Quarterly Repot

as at March 31, 2021

Strauss Group LTD.

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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

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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 in 2020 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.

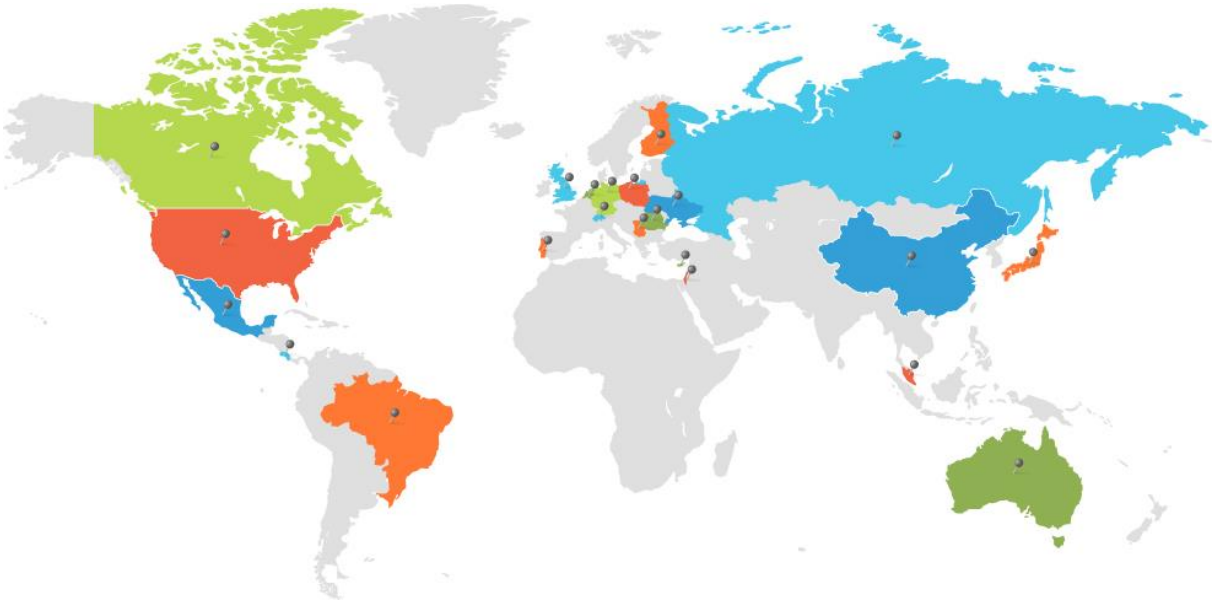
Strauss Water

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
Israel

Strauss Coffee
Israel
Holland
Brazil
Romania
Switzerland
Poland
Serbia
Germany
Ukraine
Russia

Strauss Water
Israel
China
UK

International Dips and Spreads
US
Holland
Australia
Mexico
Canada

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 FoodTech by investing in early-stage technological ventures, which offer solutions to the global food industry.

Since its establishment, the incubator has invested in 19 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 Q1 2021 Financial Performance

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

NIS
2,061 million
Net sales

-0.4%
Organic growth
(excluding foreign currency effects)

39.4%
Gross profit margin

NIS
289 million
Operating profit

11.8%*
Organic change in operating profit (excluding foreign currency effects)

14.0%
Operating profit margin

NIS
373 million
EBITDA

8.5%
change in EBITDA (excluding foreign currency effects)

NIS
178 million
Operating cash flow

NIS
206 million
Net income attributable to shareholders

20.5%*
Growth in net income attributable to shareholders

NIS
115 million
Free cash flow

NIS
1.77
Earnings per share

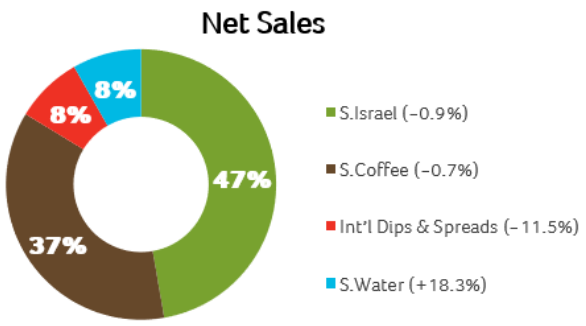
20.2%
EPS growth

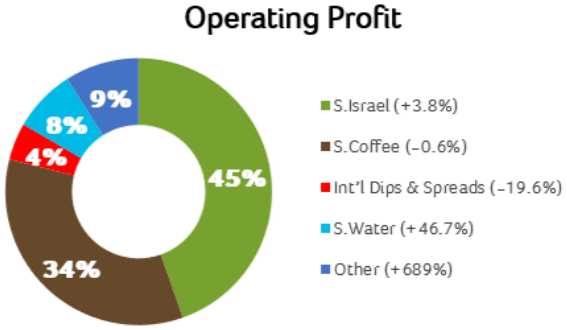
NIS
2.32
Dividend per share

* Excluding foreign currency effects and the profits of the investees in the Group's incubator, organic growth in operating profit and net profit attributable to shareholders was 0.5% and 7.8%, respectively.

