	53,401	11,907

(a) 3Caffi Indústria e Comércio de Cápsulas S.A. (“3Caffi”) is an equity-accounted investee held jointly by the Group and the Italian Caffitaly System S.p.A., which share the Company control in the joint-venture, with 50% share participation. Most of the Group's capsule production is concentrated in 3Caffi. 3Caffi is not publicly listed. 3Caffi is structured as a separate vehicle and the Group has a residual interest in the net assets of 3Caffi. Accordingly, the Group has classified its interest in 3Caffi as a joint venture.

(In thousands of Brazilian Reals)

(b) 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. 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. The agreement to share Positive's control was established in 2020 (see Note 2.1)

Below is the movement of the year:

	R$	
	31/12/2020	**31/12/2019**
Balance at 1 January	11,907	6,815
Acquisition of Positive (a)	32,399	-
Group's share of profit	9,232	5,092
Others	(137)	-
Balance at 31 December	53,401	11,907

(a) Refers to the new joint venture of Positive Brands, as described in note 2.1. The total of R$ 1,675 refers to participation in shareholders' equity and the amount of R$ 30,724 refers to goodwill.

The following table summarizes the financial information of the joint ventures as included in their own financial statements, including fair value adjustments at acquisition. The table also reconciles the summarized financial information to the carrying amount of the Group's interest in the joint ventures.

	R$		R$	
	3Caffi		**Positive**	
	31/12/2020	**31/12/2019**	**31/12/2020**	**31/12/2019**
Assets				
Current	48,771	53,887	22,414	-
Non-current	95,285	68,283	357	-
	144,056	122,170	22,771	-
Liabilities				
Current	31,940	21,787	7,015	-
Non-current	73,606	76,569	-	-
Equity	38,510	23,814	15,756	-
	144,056	122,170	22,771	-
Profit and Loss				
Revenue	114,667	99,105	28,037	-
(-) Cost of sales	(91,424)	(78,724)	(14,887)	-
(=) Gross profit	23,243	20,381	13,150	-
Other expenses, net	(3,635)	(4,561)	(8,527)	-
(=) Profit before income tax	19,607	15,820	4,623	-
(-) Income tax expenses	(4,913)	(5,636)	(852)	-
(=) Profit for the year	14,694	10,184	3,771	-

(In thousands of Brazilian Reals)

The Company granted endorsements in favor of the joint ventures, with balances on 31 December, 2020 and 2019 listed below:

	R$	
	3Caffi	
Type of endorsement	31/12/2020	31/12/2019
Legal entity endorsement	39,209	37,613
	39,20918	37,613

(In thousands of Brazilian Reals)

15 Fixed assets

(a) Fixed asset movements

	R$					
	Land and Buildings	Machinery and Equipment	Vehicles	Furniture and other equipment	Leasehold improvements	Total
Cost						
Balances as of 31 December 2018	79,817	282,347	72,452	119,226	72,749	626,591
Additions	7,510	53,108	44,973	26,776	27,547	159,824
PPA Café Manaus acquisition	-	(90)	-	-	-	(90)
Café do Moço acquisition	-	108	-	-	-	108
Interest capitalization	-	-	-	-	1,232	1,232
Disposals	(194)	(7,542)	(12,644)	(5,299)	(584)	(26,263)
Transfer between classes of assets	2,212	(630)	-	29,829	(1,586)	29,825
Effect of changes in exchange rates	729	163	22	(49)	(535)	330
Balances as of 31 December 2019	90,074	327,464	104,803	170,483	98,823	791,647
Additions	4,410	26,607	9,385	40,779	25,413	106,594
Mitsui Alimentos acquisition (Note 2.2)	34,869	36,405	1,371	5,618	1,331	79,594
Interest capitalization	-	-	-	-	1,730	1,730
Disposals	(696)	(3,840)	(2,260)	(9,588)	(788)	(17,172)
Transfer between classes of assets	766	226	26	1,257	(867)	1,408
Effect of changes in exchange rates	6,152	1,449	16	100	320	8,037
Balances as of 31 December 2020	135,575	388,311	113,341	208,649	125,962	971,838

(In thousands of Brazilian Reals)

	R$					
	Land and Buildings	**Machinery and Equipment**	**Vehicles**	**Furniture and other equipment**	**Leasehold improvements**	**Total**
Accumulated depreciation						
Balances as of 31 December 2018	(13,254)	(105,626)	(43,683)	(47,808)	(8,235)	(218,606)
Additions	(1,746)	(16,337)	(9,111)	(17,150)	(2,895)	(47,239)
Disposals	-	7,179	5,277	1,649	39	14,144
Transfer between classes of assets	-	2	-	(1)	1	-
Effect of changes in exchange rates	(400)	(151)	(14)	(9)	(30)	(604)
Balances as of 31 December 2019	(15,402)	(114,933)	(47,531)	(63,319)	(11,120)	(252,305)
Additions	(2,063)	(21,650)	(10,005)	(22,097)	(3,471)	(59,286)
Mitsui Alimentos acquisition (Note 2.2)	(7,074)	(17,498)	(1,082)	(4,089)	(521)	(30,264)
Disposals	107	2,496	1,970	4,532	384	9,489
Transfer between classes of assets	(1)	26	(14)	(24)	(6)	(19)
Effect of changes in exchange rates	(1,978)	(858)	(13)	(103)	(268)	(3,220)
Balances as of 31 December 2020	(26,411)	(152,417)	(56,675)	(85,100)	(15,002)	(335,605)
Balance net as of						
31 December 2019	74,672	212,531	57,272	107,164	87,703	539,342
31 December 2020	109,164	235,894	56,666	123,549	110,960	636,233

(In thousands of Brazilian Reals)

(b) Reconciliation between fixed assets movement and cash flows from investing activities

	R$	
	31/12/2020	**31/12/2019**
Fixed assets additions	157,654	161,164
(-) Interest capitalization	(1,730)	(1,232)
(-) Manaus Coffee acquisition	-	(90)
(-) Café do Moço acquisition	-	(108)
(-) Mitsui Alimentos acquisition (Note 2)	(49,330)	-
(-) Loans for acquisition of machines and vehicles – Additions	(8,896)	(16,615)
(+) Loans for acquisition of machines and vehicles – Amortization	14,351	7,343
(-) Payable for acquisition of fixed assets of the year (Note 23)	(4,701)	(3,849)
(+) Payable for acquisition of fixed assets of prior year (Note 23)	3,849	5,974
Acquisition of fixed assets in investing activities	**111,197**	**152,587**

The cost of significant machine overhauls, which prolongs the useful life of the machine, is capitalized.

Leasehold improvements to leased premises are depreciated over the shorter of the expected lease period or the estimated useful life of the asset.

In the year ended 31 December 2020, the amount of R$ 1,386 (R$ 29,987 as of 31 December 2019), regarding TRES machines lent to customers, was transferred from inventories to fixed assets.

The Group started the construction of its new headquarters in February 2017. This project is expected to be completed during 2021. The carrying amount of the headquarters at 31 December 2020 was R$ 54.262 (R$ 30.310 as of 31 December 2019). Included in this amount are capitalized borrowing costs related to the construction R$ 1.730 (R$ 1.232 as of 31 December 2019), calculated using a capitalization average rate of 4.27%.

In 2020 and 2019, the Group did not recognize any impairment loss from the fixed assets.