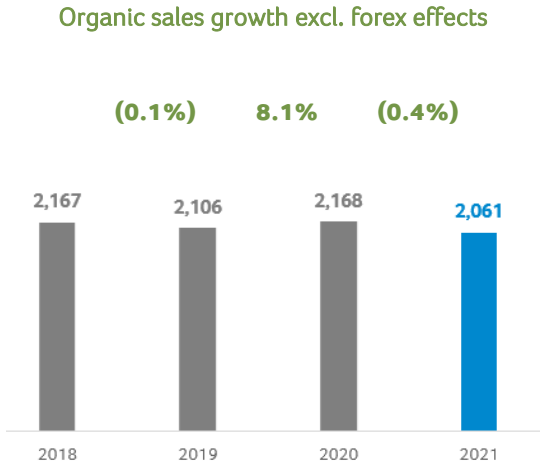
Selected financial data for Q1 2021

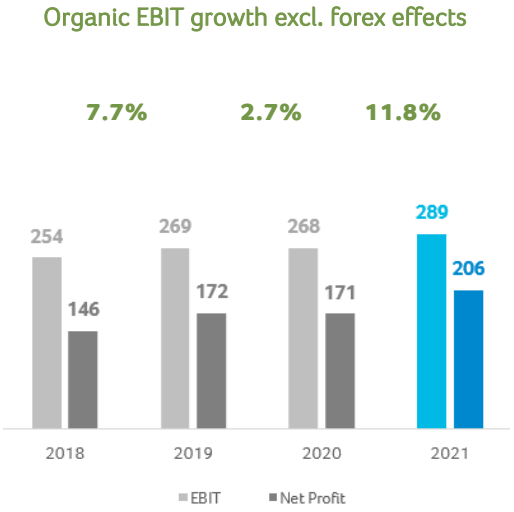
	Q1 2021	Q1 2020	% change
Sales	2,061	2,168	(4.9%)
Organic growth excluding foreign currency effects	(0.4%)	8.1%	
Gross profit – non-GAAP	812	878	(7.5%)
% of sales	39.4%	40.5%	-
Total operating expenses	557	614	(9.2%)
Equity income	34	4	824.2%
Operating profit – non-GAAP	289	268	7.6%
% of sales	14.0%	12.3%	
Net financing expenses	(2)	(16)	(89.7%)
Income before tax – non-GAAP	287	252	13.8%
Income tax	(63)	(66)	(4.7%)
Income for the period – non-GAAP	224	186	20.4%
Income attributable to shareholders	206	171	20.5%
% of sales	10.0%	7.9%	
Income attributable to non-controlling interests	18	15	18.4%
EPS (NIS)	1.77	1.47	20.2%





* 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.

Definitions

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

"Strauss" / the "Company"	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 for the Year 2020.
"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 of the Description of the Company's Business Report for the Year 2020.
The "Non-GAAP Reports" / "Non-GAAP Management Reports"	The Company's non-GAAP reports, as defined in section 5 of the Description of the Company's Business Report for the Year 2020.
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"	Nielsen Holdings plc is a leading global data and analytics company, 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

UPDATE OF THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS" IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY") FOR THE YEAR 2020[1] (HEREINAFTER: THE "PERIODIC REPORT")

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, following is a description of material developments that occurred in the Company's business in the three months ended March 31, 2021 and through to the publication date of the report, which have not yet been disclosed in the Periodic Report. This update refers to the numbers of the sections appearing in the chapter "Description of the Company's Business" as well as to a number of regulations in the chapter "Additional Information on the Company" in the Company's 2020 Periodic Report (**"Description of the Company's Business Report"** and **"Additional Information Report"**, respectively), and is presented according to the order of the sections in said reports. It is noted that the terms used in this chapter shall have the meaning ascribed to them in the Periodic Report, unless expressly stated otherwise.

1. Section 4 in the Description of the Company's Business Report, Dividend Distribution

On March 21, 2021 the Board of Directors of the Company approved the distribution of a cash dividend to shareholders of the Company. For information on said dividend distribution, see the Immediate Report of March 22, 2021, as completed on March 25, 2021 (reference no. 2021-01-040467 and 2021-01-047142, respectively), and also Note 4.1 to the Condensed Consolidated Interim Financial Statements of the Company as at March 31, 2021.

2. Section 17 in the Description of the Company's Business Report, Financing

Section 17.4, Credit rating

On April 7, 2021 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with stable outlook. For further information, see the Immediate Report of April 7, 2021 (reference no. 2021-01-059160).

On May 20, 2021 the Company announced the reaffirmation of Midroog's Aa1.il rating with stable outlook for the Company's Series E and Series F debentures. For further information, see the Immediate Report of May 20, 2021 (reference no. 2021-01-028198).

1 As published on March 22, 2021 (reference no. 2021-01-040482).

3. Section 22 in the Description of the Company's Business Report, Legal Proceedings

For updates, see Note 6 to the Condensed Consolidated Interim Financial Statements of the Company as at March 31, 2021.

4. Regulation 26A in the Additional Information Report, Senior Officers

On May 9, 2021 Mr. Ronen Zohar assumed the office of Deputy CEO of Strauss Group. On said date, Ms. Esti Carmeli assumed the office of CEO of Strauss Water. For further information, see the Immediate Report regarding status of senior officers, which is published simultaneously with this report.

Date: May 24, 2021

Names and titles of signatories:

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Chief Executive Officer

Strauss Group Ltd.

Strauss Group LTD.

Board of Directors' Report to the Shareholders

as at March 31 ,2021

Table of Contents: Board of Directors' Report to the Shareholders

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 first quarter of 2021 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

The review presented below is limited in scope and refers to events and changes that occurred in the state of the Company's affairs in the reporting period, which have a material impact, and should be read together with the chapter Description of the Company's Business in the Periodic Report as at December 31, 2020, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 22, 2021 (reference no. 2021-01-040482) (the "2020 Periodic Report").

2. Principal Information from the Description of the Company's Business

2.1 Overview of the operating segments in 2021

The Group is active in six operating segments that are disclosed as reportable segments, as described in Note 27 to the Financial Statements of the Company as at December 31, 2020. Four of these segments are concentrated under two main frameworks: the Israel Operation and the Coffee Operation[1].

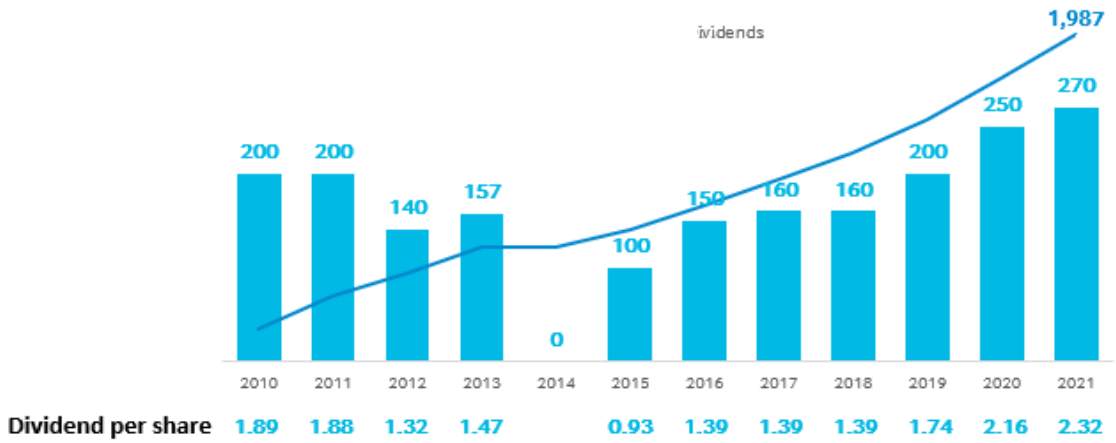
2.2 Dividends

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.

[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.

Since 2010 through to the present, the Company has distributed dividends amounting to approximately NIS 2 billion. The following figure presents data on dividends paid in recent years:

Dividend Payouts, Annual and Total, in 2010–2021



* Figures are in NIS millions.

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 2.32 per share), which was paid on April 13, 2021.