(In thousands of Brazilian Reals)

16 Intangible assets

	R$				
	Brands and trademarks	**Computer software**	**Goodwill**	**Others**	**Total**
Cost					
Balances as of 31 December 2018	29,984	33,269	221,707	54,808	339,768
Additions	436	2,520	-	5,156	8,112
Manaus Coffee acquisition	3,516	-	(5,820)	2,394	90
Café do Moço acquisition	-	-	4,714	-	4,714
Transfer between classes of assets	-	-	-	(4,717)	(4,717)
Balances as of 31 December 2019	33,936	35,789	220,601	57,641	347,967
Additions	40	2,362	-	2,342	4,744
Positve Brands acquisition (Note 2.1)	8,850	-	-	250	9,100
Mitsui Alimentos acquisition (Note 2.2)	48,362	7,818	11,620	30,700	98,600
Disposals	-	(140)	-	(15)	(155)
Transfer between classes of assets	-	(52)	-	30	(22)
Balances as of 31 December 2020	91,288	45,777	232,221	90,948	460,234
Accumulated amortization					
Balances as of 31 December 2018	(1,779)	(20,589)	-	(16,808)	(39,176)
Additions	(393)	(3,494)	-	(6,410)	(10,297)
Transfer between classes of assets	286	(31)	-	4,534	4,789
Balances as of 31 December 2019	(1,886)	(24,114)	-	(18,684)	(44,684)
Additions	(125)	(4,426)	-	(6,094)	(10,645)
Mitsui Alimentos acquisition (Note 2.2)	(2,518)	(5,927)	-	-	(8,445)
Disposals	-	53	-	-	53
Transfer between classes of assets	-	19	-	-	19
Balances as of 31 December 2020	(4,529)	(34,395)	-	(24,778)	(63,702)
Balance net as of					
31 December 2019	32,050	11,675	220,601	38,957	303,283
31 December 2020	86,759	11,382	232,221	66,170	396,532

Only brands and trademarks acquired as a result of 3Corações Sul (incorporated by the controlled company Café Três Corações S.A.) acquisition have definite useful life.

Others refer mainly to, new product development R$ 13,749 (2019: R$ 13,312), client portfolio R$ 47,868 (2019: R$ 20,232), right of use R$ 1,553 (2019: R$ 2.413) and sundry R$ 3,000 (2019: R$ 3,000).

Additions to computer software refer to software acquired by the Company for use in automated process and software licenses acquired, such as:

In 2020, mainly SAP licenses and software development.

In 2019, mainly SAP licenses and Warehouse Management System (implementation in other distribution centers).

(a) Impairment assessment

As of 31 December 2020, intangible assets include an amount of R$ 324,783 that is attributable to brands (except for those acquired in 3Corações Sul business combination) and goodwill, having an indefinite useful life (R$ 256,450 as of 31 December 2019).

These assets were assessed as having an indefinite useful life since according to an analysis of the relevant factors, there is no foreseeable limitation of the period they are expected to generate positive cash flows for the Group.

The relevant factors that were analyzed included, inter alia, the length of time the brand or trademark is anticipated to be used; the existence of legal or contractual restrictions on their use; a review of the typical life cycle of similar branded products; the existence of indicators of changes in life style, competitive environment, market requirements and industry trends, the sales history of products of the same brand and the awareness of the market of the brand name or trademark.

Impairment loss

The Company tests annually the recoverable amounts of goodwill and brands from business combination transactions. Fixed assets and definite life intangible assets that are subject to depreciation and amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be fully or partially recoverable.

Management analyzes the business and makes decisions based on two different cash generating units: green coffee and internal market. All goodwill is allocated to the internal market, as there were no acquisitions associated with the green coffee business. The recoverable amounts of the cash-generating units are based on the calculation of their value in use. These calculations use cash flow projections that are based on the most current five-year strategic operating plans (SOP) of the relevant unit.

The cash flows for remaining periods are calculated using the relevant growth rate, which takes into account the anticipated growth rates of the category, industry, country and population. The estimated long-term growth rate was 3.0% in 2020 and of 3.0% in 2019; the Management expects, that this growth rate will not be affected by the pandemic in the long term. The projected cash flows were discounted according to pre-tax discount rates of 11.8% in 2020 and of 9.1% in 2019. Both 2020 and 2019 projected cash flows were prepared in Brazilian Real currency, without inflation effects.

The Group performed a sensitivity analysis over the discount rate and the growth rate. Considering an increase in the discount rate of 1.20% and a reduction in the growth rate of 1%, Management concluded that there is no need to recognize goodwill impairment. The estimated recoverable amount of the cash-generating units exceeded its carrying amount by approximately R$ 3,648,207 (2019: R$ 3,153,000). In 2020 and 2019, the Group did not recognize any impairment loss from the operation.

17 Leases

The Group has lease contracts for various items of plant, distribution centers, machinery, vehicles and other equipment used in its operations. Leases of plant and distribution centers generally have lease terms between 2 and 15 years, while vehicles and other equipment generally have lease terms between 2 and 3 years. Lease payments are renegotiated periodically

(In thousands of Brazilian Reals)

to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.
The plants and distribution centers leases were entered into years ago as combined leases of land and buildings.

The Group also has certain leases of IT equipment with lease terms of 12 months or less and leases of office equipment of low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

Set out below are the carrying amounts of recognized right-of-use assets and the movements during the period:

	R$			
	Buildings	**Machinery and equipment**	**Vehicles**	**Total**
As at 01 January 2019	70,243	1,317	5,697	77,257
Additions	18,939	1,786	3,367	24,092
Terminations	(6,511)	(395)	(1,005)	(7,911)
Depreciation expense	(13,023)	(427)	(3,851)	(17,301)
As at 31 December 2019	69,648	2,281	4,208	76,137
Additions	20,884	-	3,652	24,536
Mitsui Alimentos acquisition (Note 2.2)	4,293	-	-	4,293
Terminations	(5,616)	-	(86)	(5,702)
Depreciation expense	(14,517)	(829)	(2,998)	(18,344)
As at 31 December 2020	74,692	1,452	4,776	80,920

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	R$	
	2020	**2019**
As at 01 January	87,086	87,852
Additions	24,537	24,090
Mitsui Alimentos acquisition (Note 2.2)	4,293	-
Terminations	(6,445)	(8,244)
Interest expense	6,912	6,048
Payments (principal and interest)	(23,782)	(22,660)
As at 31 December	92,601	87,086
Current liabilities	27,277	18,932
Non-current liabilities	65,324	68,154

The following table sets out a maturity analysis of lease liabilities:

	R$	
	31/12/2020	**31/12/2019**
One to two years	44,162	34,651
Two to three years	16,331	14,403
Three to four years	12,603	11,647
Four to five years	7,754	7,789

(In thousands of Brazilian Reals)

More than five years	11,751	18,596
	92,601	87,086

The amounts recognized in profit or loss relating to short-term leases and leases of low-value assets during the period was R$ 11,793 (R$ 6,986 in 2019). The Group had total cash outflows for leases of R$ 23,782 in 2020 (R$ 22,660 in 2019).

Extension options
Some leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility.

The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

18 Short and long term loans

(a) Loans schedule

	Annual interest rate - %		Index	R$	
	31/12/2020	31/12/2019		31/12/2020	31/12/2019
Brazilian reals loans and borrowings					
Loans for acquisition of machines and vehicles	8.15	7.50	TJLP	44,343	48,196
Northeast Development Fund (FNE)	4.47	-	TJLP	31,166	-
Working capital loans	4.93	6.30	CDI	509,563	318,301
Loans for acquisition of green coffee	-	5.18	N/A	-	37,735
				585,072	404,232
United States dollar loans and borrowings					
Loans for acquisition of inventories (ACC)	2.53	2.56	N/A	375,203	303,872
Loans for acquisition of inventories (PPE)	2.65	-	N/A	78,926	-
				454,129	303,872
Total				1,039,201	708,104
Current liabilities				621,269	660,798
Non-current liabilities				417,932	47,306

The increase during the year is mainly due to new loan agreements for working capital signed, 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 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.

The main reason for contracting new working capital loans was to raise funds to acquire Positive Brands and Café Brasileiro (Notes 2.1 and 2.2), as well as, to strengthen the company's cash flow for possible challenges that the COVID pandemic could bring to the Group's operation.