The balance of retained earnings on March 31, 2021 in the Statement of Financial Position is approximately NIS 3,050 million.

CHANGES IN THE ECONOMIC ENVIRONMENT

3. Update on the outbreak of the COVID-19 pandemic and the deterioration in the security situation in Israel

3.1 Impacts of the COVID-19 outbreak on the Group's business and business results in the first quarter through to the date of this report

Group Management continues to manage the event and 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. On 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 regularly. 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 first quarter, including steps to increase production capacity and maximize the availability of products and services.

In the first quarter of 2021 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 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 first 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 began. Following are the main occurrences observed in this period:

Consumer behavior – At the end of the first quarter the Israeli economy slowly opened up following the success of the national vaccination campaign. In other geographies, restrictions on movement and social distancing continued throughout the entire quarter at varying intensity. At-home consumption in most regions remains high compared to the pre-COVID period, but is lower than that observed in the first quarter of 2020 (in light of the fact that in March 2020, a trend of overbuying in initial response to the outbreak was observed). A number of behavioral characteristics that emerged when the pandemic broke out persisted in the first quarter of 2021, among others, continued growth in at-home consumption of food and beverages and a drop in away-from-home (AFH) consumption; continued growth in online shopping; and a drop in purchases of impulse products and other portable products which are intended for AFH consumption.

Geographies – In the first quarter, growth in the Group's sales in **Israel** remained higher than the average growth observed in prior years, before the outbreak of the pandemic in 2020, except for sales of impulse products (snacks and candies), which are intended for AFH consumption, and the AFH coffee category. However, a gradual improvement in the AFH channel was observed in April as the number of vaccinated people rose and the Israeli economy increasingly opened up. Growth in the Company's sales was due, among other things, to greater at-home food consumption following the lockdowns imposed on consumers in the first quarter (January) and the closure of most AFH entertainment and dining venues, which continued until March. In the **US**, the hummus category continued to shrink in the first 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 first quarter compared to the corresponding period due to decreased demand, as well as challenges in maintaining supply chain continuity due to the outbreak of the pandemic. In **Eastern Europe**, results in local currency sales were mixed. While sales in Poland dropped sharply due to a temporary decrease in sales to a particular customer following commercial negotiations (it is noted that in April, sales to this customer resumed), sales in Russia and Serbia grew, and in Romania, stability compared to the corresponding period was observed. In **Brazil**, local currency sales increased; however, it is noted that the coronavirus pandemic has continued to worsen, prolonging the economic crisis. In **China** and the **UK**, sales of water bars increased in local currency. The trend of recovery in China's economy has continued even more strongly.

Product categories – In the first quarter, the growth trend in demand for the Group's products for at-home consumption in Israel continued, although compared to the first quarter of 2020 a drop was observed as a result of the exceptional demand experienced in March 2020. Fun & Indulgence sales began to recover only in April. The trend of relative weakness in sales in the sweet snack impulse category, products that serve for AFH consumption, continued in the first quarter. 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, and a drop in products for at-home consumption was also observed due to decreased demand and localized supply chain challenges.

Sales channels – In the first quarter, a drop in the Group's sales in Israel to supermarket chains and growth in sales to the private market, minimarkets and neighborhood grocery stores was observed. 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, a sharp drop was recorded compared to January-February 2020, the months before the outbreak of the pandemic. In March 2021, the Elite Café chain's points of sale began to open gradually.

Impact on the Group's business units

Strauss Israel – Following the continuation of the lockdown in Israel in the first quarter, the demand for dairy products, salads, confectionery and snacks for at-home consumption remained strong, whereas demand for impulse snacks, which are mainly consumed away-from-home, remained weak. Compared to the prior year and March 2020 in particular, a drop in demand was observed. In addition, compared to the first quarter of 2020, sales to the supermarket chains decreased while sales to the private market grew, partly as a result of a change in consumers' consumption habits. Sales to the institutional and AFH channels (e.g. hotels, offices, cafés and restaurants) remained weak, but during the quarter, and especially since March, when significant easements were introduced following the vaccination campaign, these channels began to recover as well. Online (e-tail) sales, mainly via the various retail platforms on which the Company's products are sold, continued to grow. In the first 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 in March 2020. In the current quarter too, most of the manufacturing sites, the supply chain and the accompanying value chain, which are defined as essential, continued to operate regularly and continuously. As a result of the high percentage of people who have been vaccinated in Israel, there is cautious optimism as to the gradual emergence from the lockdown routine and a slow return to reopening the AFH and institutional market channels. 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. Supply chain costs and manufacturing and raw material costs continued to rise compared to costs prior to the outbreak due to the world recovery trend and a sharp rise in international shipping costs, and additional manufacturing costs due to the costs of personal hygiene, separation of shifts, support of production and front-line employees and contribution to the community have continued to apply.

Strauss Water – Israel – The first 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 pandemic, with an increase in both COGS and operating expenses, and particularly in international shipping costs.

China – In the first quarter, the company's sales and profit in local currency continued to recover.

In the UK – In the first quarter the company's sales grew compared to the corresponding period last year; however, the lockdown in the quarter somewhat slowed the growth pace.

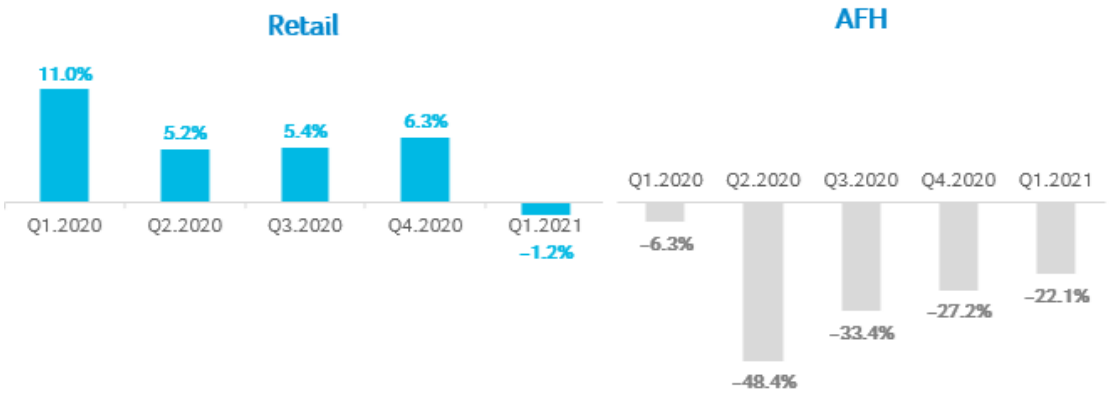
Strauss Coffee – In the reporting period the impact on the coffee business was mixed, according to the different sales channels. In sales to the retail market in Israel, compared to the prior year and March 2020 in particular, a drop in demand was observed as the country emerged from the lockdown with a subsequent decrease in at-home consumption, while the at-home premiumization trend has continued and capsule consumption in Israel has continued to grow strongly (according to StoreNext, around 52%). In Brazil and most European countries sales increased moderately in the first quarter following growth in at-home coffee consumption, consisting of basic coffee brands, coffee beans and capsules for home consumption. Growth was also observed in online sales. In the institutional and AFH market in Israel, the first half of the quarter was marked by a drop in activity compared to the prior year due to the lockdowns,