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(In thousands of Brazilian Reals)

In July, there was a new loan agreement for acquisition of green coffee, 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), related to the green coffee export business, that started to increase at the end of 2019. Part of these loans will be settled in 2021, with the execution of future green coffee sales agreements.

In April and May there was the repayment of working capital loans in the total amount of R$ 209,086.

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

(b) Non-current payment schedule

	R$	
	31/12/2020	**31/12/2019**
13 to 24 months	101,115	21,830
25 to 36 months	299,368	13,813
37 to 48 months	15,209	7,128
49 to 60 months	2,240	4,534
Thereafter	-	1
	417,932	47,306

(c) Guarantees

The following liens have been provided as security for the liabilities of the Group:

	R$	
	31/12/2020	**31/12/2019**
Pledges registered in favor of the banks	44,3444	77,438
	44,344	77,438

The decrease in pledges in due to the settlement of financing contracts.

(In thousands of Brazilian Reals)

(d) Reconciliation between financial position movement and cash flows from financing activities

	Note	Short and long term loans	Short and long term lease liabilities	Proposed dividends	Interest on equity Payable	Total	Short and long term Loans	Short and long term lease liabilities	Proposed Dividends	Interest on equity payable	Total
		R$									
		2020					2019				
Balance as of 31 December of Prior Year		708,104	87,086	44,400	63,918	903,508	420,157		59,782	54,668	534,607
Cash flows from financing activities items:											
Proceeds from loans		1,029,936	-	-	-	1,029,936	673,537	-	-	-	673,537
Repayment of loans		(780,122)	-	-	-	(780,122)	(406,617)	-	-	-	(406,617)
Payment of lease liabilities		-	(16,870)	-	-	(16,870)	-	(16,612)	-	-	(16,612)
Interest on equity paid	21	-	-	-	(63,918)	(63,918)	-	-	-	(54,668)	(54,668)
Dividend paid	26.c	-	-	(44,400)	-	(44,400)	-	-	(59,782)	-	(59,782)
Total cash flows used in financing activities		249,814	(16,870)	(44,400)	(63,918)	124,626	266,920	(16,612)	(59,782)	(54,668)	135,858
Other items:											
Adoption of IFRS 16		-	-	-	-	-	-	87,852	-	-	87,852
Additions of lease liabilities	17	-	24,537	-	-	24,537	-	24,090	-	-	24,090
Additions of lease liabilities - Mitsui Alimentos	2.2	-	4,293	-	-	4,293	-	-	-	-	-
Terminations of lease	17	-	(6,445)	-	-	(6,445)	-	(8,244)	-	-	(8,244)
Interest and exchange rate variation expenses		113,414	6,912	-	-	120,326	23,973	6,048	-	-	30,021
Interest and exchange rate variation payments		(28,158)	(6,912)	-	-	(35,070)	(12,672)	(6,048)	-	-	(18,720)
Proceeds from investment loans		8,896	-	-	-	8,896	16,615	-	-	-	16,615
Repayment of investment loans		(14,351)	-	-	-	(14,351)	(7,343)	-	-	-	(7,343)
Working Capital - PROADI and PROVIN	26.e	1,482	-	-	-	1,482	454	-	-	-	454
Dividend provisioned	26.c	-	-	58,526	-	58,526	-	-	44,400	-	44,400
Interest on equity credited	21	-	-	-	48,350	48,350	-	-	-	69,100	69,100
Withholding income tax	21	-	-	-	(3,626)	(3,626)	-	-	-	(5,182)	(5,182)
Total other items		81,283	22,385	58,526	44,724	206,918	21,027	103,698	44,400	63,918	233,043
Balance as of 31 December of the Year		1,039,201	92,601	58,526	44,724	1,235,052	708,104	87,086	44,400	63,918	903,508

(In thousands of Brazilian Reals)

19 Trade payables

	R$	
	31/12/2020	31/12/2019
National suppliers	423,793	286,532
National Related party suppliers (Note 13)	19,300	14,081
Foreign suppliers	29,013	16,602
Foreign Related party suppliers (Note 13)	-	2,168
	472,106	319,383

The Group participates in a supply chain finance program under which its suppliers may elect to receive early payment of their invoices from a bank by factoring their receivable from the Group. Under the arrangement, a bank agrees to pay amounts to a participating supplier in respect of invoices owed by the Group and receives settlement from the Group at a later date. The principal purpose of this program is to facilitate efficient payment processing and enable the willing suppliers to sell their receivables due from the Group to a bank before their due date. The Group does not incur any additional interest towards the bank on the amounts due to the suppliers.

The Group has not derecognized the original liabilities to which the arrangement applies because neither a legal release was obtained nor the original liability was substantially modified on entering into the arrangement. The Group discloses the amounts related to the program within trade payables because the nature and function of the financial liability remain the same as those of other trade payables. The payments to the bank are included within operating cash flows because they continue to be part of the normal operating cycle of the Group and their principal nature remains operating – i.e. payments for the purchase of goods and services. The payments to a supplier by the bank are considered non-cash transactions.

As of 31 December 2020, the balance of trade payables negotiated by suppliers, related to this operation, was R$ 116,550 (R$ R$ 77,228 as of 31 December 2019).

20 Employees and other payroll related liabilities

	R$	
	31/12/2020	31/12/2019
Payroll and related charges	10,676	9,969
Provision for vacation	34,752	32,699
Provision for variable remuneration	19,262	9,642
Other	5,017	1,660
	69,707	53,970

The Group Employees benefits' treatment is in accordance with local legal requirements. These requirements mainly call for and are limited to monthly contributions to Social Security funds (INSS, FGTS). The Group has no obligations under defined benefits or defined contribution plans. The Group offers other short-term benefits to its employees, which are expensed when incurred.

(In thousands of Brazilian Reals)

The increase in the provision for variable remuneration balance occurred mainly due to the non-payment of 50% of the 2019 amount, since the result is related to lawsuits that are pending decisions by the Brazilian supreme court.

21 Interest on equity payable

The Company, in Extraordinary Shareholders' Meeting held on a quarterly basis through 2020, approved recommendation of the Board of Directors for the distribution of Interest on equity for the year ended 31 December 2020, in the total amount of R$ 48,350, to be paid before the end of 2020 (R$ 69,100 for the year ended 31 December 2019).

On the amount mentioned above, there is the foreign shareholders' income tax to be withheld at source, in the amount of R$ 3,626 (R$ 5,182 in the year ended 31 December 2019), already deducted from the Interest on equity payable balance.

22 Payable taxes

	R$	
	31/12/2020	**31/12/2019**
State VAT – ICMS	17,965	17,379
Federal VAT - PIS and COFINS	6,550	858
Other	4,214	5,063
	28,729	23,300

23 Other current and non-current liabilities

	R$	
	31/12/2020	**31/12/2019**
Advances from customers	7,696	2,150
Accounts payable for acquisition of operations – Iguaçu	1,415	1,388
Accounts payable for acquisition of operations - Fino Grão	3,426	3,352
Accounts payable for acquisition of operations - Toko	2,000	2,000
Accounts payable for acquisition of operations – Café Manaus	570	1,110
Accounts payable for acquisition of operations - Café do Moço	-	1,780
Contingent consideration – Positive Brands (Note 2.1)	7,174	-
Contingent consideration – Mitsui Alimentos (Note 2.2)	23,785	-
Other provision - marketing services	224	108
Payable for acquisition of fixed assets	4,701	3,849
Handling commission	1,267	872
Provision for freights	3,525	4,871
Provision for lawyers' fees	5,986	3,214
Warranties	773	745
Sundry (a)	14,998	7,297
	77,540	32,736
Current liabilities	33,208	28,933
Non-current liabilities	44,332	3,803

(In thousands of Brazilian Reals)

(a) The amount of R$ 10,708 refers to a deposit received from a lawsuit that Café Brasileiro obtained a favorable decision, but with the process not yet definitively concluded. When the process is definitively concluded and if the favorable result is maintained, the amount received will be reimbursed to the company's original owners.

24 Provision for legal proceedings

Based on information from Group administration supported by its legal advisors, an analysis of the pending legal proceedings, and previous experience with regards to amounts claimed, the Group recorded provisions for amounts considered sufficient to cover probable losses from current legal actions. The amounts of probable and possible losses with respect to legal and administrative actions against the Group are as follows:

	R$					
	31/12/2020			31/12/2019		
	Probable loss	Possible loss	Remote loss	Probable loss	Possible loss	Remote loss
Labor (a)	16,385	97,144	191,834	11,264	105,728	176,344
Tax (b)	49,841	146,471	195,120	3,098	46,857	167,360
Civil	531	10,548	6,693	685	7,126	4,764
	66,757	254,163	393,647	15,047	159,711	348,468

(a) The Group is party to a number of labor claims filed by former employees and service providers challenging, among other things, unpaid overtime, night shift premiums and risk premiums, employment guarantees, and the reimbursement of withholdings from payroll such as social contributions and trade union charges, among others. As of 31 December 2020, total quantity of labor claims was 442 (441 as of 31 December 2019). The increase in probable and possible tax claims during the year is mainly due to the change in the classification that occurs according to the stage of each proceeding, Mitsui Alimentos acquisition (see Note 2.2) and new Federal VAT proceedings.

(b) Tax claims details by type are demonstrated in the following table:

	R$					
	31/12/2020			31/12/2019		
	Probable Loss	Possible loss	Remote loss	Probable loss	Possible loss	Remote loss
State VAT – ICMS (i)	22,049	11,659	58,349	-	11,470	27,431
Federal VAT - PIS/COFINS/IPI (ii)	27,421	103,895	127,922	2,731	4,674	125,719
Income taxes (IRPJ/CSLL) (iii)	371	30,746	3,290	367	30,542	9,104
Other	-	171	5,559	-	171	5,106
	48,841	146,471	195,120	3,098	46,857	167,360

The main legal claims are listed below:

(i) State VAT – ICMS

State VAT (ICMS) - Tax authorities state that the company Três Corações Alimentos S.A. incorrectly calculated the ICMS (state VAT) in transactions with goods subject to the ICMS tax substitution method (ST), claiming that it should have used the sale price for consumer instead of the entry cost of goods, although the state of São Paulo legislation determines that wholesalers are not allowed to receive goods without the ICMS – ST calculation. The infraction notices were received in December 2020 and refer to the periods from January 2016 to December 2016. The Group and its tax advisors responsible for monitoring the proceeding classify the risk of loss as remote. As of 31 December 2020 the amount of the legal claim was R$ 30,673.

(In thousands of Brazilian Reals)

(ii) Federal VAT - PIS/COFINS/IPI

Federal VAT (PIS/COFINS) credits - tax authorities claim that the Group (together with most of other coffee companies in Brazil) had purchased green coffee from de facto, but not legally constituted companies in order to receive more PIS and COFINS credits and demand the difference between the total credit and the presumed credit, which amounted as of 31 December 2020 to R$ 65,823 (R$ 64,880 as of 31 December, 2019). Part of the total amount, R$ 1,996 (R$ 1,968 as of 31 December 2019), had its risk of loss probable, and it is registered in December 2020. Another part of the total amount, R$ 3,989 (R$ 3,931 as of 31 December 2019) was classified as possible loss. For the remaining amount, the Group and its tax advisors are of the opinion that there is no need to record any liability. The increase is due to the interest incurred.

Federal excise tax (IPI) – tax authorities claim the tax treatment applied, in respect to federal tax IPI – tax on manufactured goods, for powder juice was incorrect. According to the Group's understanding of the regulation, powder juice is a product classified as zero IPI tax rate. According to tax authorities, the Group should have used tax rates of 27% for the period from January 2011 to December 2011, 20% for the period from January 2012 to May 2012 and 10% since June 2012. The total updated amount, as of 31 December 2020 is R$ 68,827 (R$ 67,517 as of 31 December 2019). In 2019 the Group obtained 2 favorable outcomes in the first administrative instance; the Government may still contest the outcome at higher instances judgment in the Administrative Board of Tax Appeals (CARF). The Group and its tax advisors are of the opinion that there is no need to record any liability, since the classification is remote.

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 and its 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. As of 31 December 2020 the amount of the legal claim was R$ 99,164.

(iii) Income taxes (IRPJ/CSLL)

Goodwill amortization - tax authorities claim that the Group does not meet all criteria to deduct Goodwill amortization for tax purposes. As of 03 October 2017, the Goodwill Amortization process was judged in the Superior Chamber of Tax Appeals of CARF (Federal Administrative Court). In June 2020 the Group obtained a favorable outcome in the first judicial instance, the Government may still contest the outcome at higher judicial instances . The Group and its tax advisors are still of the opinion that there is no need to record any liability. As of 31 December 2020, the amount of the legal claim was R$ 29,745 (R$ R$ 29,294 as of 31 December 2019). The claim amount increased due to interest incurred.

The legal claims detailed above, except for the mentioned part of the Federal VAT (PIS/COFINS) and Goodwill claims, are classified as remote loss as of 31 December 2020 and 2019.

Changes in provision for legal proceedings during the year

	R$	
	2020	**2019**
Balance as of 1 January	15,047	16,317
Mitsui Alimentos acquisition (see Note 2.2)	46,702	-
Provisions made during the year	8,669	1,463
Legal proceedings settled during the year	(3,661)	(2,733)
Balance as of 31 December	66,757	15,047

Judicial deposits

The Group has, as of 31 December 2020, the amounts of R$ 8,012 of judicial deposits (R$ 9,837 as of 31 December 2019). These deposits are required by courts associated with various open legal proceedings and comprise a number of individual case deposits of smaller amounts.

(In thousands of Brazilian Reals)

25 Income taxes and social contribution

(a) Amounts recognized in profit and loss

	R$	
	31/12/2020	31/12/2019
Current taxes	18,065	58,117
Deferred taxes	(7,408)	(3,742)
Carryforward tax loss	(17,274)	(3,775)
Tax in income statement as of 31 December	(6,617)	50,600

(b) Reconciliation of effective tax rate

	R$	
	31/12/2020	31/12/2019
Profit before income tax	266,092	349,796
Income tax expenses (34%)	90,471	118,931
Adjustments to reconcile to effective tax rate:		
State VAT incentives (Note 26)	(34,906)	(32,243)
Foreign exchange effects of foreign operation	(24,750)	716
Benefit of goodwill amortization for tax purposes	(2,091)	(1,598)
Federal incentive - “Exploration profit” (Note 26)	(2,792)	(14,799)
Federal incentive - “Re-investment” (Note 26)	(168)	(223)
Interest on equity credited	(16,439)	(23,494)
Incineration of goods and inventory write-offs	3,256	3,352
Carryforward tax loss	(17,274)	(3,775)
Other	(1,924)	3,733
Tax in Income statement	(6,617)	50,600
Effective tax rate	(2.49%)	14.47%

(In thousands of Brazilian Reals)