with the beginnings of recovery in the second half of the quarter. The Elite Café chain points of sale saw a drop compared to the corresponding period due to the restrictions on railway traffic and on eating and drinking inside trains. The institutional and AFH channel experienced a drop compared to last year following the restrictions imposed on public places and decreased presence at offices due to the continuing spread of the virus.

In terms of costs, an increase was observed in the cost of green coffee, notably in Brazil, as well as an increase in shipping and transportation costs. However, 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 expectations with regard to price adjustments are 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.

International Dips & Spreads – In the first quarter Sabra's sales declined compared to the first quarter of 2020 as a result of decreasing demand and ongoing supply chain challenges. Additionally, the harm to sales in the AFH market and sales of products consumed away from home in all channels persisted as a result of continued lockdowns in the country. Furthermore, the growth in wage costs due to incentives and support for production, operations and sales employees continued, as did high supply chain costs. Obela saw an increase in sales of dip products due to increased demand.

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



* Excluding the translation differences effect

3.2 Impacts of the deterioration in the security situation in Israel

In May the security situation in Israel deteriorated after rockets were fired from Gaza on southern and central Israel, following which the IDF launched Operation Guardian of the Walls. The military conflict was accompanied by an outbreak of acts of violence between Arabs and Jews and Jews and Arabs, particularly in the mixed cities, first and foremost Lod, Acre and even Haifa and Jaffa. A small number of rockets were also fired at Israel from Syria and Lebanon.

As at the date of publication of this report, Operation Guardian of the Walls has been discontinued. Manufacturing and sales operations are being routinely carried out throughout Israel at the Company's production facilities and sites, and its business activities in cities and centers in southern Israel are being conducted as usual.

The above events did not have a material impact on the Group's business and the results of its operations.

3.3 Future estimates

As demonstrated by the foregoing, at the date of this report, the COVID-19 outbreak has had no material adverse effect on the Group's business position and the results of its operations, other than the continuing impact of the depreciation of the Brazilian Real on reported translation differences and the profitability of the coffee business as a result of the depreciation; the effects of the supply chain in Sabra; and the increase in manufacturing, shipping and raw material costs in the various operating segments. 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 for at-home consumption is possible compared to the period of the outbreak. In some regions, a gradual return to business in the institutional market and AFH sales channels is possible as the number of people who have been vaccinated in part of the regions increases.

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. The first quarter of 2021 saw changes in the average market prices of part of the Group's raw materials. On the one hand, the prices of Arabica and Robusta green coffee rose, as did the prices of green coffee in Brazil, sugar, raw milk and seeds, while on the other, the prices of cocoa, olive oil, honey and polystyrene and plastic bottles (packaging materials) dropped. At the beginning of the second quarter of 2021 the price of raw milk ("target price") was revised upward by approximately 5.0% for the months of April to June 2021, further to an increase of 2.3% at the beginning of Q1 and following a decrease of approximately 0.9% in 2020. Further, proximate to the date of publication of the report and since the end of the first quarter, there has been a rise, mainly in green coffee and seeds prices.

In addition, in the past year and in the recent period in particular, the world supply chain has been adversely affected by a shortage of containers used to ship goods from China to western countries, by the recent blockage of the Suez Canal and the resulting delays in discharging containers at the ports, including in Israel, and the sharp rise in shipping costs.

In light of the rising prices of some raw materials and shipping costs, the Company is planning for various possibilities. The ability to execute these plans, including mitigation and efficiency enhancement plans, is uncertain, and, in certain cases and according to policy, a revision of sales prices will be considered.

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 the first quarter of 2021 the average price of Brent oil was approximately 20% higher than the average price in the corresponding period last year. Since the beginning of the year through to proximate to the date of publication of the report, the price of Brent oil has risen by approximately 30%.

[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).

6. Exchange Rate Fluctuations

The impact of the revaluation of the Shekel on the basis of average exchange rates against the Group's main functional currencies in Q1 2021 compared to the corresponding period last year, particularly the Brazilian Real and Russian Ruble, led to negative translation differences on the income statement in the first quarter of the year. In terms of changes in exchange rates in the quarter (based on closing prices) the Shekel appreciated against part of the functional currencies, particularly the Brazilian Real, with a negative effect on the Group's equity. In the first quarter some currencies (the Ruble, the Hryvnia and the Real) weakened against the US Dollar compared to the corresponding period, whereas others (including the Shekel, Zloty and Leu) appreciated.

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

Average Exchange Rates Against the Shekel				
Currency		Average Exchange Rate First Quarter		% change
		2021	2020	
United States Dollar	USD	3.270	3.496	(6.5%)
Euro	EUR	3.944	3.854	2.3%
Ukrainian Hryvnia	UAH	0.117	0.140	(16.4%)
Russian Ruble	RUB	0.044	0.053	(16.8%)
Serbian Dinar	RSD	0.034	0.033	2.3%
Romanian Leu	RON	0.809	0.803	0.7%
Polish Zloty	PLN	0.867	0.892	(2.8%)
Brazilian Real	BRL	0.599	0.789	(24.0%)
Chinese Renminbi	CNY	0.505	0.501	0.9%
Canadian Dollar	CAD	2.583	2.605	(0.9%)
Australian Dollar	AUD	2.523	2.302	9.6%
Mexican Peso	MXN	0.162	0.176	(7.9%)
Pound Sterling	GBP	4.512	4.478	0.8%

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

Average Exchange Rates Against the Dollar				
Currency		Average Exchange Rate First Quarter		% change
		2021	2020	
New Israeli Shekel	ILS	0.306	0.286	6.9%
Ukrainian Hryvnia	UAH	0.036	0.040	(10.7%)
Russian Ruble	RUB	0.013	0.015	(11.1%)
Serbian Dinar	RSD	0.010	0.009	9.4%
Romanian Leu	RON	0.247	0.230	7.7%
Polish Zloty	PLN	0.265	0.255	3.9%
Brazilian Real	BRL	0.183	0.226	(18.9%)
Chinese Renminbi	CNY	0.155	0.143	7.8%
Pound Sterling	GBP	1.380	1.281	7.7%

Since the beginning of 2021 through to proximate to the date of publication of the report, the Shekel depreciated by approximately 1% against the Dollar and approximately 2% against the Russian Ruble, and appreciated by approximately 2% against the Brazilian Real.