(c) Deferred income tax assets and liabilities

Temporary differences	Basis	Income tax (*)	Social contribution (9%)	R$ 31/12/2020	R$ 31/12/2019
Provision for legal proceedings	18,959	3,891	1,706	5,597	4,409
Inventory adjustments	9,870	2,080	888	2,968	2,210
Provision for doubtful debt accounts	7,586	1,245	683	1,928	1,633
Derivatives transactions	(49,256)	(10,031)	(4,433)	(14,464)	(7,689)
Provision for discounts	38,046	6,498	3,424	9,922	9,692
Provision for short term employee performance award	19,105	3,070	1,719	4,789	2,421
Provision for revenue recognition	7,971	1,684	717	2,401	511
Difference between economic depreciation and tax rate	(4,848)	(1,212)	(436)	(1,648)	(1,761)
Goodwill amortization	(92,263)	(12,151)	(8,304)	(20,455)	(20,455)
Exchange rate variation cash basis	54,356	11,286	4,892	16,178	473
Profit elimination on inventory	3,741	935	337	1,272	1,281
IFRS 16 – Leasing	11,637	2,069	1,047	3,116	2,848
Federal VAT credit loss (Note 11)	12,197	1,885	1,098	2,983	10,718
Carryforward tax losses	61,497	17,274	-	17,274	-
Positive Brands acquisition (Note 2.1)	(9,100)	(2,275)	(819)	(3,094)	-
Mitsui Alimentos acquisition (Note 2.2)	(99,567)	(24,892)	(8,961)	(33,853)	-
Other	(9,888)	(1,749)	(890)	(2,639)	(1,801)
Total net deferred tax				(7,725)	4,490
Non-current assets				6,634	4,490
Non-current liabilities				(14,359)	-

(*) Income tax rate (excluding the Social contribution) is 25%, applicable to all Group's subsidiaries. However, as the Company has tax incentives (see Note 26.e), the Group´s future average income tax rate expected to be applied when the deferred tax is realized or settled, is 13.17% (2020 and 2019).

In assessing the recoverability of deferred tax assets, management estimates future taxable income and the timing of reversal of the temporary differences.

When it is more likely than not that a part or all of the deferred tax assets are not recoverable, such a portion is not recorded by the Group. Under Brazilian tax law, carryforwards tax loss (including those of the Social contribution) do not expire, however, their use is limited to up to 30% of annual taxable income and they do not benefit from any interest or monetary correction.

Considering the occurrence of taxable profit in recent years, the Group assessed the future taxable profits in order to calculate deferred tax asset on accumulated losses. The subsidiaries, Principal Comércio e Indústria de Café Ltda. and Café Brasileiro Ltda. (see Note 2.2), has, as of 31 December 2020, R$ 28,182 (R$ 2,104 as of 31 December 2019) of unrecognized carryforwards tax loss, because it is not probable that future taxable profit will be available against which the subsidiaries can use the benefits.

(d) Uncertainty over income tax treatments

As described in the note 24.(iii), tax authorities claim that the Group does not meet all criteria to deduct goodwill amortization for income tax purposes. The Group understands that the goodwill arose from an operation with an economic basis and therefore it can be used for tax purposes. No amount was recognized in these consolidated financial statements because the Group believes that the tax theses used by the Company in the past were in compliance with the applicable law and believes that it is probable that it would successfully defend the Group's tax treatment in court. The Group believes that its provisions for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

(In thousands of Brazilian Reals)

26 Equity

(a) Share capital

As of 31 December 2020 and 2019, Três Corações Alimentos S.A.'s share capital is comprised of the following:

Shareholders	R$ 31/12/2020	R$ 31/12/2019	%
Strauss Coffee B.V.	137,765.38	137,765.38	50%
São Miguel Fundo de Investimento em Participações	137,765.38	137,765.38	50%
	275,530.76	275,530.76	

Share capital as of 31 December 2020 and 2019 was comprised of 27,553,075,054 shares with a nominal value of R$ 0.01 (one centavo each.

(b) Translation adjustments

Management decided to use two different functional currencies, according to IAS 21 - Effects of changes in foreign exchange rates. For internal market operations, the functional currency is the Brazilian real (R$). For the green coffee export activity, the functional currency is the United States dollar (US$).

Management assessed the Group operations in order to present its green coffee export activity as a “foreign operation”, as established by IAS 21 - Effects of changes in foreign exchange rates, and, thereby, could apply separate accounting for the purposes of consolidation.

The main reasons to treat the green coffee export activity as a separated operation were:

The export activity has its own management, which is considered independent in terms of decisions about green coffee purchases and sales (export entity).

The exchange rate effects recorded in the translation adjustments arise from the following assets and liabilities, for the years ended on 31 December 2020 and 2019:

	R$		
31/12/2020	Três Corações Alimentos	Café Três Corações	Total
Inventories	-	(3,070)	(3,070)
Fixed assets	4,254	565	4,819
Trade receivables	-	4,535	4,535
Derivatives	-	976	976
Cost of sales	-	6	6
Deferred tax	-	51	51
Loans and borrowings	-	(78,310)	(78,310)
	4,254	(75,247)	(70,993)

(In thousands of Brazilian Reals)

	R$		
31/12/2019	**Três Corações Alimentos**	**Café Três Corações**	**Total**
Inventories	-	(1,331)	(1,331)
Fixed assets	353	(628)	(275)
Trade receivables	-	1,622	1,622
Derivatives	-	34	34
Cost of sales	-	(27)	(27)
Loans and borrowings	-	521	521
	353	191	544

(c) Dividends

Dividends are calculated in accordance with the terms agreed upon in the Shareholders´ Agreement, with rate of 35% over net income, adjusted by financial results. This amount is provisioned as proposed dividend in the balance sheet, subject to the approval by the General shareholders meeting.

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). Both, interest on equity and dividends were fully paid until December 2020.

The proposal for 2020 profit destination is to pay dividend in the amount of R$ 58,526 in December 2021, after the credit of interest on equity, in the amount of R$ 48,350 (over this amount there is the foreign shareholders' withholding income tax of R$ 3,626 - Note 21).

(d) Retained earnings

Legal reserve

Created at the rate of 5% on profit for the year, limited to 20% of share capital, as shown below:

	R$	
	31/12/2020	**31/12/2019**
Profit for the year (*)	272,709	299,196
	5%	5%
Legal reserve (*)	13,635	14,960
Legal reserve balance as of 1 January	55,106	54,909
Addition in the period	13,635	14,960
Legal reserve balance as of 31 December, before limit check	68,741	69,869
Legal reserve limit - 20% of share capital	55,106	55,106
Legal reserve addition, before limit check	13,635	14,960
Legal reserve not created due to limit check	(13,635)	(14,763)
Legal reserve addition, after limit check	-	197

(*) The reserve is calculated based on Três Corações Alimentos S.A. *per solo* profit above, which is different from the consolidated one due to the elimination of un-realized profit in intercompany transactions, in the amount of R$ 1,516 in 2020. In 2019, the amount of un-realized profit in intercompany transaction eliminated was R$ 1,236.

This reserve can only be used for capital increases or absorption of losses.

(e) Tax incentives reserve

Until 31 December 2007, all amounts of tax incentives were recognized in capital reserve, and starting 1 January 2008, due to changes implemented by Law 11,638/07, were recognized in profit or loss, and then designated to the tax incentives reserve. During the year ended 31 December 2020, the Company received government grants in the amount of R$ 64,464 (R$ 72,558 as of 31 December 2019). The tax incentive reserve cannot be distributed as dividends. If the Company distributes it in the future, the amounts have the following treatment depending on the incentive:

Federal incentives - the amount of income taxes not paid and distributed as dividends, must be paid as back taxes, as if there was no incentive;

Other incentives - the amount distributed must be added back to the taxable income used for calculating income tax and social contribution, under a combined rate of up to 34% in the period of the distribution, and will be also subject to PIS and COFINS taxes (currently 9.25%) on the distributed amount.

These government incentives are as follows:

PROVIN - Ceará State

The Government of the state of Ceará, in accordance with the state public policies geared towards promoting the industrial development of Ceará, decided to provide financial assistance for the investments necessary for installation of the industrial unit in the city of Eusébio, state of Ceará. The incentive consists of the postponement of payment of the ICMS state VAT tax and the deduction of 56.25% of total sales of roasted and ground coffee. The incentive is valid until July 2028. In order to maintain the incentive, the Group committed to: (a) finalize appropriately the investment project; (b) utilize the incentives exclusively for the project; (c) have no overdue tax and labor obligations; (c) keep the headquarters in the state of Ceará and have no changes in the Company's ownership involving third parties for the duration of the incentive.