7. Regulatory Developments in Input Prices

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 is not expected to have a material effect on its business results.

RESULTS OF BUSINESS OPERATIONS

8. Overview of the Results of Business Operations

The Group has a number of joint ventures in which the Company and/or subsidiaries hold a 50% stake: the coffee business in Brazil (Três Corações (JV)[3]), the dips and spreads business in North America (Sabra Dipping Company), Strauss Frito-Lay Ltd. (the salty snacks business in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela). To clarify, the above companies are included in the Management (non-GAAP) Reports of the Company according to the holdings of the Company and/or the subsidiaries therein (50%).

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 one separate row ("Profit of equity-accounted investees", and in other reports in the relevant section).

Notwithstanding the foregoing, 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. Presentation of the data in this manner is different to the manner of their presentation in the Audited Financial Statements of the Company.

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarters ended March 31, 2021 and 2020 (in NIS millions):

[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).

Condensed Results of Business Operations

	First Quarter			Explanation
	2021	2020	% change	
Sales	**2,061**	**2,168**	**(4.9%)**	The drop in sales largely originated in the Strauss Coffee segment due to negative translation differences, primarily as a result of the depreciation of the Brazilian Real and the closure of Elite Café points of sale, and in the Strauss Israel and International Dips & Spreads segments due to strong sales in March 2020 following the COVID-19 outbreak. By contrast, sales growth was recorded in the Strauss Water segment as a result of growth in the customer base and sales of new appliances. For further information, see section 12 below.
Organic growth excluding foreign currency effect	(0.4%)	8.1%		
Cost of sales	1,249	1,290	(3.2%)	The drop in gross profit is primarily the result of the drop in sales as mentioned. The drop in the gross profit margin is largely the result of rising green coffee prices in Brazil and in Russia, which was partially offset by the adjustment of prices for changes in raw material prices and currencies in certain regions. For further information, see section 13 below.
Gross profit – non-GAAP	**812**	**878**	**(7.5%)**	
% of sales	39.4%	40.5%		
Selling and marketing expenses	425	470	(9.6%)	The decrease in selling and marketing expenses mainly originated in the Strauss Coffee segment following the drop in the business of the Elite Café chain and translation differences, primarily due to the depreciation of the Brazilian Real, and in International Dips & Spreads following high expenses in the corresponding period last year as a result of advertising in the US Super Bowl.
General and administrative expenses	132	144	(8.0%)	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 efficiency enhancement, savings in consultation, travel and business entertainment expenses following the COVID-19 outbreak and to translation differences, largely as a result of the depreciation of the Brazilian Real, which was partially offset by an increase in product donations.
Total operating expenses	**557**	**614**		
Company's share of profit of equity-accounted investees	34	4	824.2%	Most of the increase is the result of funding rounds by three equity-accounted investees in Strauss's incubator, which led to the recognition of a total aggregate profit of approximately NIS 30 million as a result of a decrease in the holding percentage and loss of control. For further information, see section 16.5.
Operating profit – non-GAAP	**289**	**268**	**7.6%**	Most of the increase is the result of the gains recognized by Strauss's incubator as described above. Additionally, an increase in the operating profit of the Strauss Israel segment was recorded, mainly achieved as a result of efficiency enhancement, and in Strauss Water as a result of growth in the customer base and in sales of new appliances. By contrast, a decrease in the operating profit of the Strauss Coffee segment was recorded following negative translation differences largely as a result of the depreciation of the Brazilian Real and the closure of Elite Café points of sale, and in the International Dips & Spreads segment following the drop in sales to the AFH market in the US. Growth in the operating profit margin in the first quarter of 2021 is the result of operational efficiency enhancement due to the COVID-19 outbreak and higher marketing expenses in the corresponding period in 2020, which was partially offset by the drop in the gross profit margin. For further information, see section 15 below.
% of sales	14.0%	12.3%		
Financing expenses, net	(2)	(16)	(89.7%)	The decrease in financing expenses is the largely the result of increased income in respect of foreign currency derivatives and exchange rate differences, mainly of the Dollar and Pound Sterling. The decrease was also due to lower interest on debt following debt optimization processes applied in 2020.
Income before taxes – non-GAAP	**287**	**252**	**13.8%**	
Income tax	(63)	(66)	(4.7%)	The decrease in the effective tax rate in the first quarter of 2021 is laregly the result of the profit mix for tax purposes between the companies in the various countries.
Effective tax rate	22.0%	26.2%		
Income for the period – non-GAAP	**224**	**186**	**20.4%**	Most of the increase is attributed to growth in the operating profit and a decrease in financing expenses.
Attributable to the Company's shareholders	**206**	**171**	**20.5%**	
% of sales	**10.0%**	**7.9%**		
Attributable to on-controlling interests	18	15	18.4%	
EPS (NIS)	1.77	1.47	20.2%	

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarters ended March 31, 2021 and 2020 (in NIS millions):

Condensed Results of Business Operations by Operating Segment			
	First Quarter		
	2021	2020	% change
Israel			
Net sales	974	983	(0.9%)
Operating profit	129	124	3.8%
Coffee			
Net sales	751	844	(11.0%)
Operating profit	99	107	(8.5%)
International Dips & Spreads			
Net sales	166	197	(16.2%)
Operating profit	13	18	(25.6%)
Water			
Net sales	170	144	18.2%
Operating profit	22	15	46.7%
Other			
Operating profit	26	4	673.5%
Total			
Net sales	**2,061**	**2,168**	**(4.9%)**
Operating profit	**289**	**268**	**7.6%**

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

Following are the condensed GAAP statements of income for the quarters ended March 31, 2021 and 2020 (in NIS millions):