PROEDI - Rio Grande do Norte State

In August, 2019 the government of the state of Rio Grande do Norte, in the interests of the development of this state, decided to replace the PROADI tax incentive for PROEDI. The incentive is valid until December, 2032.

The new benefit consists in the deduction of presumed tax credit of the VAT payable related to outflows based on own production. For the Natal factory the presumed tax credit percentage ranges from 75% to 80% and for the Mossoró unit it ranges from 80% to 85%. The percentage is determined according to the level of employment and unit revenues.

PRODEIC – Mato Grosso State

Café Brasileiro has a facility in the state of Mato Grosso which produces roasted and ground coffee, which is benefited with a state VAT Tax Incentives named PRODEIC (Mato Grosso Industrial and Commercial Development Program). The incentive is valid until December 2032.

(In thousands of Brazilian Reals)

Café Brasileiro is part of the PRODEIC Investment Food Industry of Vegetable and Animal Origin sub-module, with the objective of promoting the industrial development of products of animal and vegetable origin, by adding value to raw materials in Mato Grosso.

The tax benefit will consist of credit granted on the outputs of products manufactured at the industrial plant, with a percentage of 80% on the operations of intra-state deliveries and 85% on the operations of inter-state deliveries.

Other

The Group has received certain tax incentives and special tax regimes also in other Brazilian states, with no significant impacts on these consolidated financial statements.

State Tax Stability Funds (FEEF)

A requirement of maintaining the necessary tax balance, considering Brazilian economic scenario, led the Federal Government to provide for establishment of the State Tax Stability Funds (FEEF). The funds establish temporary additional VAT tax payments, to be made by companies with existing tax incentives granted by the individual states.

The Fund's purpose is to assure a minimum increase of 10% in VAT payments of incentivized companies. This way, in case VAT payable amount of a specific month has increased less than 10% compared to the same month in previous year, an additional payment must be made in order to achieve the minimum 10% of total increase. For Ceará FEEF the above percentage was changed for 2019 and 2020. It was 9% in 2019 and 7% in 2020.

Considering state tax incentives applicable to the Group, only Ceará, Paraíba and Rio Grande do Norte states' regulations are applicable to the Group operation, as follows:

State	Applicable period for FEEF Collection
Ceará	1 September 2016 to 31 December 2020
Paraíba	1 October 2016 to 31 August 2021
Rio Grande do Norte (a)	1 January 2018 to 31 December 2019

(a) Rio Grande do Norte's fund is called FUNDERN. It is similar to Ceará FEEF. In December 2018 the state ceased collecting the FUNDERN fund contributions due to a judicial decision questioning possible unconstitutionality of the fund.

Federal incentive - "Re-investment"

The Group is allowed to allocate part of its income tax payable to capital investments. The projects associated with these investments are submitted to the authorities' approval. The allocated amount is recognized in profit or loss at the moment of the Group's decision to proceed, since there is reasonable assurance the grant will be approved.

Federal incentive - "Exploration profit"

The Group benefits from the income tax exemption of 75% of the operating income derived from its main activities at the units of Eusébio (state of Ceará), Manaus (Amazonas), Natal and Mossoró (state of Rio Grande do Norte).

According to the rules for income tax government grants, until 2007 the amount, for local purposes, was charged directly to capital reserve - investment subsidy. Starting 2008, due to the effects of Law 11,638/07, the amount is charged to profit or loss, and then set aside from profit for the year to retained earnings - tax incentives.

(In thousands of Brazilian Reals)

The industrial site of Manaus (AM) has its incentive validated until December 2028 and the other factories have their incentives validated until December 2027. The factory of Santa Luzia in Minas Gerais is not established in an incentive area, reason why it has no Federal incentive.

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.

Reserve for profit to be distributed
Management decided to create reserve for profit to be distributed, for the remaining profit after all destinations above.

27 Revenue

Disaggregated net revenue information

	R$		
	Products	**Service**	**31/12/2020**
Geographical markets			
Domestic	3,927,942	439	3,928,381
Foreign	504,742	-	504,742
	4,432,684	439	4,433,123

	R$		
	Products	**Service**	**31/12/2019**
Geographical markets			
Domestic	3,736,113	209	3,736,322
Foreign	252,951	-	252,951
	3,989,064	209	3,989,273

(In thousands of Brazilian Reals)

Revenue reconciliation

	R$	
	31/12/2020	**31/12/2019**
Products - domestic	4,907,723	4,694,575
Products - foreign	504,742	252,951
Services	453	229
Other	226	138
Taxes on sales (a)	(462,634)	(373,103)
State VAT incentives	102,907	94,833
Discounts	(488,307)	(518,583)
Other deductions	(131,987)	(161,767)
Net revenue	4,433,123	3,989,273

(a) As described in Note 11.(b), the Group recognized the gain in the lawsuit related to the non-inclusion of state VAT (ICMS) in the basis of calculation of Federal VAT (PIS and COFINS). In 2020 the amount recognized was R$ 45,592 (2019: R$ 92,490).

28 Cost of sales by nature

	R$	
	31/12/2020	**31/12/2019**
According to source		
Cost of sales - domestic	(2,911,802)	(2,573,410)
Cost of sales - foreign	(378,624)	(219,482)
	(3,290,426)	(2,792,892)

	R$	
	31/12/2020	**31/12/2019**
According to components		
Materials consumed	(3,143,515)	(2,654,212)
Wages, salaries and related expenses	(60,564)	(58,320)
Depreciation and amortization	(24,410)	(18,716)
Services contracted	(18,205)	(17,668)
Maintenance	(8,354)	(7,830)
Other	(35,378)	(36,146)
	(3,290,426)	(2,792,892)

(In thousands of Brazilian Reals)

29 Selling and marketing expenses by nature

	R$	
	31/12/2020	**31/12/2019**
Wages, salaries and related expenses	(323,927)	(297,449)
Depreciation and amortization	(35,247)	(29,069)
Transport expenses	(153,440)	(153,783)
Export expenses	(12,015)	(7,186)
Services contracted	(51,674)	(49,431)
Marketing	(75,076)	(109,936)
Travel expenses	(7,389)	(10,806)
Allowance for expected credit losses	1,259	(335)
Other	(39,541)	(36,888)
	(697,050)	(694,883)

30 General and administrative expenses by nature

	R$	
	31/12/2020	**31/12/2019**
Wages, salaries and related expenses	(80,425)	(68,630)
Tax expenses	(9,946)	(8,977)
Depreciation and amortization	(28,708)	(27,054)
Services contracted	(4,660)	(6,594)
Reversal of provision for legal proceedings	(2,143)	1,270
Travel expenses	(1,700)	(5,184)
Maintenance	(12,858)	(9,823)
Other	(18,369)	(11,041)
	(158,809)	(136,033)

The increase in others are mainly related to donations made during the year to combat COVID-19, development of systems that do not qualify for capitalization and increase in maintenance expenses to adapt work environments to COVID-19.

31 Finance expenses, net

	R$	
	31/12/2020	**31/12/2019**
Finance expenses		
Interest expenses	(2,558)	(1,072)
Interest on loans and borrowings	(28,745)	(22,596)
Exchange rate effect	(1,079)	(316)
Interest on lease liabilities	(6,890)	(6,049)
Other	(3,954)	(3,146)
	(43,226)	(33,179)
Finance income		
Interest income	7,954	5,072
Interest from deposits	8,665	6,659
	16,619	11,731
	(26,607)	(21,448)

32 Financial instruments - Fair values and risk management

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

Furthermore, for the year of 2020 the fair value disclosure of lease liabilities is not required.

(In thousands of Brazilian Reals)

	Note	Financial assets at fair value	Financial assets at amortized cost	Other financial liabilities amortized cost	31/12/2020	Level 2	31/12/2020
		R$				R$	
		Carrying amount				Fair value	
Financial assets measured at fair value through profit and loss							
Short term deposits - Deposits in banks	7	527,753	-	-	527,753	527,753	527,753
Deposits with brokers	8	10,743	-	-	10,743	10,743	10,743
Financial assets not measured at fair value							
Cash and cash equivalents	1	-	99,249	-	99,249	-	99,249
Trade receivables with third parties	9	-	451,391	-	451,391	-	451,391
Trade receivables with related parties	9	-	5,255	-	5,255	-	5,255
Loans to related parties	13	-	12,272	-	12,272	-	12,272
Other		-	60,566	-	60,566	-	60,566
Financial liabilities not measured at fair value							
Trade payables	19	-	-	472,106	472,106	-	472,106
Loans and borrowings	18	-	-	1,039,201	1,039,201	1,053,852	1,053,852
Distribution to shareholders	26.c and 21	-	-	167,610	167,610	-	167,610
Payables for acquisition	23	-	-	7,411	7,411	-	7,411
Other		-	-	61,794	61,794	-	61,794

(In thousands of Brazilian Reals)

	Note	Financial assets at fair value	Financial assets at amortized cost	Other financial liabilities amortized cost	31/12/2019	Level 2	31/12/2019
		R$				R$	
		Carrying amount				Fair value	
Financial assets measured at fair value through profit and loss							
Short term deposits - Deposits in banks	7	468,089	-	-	468,089	468,089	468,089
Deposits with brokers	8	3,935	-	-	3,935	3,935	3,935
Financial assets not measured at fair value							
Cash and cash equivalents	7	-	69,956	-	69,956	-	69,956
Trade receivables with third parties	9	-	445,265	-	445,265	-	445,265
Trade receivables with related parties	9	-	3,912	-	3,912	-	3,912
Loans to related parties	13	-	11,942	-	11,942	-	11,942
Other		-	18,399	-	18,399	-	18,399
Financial liabilities not measured at fair value							
Trade payables	19	-	-	319,383	319,383	-	319,383
Loans and borrowings	18	-	-	708,104	708,104	693,596	693,596
Distribution to shareholders	26.c and 21	-	-	108,318	108,318	-	108,318
Payables for acquisition	23	-	-	9,630	9,630	-	9,630
Other		-	-	20,956	20,956	-	20,956

The fair value of financial assets and liabilities is determined by reference to price at which they could be exchanged in a current transaction between parties willing to negotiate, and not in a forced sale or liquidation. The following methods and assumptions were used to estimate the fair value:

Regarding derivative balances, the Group used the fair value reported in the brokers' statements, which is identified in the fair value hierarchy as the Level 2 of source of information.

The amounts of deposits presented in the financial statements as cash and cash equivalents are close to its realizable value because the operations are performed at variable interest rate and are immediately convertible to a determined amount of cash, which is identified in the fair value hierarchy as the Level 2 of source of information.

The fair value of non-negotiable instruments, bank loans and other debts, as well as other non-current financial liabilities, are estimated using discounted future cash flows at the rates currently available for similar instruments, which is identified in the fair value hierarchy as the Level 2 of source of information.

The fair value of assets and liabilities that are not quoted in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is 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;

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

(b) Risk management

The Group is exposed to the following risks as a result of using financial instruments:

Credit risk

Commodity price risk

Interest rate risk

Foreign currency risk

Liquidity risk

(In thousands of Brazilian Reals)

Capital structure risk.
This note provides information regarding the exposure of the Group to these risks and regarding the policy of the Group for management of such risks.

Forward transactions sensitivity analysis are determined according to the changes in the price of the relevant underlying asset and interest differences deriving from interest rates and storage costs (for green coffee).

(i) *Credit risk*

Credit risk is the risk of the Group incurring a monetary loss if a customer or counterparty does not meet its contractual obligations, and it derives mainly from debit balances of customers and cash and cash equivalents balances held at financial institutions. In order to mitigate this risk, the Group assesses the financial situation of its customers or counterparties, as well as defines credit limits and monitors outstanding debts and operates with first line financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	R$	
	31/12/2020	**31/12/2019**
Cash and cash equivalents (Note 7)	627,002	538,045
Deposits with brokers (Note 8)	10,743	3,935
Trade receivables (Note 9)	456,646	449,177
Other receivables	52,554	8,562
Other	8,012	9,837
	1,154,957	1,009,556

Management assesses its credit risk exposure as low, once the trade receivables are not concentrated. The biggest customer represents 6.87% of 2020 gross revenue (6.73% in 2019).

The Group uses an allowance matrix to measure the ECLs (please refer to note 9) of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a ‘roll rate’ method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics: geographic region and type of product purchased.

Provision for expected credit losses amounts to R$ 7,665 as of 31 December 2020 (R$ 6,406 as of 31 December 2019), representing 1.60% (1.43% as of 31 December 2019) of total trade receivables balance, and is expected to properly reflect the existing credit risk.

(ii) *Commodity price risk*

The prices of raw materials used in manufacture (primarily green coffee) of the Group’s products are affected, among other things, by uncontrollable factors, such as weather conditions.

(In thousands of Brazilian Reals)

Green coffee export business
For its green coffee export activity, the Group covers its fixed future sales agreements by both physical inventory, fixed future purchase agreements and uses financial derivatives to a limited extent. Below is a table with the quantities of bags (60 kg each) which the Group was committed to purchase or sell in the future, as of 31 December 2020 and 2019:

	R$	
	31/12/2020	**31/12/2019**
Purchase agreements:		
Price fixed	160,184	317,005
Sales agreements:		
Price fixed	436,988	363,406
Price to be fixed	113,160	106,720

Green coffee for the industry (internal market)
For its internal market production, the Group mainly seeks to manage its industry green coffee price exposure by managing its physical inventory of green coffee, its green coffee future purchases and only uses financial derivatives to a limited extent. When green coffee prices are attractive, the Group typically increases its coverage in advance of any expected price increases. Similarly, when green coffee prices are deemed high, the Group decreases its coverage of green coffee in anticipation of lower prices in the future. The Group coverage can normally range from as low as 2 months to up to 6 months.

Commodity financial derivatives - both green coffee export business and internal market
As of 31 December 2020 and 2019, there were no open derivatives positions and no sensitivity analysis was required. management has focused its hedging for green coffee prices variations in purchase and sales agreements, presented above.

(iii) *Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group does not normally use derivative financial instrument in order to reduce exposure to risks arising from changes in interest rates. At the report date the interest rate profile of the Group's interest-bearing financial instrument was:

	Carrying amount	
	31/12/2020	**31/12/2019**
	R$	
Fixed rate instruments		
Financial liabilities	(12,755)	(58,327)
Variable rate instruments		
Financial assets	527,753	468,089
Financial liabilities	(1,026,446)	(649,777)
Net exposure	(511,448)	(240,015)

(In thousands of Brazilian Reals)

Cash flow sensitivity analysis for variable rate instruments - CDI and TJLP
Changes in the interest rates as of the report date would increase (decrease) equity and the income or loss of the following period by the amounts presented below. This analysis was performed assuming that all the other variables remain the same.

31 December 2020

	Decrease of 2%	Decrease of 1%	Annual weighted interest	Increase of 1%	Increase of 2%
			R$		
Total	9,974	4,987	(20,846)	(4,987)	(9,974)

31 December 2019

	Decrease of 2%	Decrease of 1%	Annual weighted interest	Increase of 1%	Increase of 2%
			R$		
Total	3,634	1,817	(14,076)	(1,817)	(3,634)

Fair value sensitivity analysis for fixed rate instruments
Fixed interest assets and liabilities of the Group (such as deposits and loans) are not measured at fair value through profit or loss. Therefore, any change in the interest rate as of the report date would not have an effect on the statement of income.