Condensed GAAP Statements of Income			
	First Quarter		
	2021	2020	% change
Sales	1,509	1,545	(2.3%)
Cost of sales excluding impact of commodity hedges	878	896	(2.0%)
Adjustments for commodity hedges[1]	1	14	
Cost of sales	879	910	(3.4%)
Gross profit	**630**	**635**	**(0.8%)**
% of sales	41.7%	41.1%	
Selling and marketing expenses	321	336	(4.6%)
General and administrative expenses	104	108	(4.1%)
Total expenses	**425**	**444**	
Share of profit of equity-accounted investees	68	48	40.0%
Operating profit before other income (expenses)	**273**	**239**	**14.2%**
% of sales	18.1%	15.4%	
Other income (expenses), net	4	(1)	
Operating profit after other expenses	**277**	**238**	**16.2%**
Financing income (expenses), net	3	(10)	(133.7%)
Income before tax	**280**	**228**	**22.9%**
Income tax	(59)	(57)	3.5%
Effective tax rate	21.1%	25.1%	
Income for the period	**221**	**171**	29.5%
Attributable to: The Company's shareholders	**203**	**156**	**30.7%**
Non-controlling interests	18	15	16.4%

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 gains or losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

9. Condensed Statement of Financial Position

Following is the condensed GAAP statement of financial position as at March 31, 2021 and December 31, 2020 (in NIS millions):

Condensed GAAP Statement of Financial Position				
	March 31, 2021	Dec. 31, 2020	% change	Explanation
Total current assets	2,374	2,192	8.3%	The change is primarily due to an increase in cash and cash equivalents and in receivables, largely as a result of the timing of Passover.
Of which: Cash and cash equivalents	571	491	16.1%	For information on the change in the cash and cash equivalents item, see section 17 below. According to Company policy, these assets are mainly held in liquid deposits.
Total non-current assets	4,276	4,222	1.3%	The change is primarily due to an increase in investments in associates following growth in the profit of investees, which was partially offset by negative translation differences, largely as the result of the depreciation of the Brazilian Real against the Shekel.
Total assets	**6,650**	**6,414**	**3.7%**	
Total current liabilities	2,114	1,833	15.4%	The change is primarily due to a dividend declared but not yet paid, and to an increase in payables.
Total non-current liabilities	2,162	2,149	0.6%	There was no material change in total non-current liabilities in the reporting period.
Total equity attributable to the Company's shareholders	2,185	2,260	(3.4%)	Most of the change is due to a dividend declared but not yet paid in the period and to negative translation differences, mainly as a result of the weakening of the Brazilian Real against the Shekel based on exchange rates at period end, which was partially offset by growth in shareholder profits.
Total equity attributable to non-controlling interests	189	172	9.6%	The change is primarily the result of an increase in the profit of investees.

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 March 31, 2021 and December 31, 2020 (in NIS millions):

Outstanding Debt				
	March 31, 2021	Dec. 31, 2020	Change	Explanation
Gross debt – Non-GAAP Reports	2,548	2,639	(91)	Most of the decrease in net debt in the Financial Statements is the result of an increase in cash balances following a positive cash flow from operating activities in the reporting period, which was partially offset by the acquisition of fixed assets and a dividend distribution. Most of the decrease in debt in the Non-GAAP Reports is the result of a decrease in short and long-term loans and credit.
Gross debt – GAAP Financial Statements	2,202	2,198	4	
Net debt – Non-GAAP Reports	1,843	1,878	(35)	
Net debt – GAAP Financial Statements	1,631	1,707	(76)	

Financial data were rounded to NIS millions.

10. Adjustments to the Management (Non-GAAP) Reports

Adjustments for IFRS 11 – change from the equity method in the GAAP 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						
	First Quarter 2021			First Quarter 2020		
	Financial Statements	Change	Proportionate consolidation method	Financial Statements	Change	Proportionate consolidation method
Sales	1,509	552	2,061	1,545	623	2,168
Cost of sales excluding impact of commodity hedges	878	371	1,249	896	394	1,290
Adjustments for commodity hedges	1	-	1	14	-	14
Cost of sales	879	371	1,250	910	394	1,304
Gross profit	**630**	**181**	**811**	**635**	**229**	**864**
% of sales	41.7%		39.3%	41.1%		39.9%
Selling and marketing expenses	321	104	425	336	134	470
General and administrative expenses	104	33	137	108	40	148
Company's share of profit of equity-accounted investees	68	(34)	34	48	(44)	4
Operating profit before other expenses	**273**	**10**	**283**	**239**	**11**	**250**
% of sales	18.1%		13.7%	15.4%		11.5%
Other income (expenses), net	4	-	4	(1)	-	(1)
Operating profit after other expenses	**277**	**10**	**287**	**238**	**11**	**249**
Financing income (expenses), net	3	(5)	(2)	(10)	(6)	(16)
Income before tax	**280**	**5**	**285**	**228**	**5**	**233**
Income tax	(59)	(5)	(64)	(57)	(5)	(62)
Effective tax rate	21.1%		22.4%	25.1%		27.0%
Income for the period	221	-	221	171	-	171
Attributable to: The Company's shareholders	**203**	**-**	**203**	**156**	**-**	**156**
Non-controlling interests	18	-	18	15	-	15

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

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

Additional Adjustments to the Management (Non-GAAP) Reports			
	First Quarter		
	2021	2020	% change
Operating profit (according to the proportionate consolidation method) after other expenses	**287**	**249**	**14.8%**
Share-based payment	5	4	
Adjustments for commodity hedges	1	14	
Other expenses (income), net	(4)	1	
Operating profit – non-GAAP	**289**	**268**	**7.6%**
Financing expenses, net	(2)	(16)	
Income tax	(64)	(62)	
Taxes in respect of adjustments to the above non-GAAP operating profit	1	(4)	
Income for the period – non-GAAP	**224**	**186**	**20.4%**
Attributable to: The Company's shareholders	**206**	**171**	**20.5%**
Non-controlling interests	**18**	**15**	**18.4%**

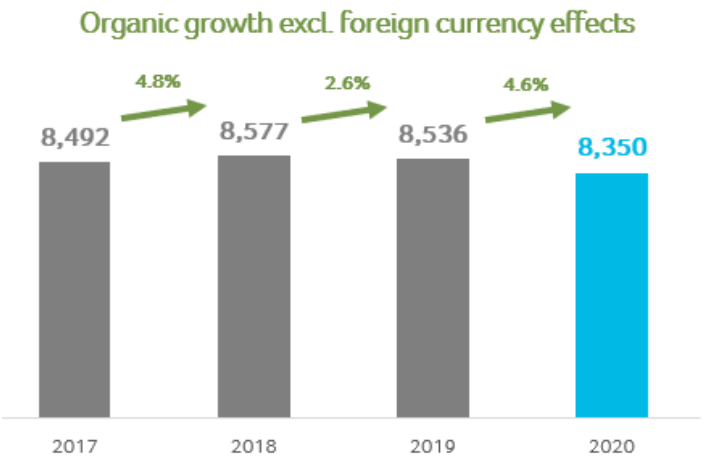
Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

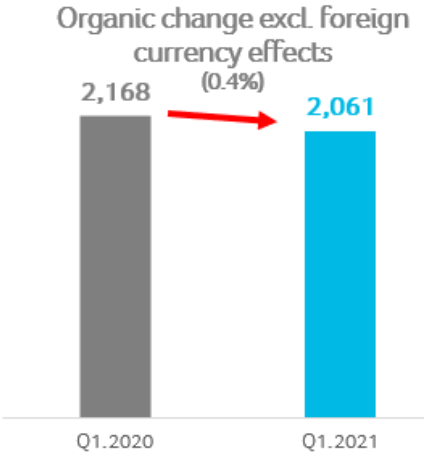
11. Key Comparative Financial Data According to the Non-GAAP Reports

All data in this section are from the Company's Management (Non-GAAP) Reports.