Inflation rate
Brazilian inflation was 4.52% for the year ended 31 December 2020 (4.31% as of 31 December 2019) as measured by the IPCA consumer price index of the independent Fundação Getúlio Vargas. Brazilian economy is not considered as hyperinflationary according to IAS 29 - financial reporting on hyperinflationary economies. However, management is aware of the high inflation rates impact on the Group´s financial statements.

(iv) *Foreign currency risk*

Exposure to currency risk
The Group's exposure to foreign currency risk was as follows:

	Exposure to US$	
	R$	
	31/12/2020	**31/12/2019**
Financial assets		
Foreign customers	53,787	30,030
Financial liabilities		
Short term loans - ACC	(454,129)	(303,872)
Total exposure	(400,342)	(273,842)

(In thousands of Brazilian Reals)

Sensitivity analysis to currency risk
Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December would have increased (decreased) equity and the income or loss by the amounts presented below. This analysis was performed assuming that all the other variables remain the same and disregards use of hedging instruments and tax effects.

The sensitivity analysis relates to foreign currency risk arising from financial items denominated in foreign currency that is not the functional currency of the Group and its investee companies. Therefore, the foreign currency risk arising from the translation of financial statements of foreign operations, which is reflected in a translation reserve, is not included in this sensitivity analysis.

31 December 2020

	Decrease of 2%	Decrease of 1%	Exchange rate carrying amount	Increase of 1%	Increase of 2%
			R$		
Functional currency BRL/USD exchange rate	5.0928	5.1447	5.1967	5.2487	5.3006
Effect in R$ Thousand	8,007	4,003	(400,342)	(4,003)	(8,007)

31 December 2019

	Decrease of 2%	Decrease of 1%	Exchange rate carrying amount	Increase of 1%	Increase of 2%
			R$		
Functional currency BRL/USD exchange rate	3.9501	3.9904	4.0307	4.0710	4.1113
Effect in R$ Thousand	5,477	2,738	(273,842)	(2,738)	(5,477)

The Group uses derivative financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates. As of 31 December 2020, the derivative financial instruments of the Group were as follows:

	Currency Receivable	Currency payable	Expiration / Maturity/ Sale	Face value R$
Forward currency contracts	US$	R$	February/2021	103,594

Presented hereunder is a sensitivity analysis of the Group's derivative instruments (foreign currency) as of 31 December 2020 and 31 December 2019 in R$. Any change in the exchange rates of the principal currency, Brazilian Reals, versus foreign exchange rate currencies, mainly United States Dollars, as of 31 December, would have increased (decreased) the income or loss and the equity by the amounts presented below (in R$). This analysis was performed assuming that all the other variables remain the same, and disregards tax effects.

(In thousands of Brazilian Reals)

31 December 2020					
	Decrease of 2%	Decrease of 1%	Exchange rate carrying amount	Increase of 1%	Increase of 2%
			R$		
Functional currency BRL/USD exchange rate	5.0928	5.1447	5.1967	5.2487	5.3006
Effect of forwards	(2,079)	(1,039)	(337)	1,039	2,079

31 December 2019					
	Decrease of 2%	Decrease of 1%	Exchange rate carrying amount	Increase of 1%	Increase of 2%
			R$		
Functional currency BRL/USD exchange rate	4.1113	4.0710	4.0307	3.9904	3.9501
Effect of forwards	1,753	877	(709)	(877)	(1,753)

(v) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements. This analysis is based on rates known as of 31 December, such as foreign exchange rates and interest rates.

31 December 2020								
	Carrying amount	Contractual cash flow	2020	2021	2022	2023	2024	Thereafter
				R$				
Non-derivative financial liabilities:								
BRL long term loan	496,857	483,051	-	135,897	328,326	16,494	2,334	-
BRL credit from bank	167,141	162,614	162,614	-	-	-	-	-
USD credit from bank	375,203	370,005	370,005	-	-	-	-	-
Trade payables	471,240	471,240	471,240	-	-	-	-	-
Other payables	138,590	138,590	95,028	43,562	-	-	-	-
	1,649,031	1,625,500	1,098,887	179,459	328,326	16,494	2,334	-

31 December 2019								
	Carrying amount	Contractual cash flow	2020	2021	2022	2023	2024	Thereafter
				R$				
Non-derivative financial liabilities:								
BRL long term loan	47,306	57,537	-	27,403	16,850	8,457	4,826	1
BRL credit from bank	356,926	363,330	363,330	-	-	-	-	-
USD credit from bank	303,872	308,911	308,911	-	-	-	-	-
Trade payables	319,383	278,367	278,367	-	-	-	-	-
Other payables	84,556	84,556	77,403	1,246	2,000	555	-	3,352
	1,112,043	1,092,701	1,028,011	28,649	18,850	9,012	4,826	3,353

(In thousands of Brazilian Reals)

(vi) Capital structure management

Management policy is to maintain a solid capital base in order to maintain investors´ and market trust, as well as to maintain the future development of the business. Management monitors returns on capital, which the Group defines as the relation between operational profit and total equity. Management monitors as well the dividend amounts distributed to the shareholders.

Management seeks to maintain a balanced level of returns to the shareholders with low risk level of net debt and a healthy capital structure.
The Group's equity and working capital versus net debt at the end of each year are presented below:

	R$	
	31/12/2020	**31/12/2019**
Debt (Note 18)	1,039,201	708,104
Less: cash and cash equivalent (Note 7)	(627,002)	(538,045)
Net debt	**412,199**	170,059
Total equity	**1,264,278**	1,169,569
Equity/net debt ratio as of 31 December	3.07	6.88
Trade receivables (Note 9)	456,646	449,177
Inventories (Note 10)	615,743	418,437
Trade payables (Note 19)	(472,106)	(319,383)
Total working capital	600,283	548,231
Working capital/net debt ratio as of 31 December	1.46	3.22

The reduction in the indices is mainly due to the increase in the net debt as explained in notes 7 and 18.

33 Insurance

The Group hires insurance coverage for assets exposed to risks. Management believes the coverage is in an amount sufficient to cover eventual losses, considering the nature of the Group's activities.

On 31 December 2020, insurance coverage against operational risk comprised R$ 128,486 (R$ 81,208 as of 31 December 2019) for material damage, R$ 229,475 (R$ 147,103 as of 31 December 2019) for lost profits, R$ 20,000 (R$ 20,000 as of 31 December 2019) for civil responsibility and R$ 15,000 (R$ 15,000 on 31 December 2019) for directors and members of the executive team civil responsibility.

34 Subsequent Event

After the Christmas and New Year celebrations of 2020, there was an increase in number of cases of COVID-19 in Brazil. During the months of January and February, state and municipal governments took partial isolation measures, depending on the level of the disease increase in their territories. Currently some of the states (SP) are relaxing some of the restrictions, but future developments cannot be predicted.

The vaccination campaign against COVID-19 only started in Brazil in the second half of January 2021. The vaccination started by the priority groups of the so-called phase 1: health workers, institutionalized people (residing in asylums) with 60 years of age or more, institutionalized people with disabilities and indigenous villagers. General population over 75 is also being vaccinated, in accordance with availability of the vaccines.

In the current phase of the disease, the states with the greatest impact on the hospital network are taking additional restrictive measures in order to contain the disease. One of these measures has been closing of bars and restaurants or reducing the opening hours of these establishments.

Although the closing of these establishments or the reduction in opening hours has a direct impact on the billing of customers of the food service channel, management believes that the impact of the restrictive measure is not relevant since the billing of this channel is relatively small within the total volumes of the Group *3corações*.

The Group understands the current impacts are similar to those during 2020 worst moments, and the measures to support our network of customers and our employees are similar as well.