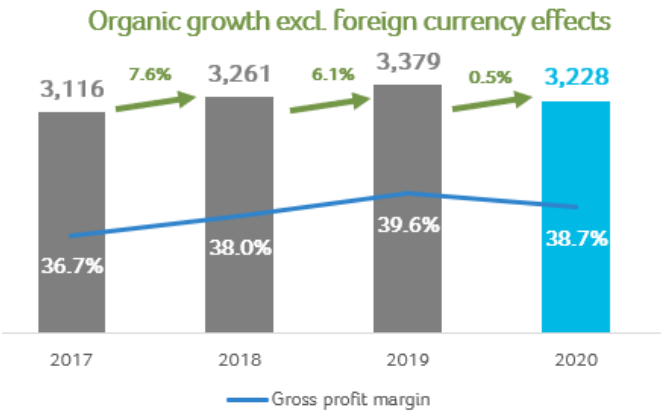
Following are key financial data presented in a quarterly and multiyear comparison, according to the Management (Non-GAAP) Reports:

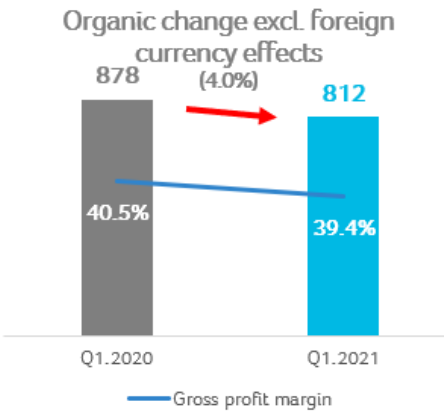
Net Sales





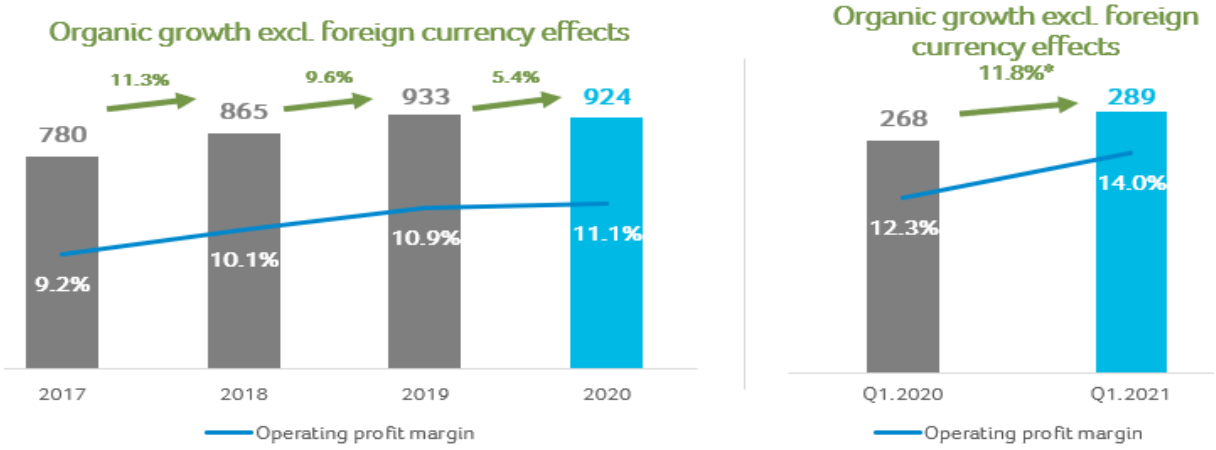
Gross Profit and Gross Profit Margin





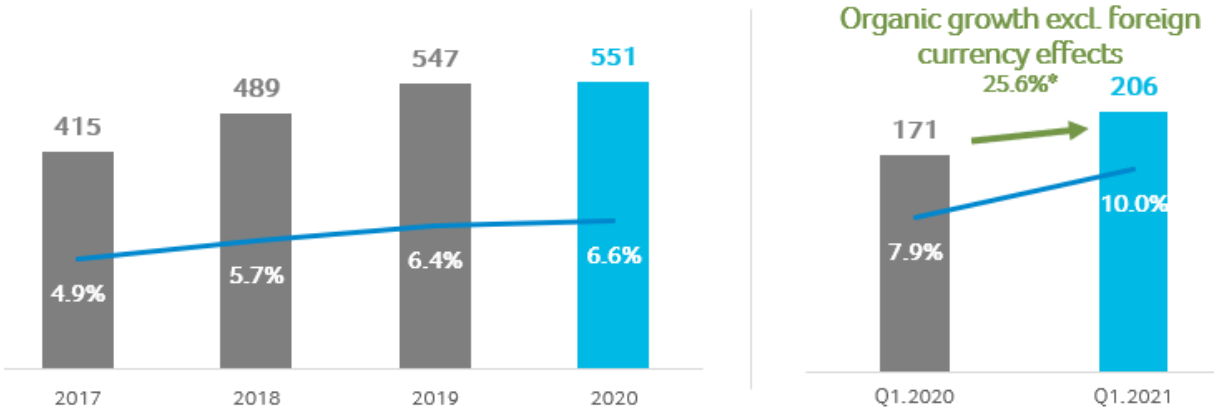
Financial data were rounded to NIS millions.

Operating Profit and Operating Profit Margin



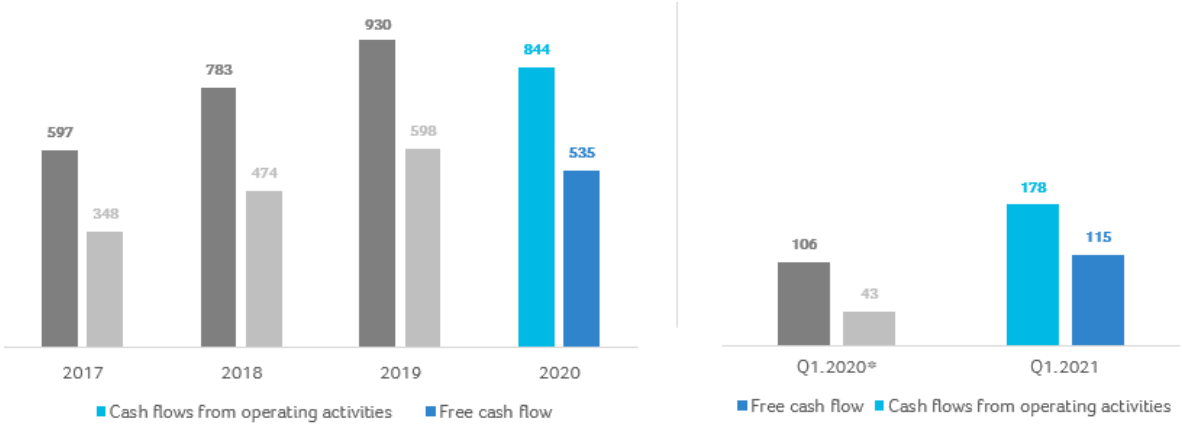
* Approximately 0.5% organic growth excluding foreign currency effects and the impact of the profits of the incubator investees.

Net Profit and Profit Margin



* Approximately 7.8% organic growth excluding foreign currency effects and the impact of the profits of the incubator investees.

Cash Flows from Operating Activities and Free Cash Flow



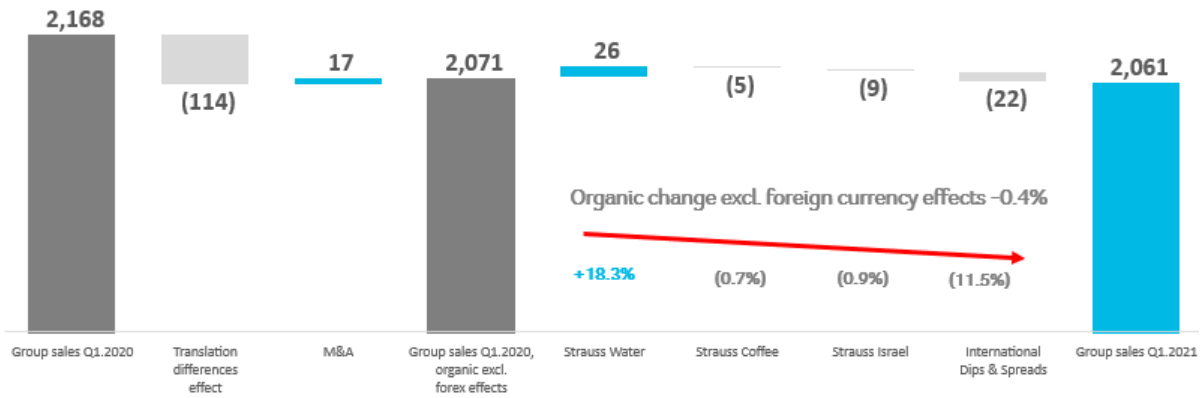
** Restated.

Financial data were rounded to NIS millions.

12. Sales – Non-GAAP

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

Components of Change in Sales – First Quarter



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

The Group's sales in the first quarter of 2021 were impacted by negative translation differences amounting to approximately NIS 114 million, of which NIS 81 million are due to the depreciation of the Brazilian Real against the Shekel compared to the corresponding period last year.

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 17 million in the first quarter of 2021 compared to the corresponding period last year) was largely the result of completion of the acquisition of 100% of the shares of Mitsui Alimentos Ltda. in Brazil on July 31, 2020.
- See section 16.1 below for further explanations on organic growth in sales by the Strauss Israel segment.
- See section 16.2 below for further explanations on organic growth in sales by the Strauss Coffee segment.
- See section 16.3 below for further explanations on organic growth in sales by the International Dips & Spreads segment.
- See section 16.4 below for further explanations on organic growth in sales by the Strauss Water segment.

13. Gross Profit – Non-GAAP

Gross Profit – Non-GAAP				
	First Quarter			
	2021	2020	% change	% organic change less translation differences effect
Gross profit	812	878	(7.5%)	(4.0%)
Gross profit margin	39.4%	40.5%		

The Group's non-GAAP gross profit in the first quarter of 2021 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 35 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 24 million) (see also the exchange rate table in section 6 in this report).

The Group's non-GAAP gross profit in the first quarter of the year dropped by approximately NIS 66 million, compared to the corresponding period last year:

- See section 16.1 below for further explanations on the change in gross profit in the Strauss Israel segment.
- See section 16.2 below for further explanations on the change in gross profit in the Strauss Coffee segment.
- See section 16.3 below for further explanations on the change in gross profit in the International Dips & Spreads segment.
- See section 16.4 below for further explanations on the change in gross profit in the Strauss Water segment.

14. Operating Profit Before Other Expenses – Non-GAAP

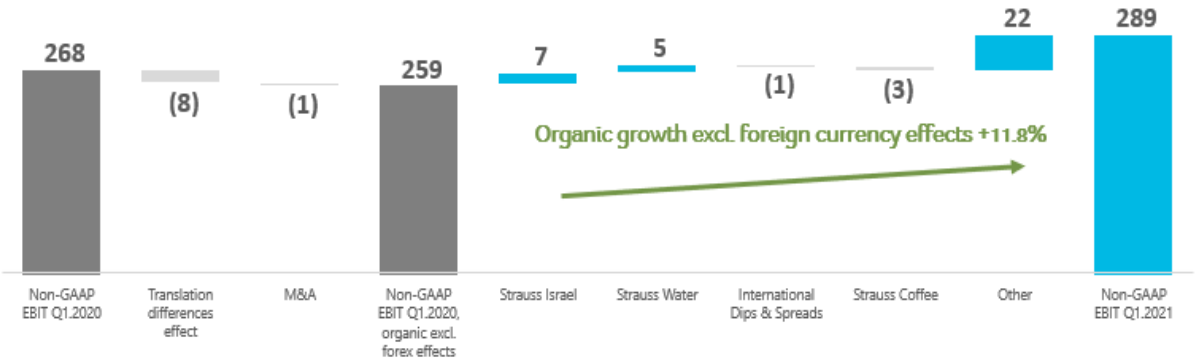
Operating Profit Before Other Expenses – NON-GAAP				
	First Quarter			
	2021	2020	% change	% organic change less translation differences effect
Operating profit (EBIT)	289	268	7.6%	11.8%
Operating profit margin	14.0%	12.3%		

The Group's non-GAAP operating profit (EBIT) in the first quarter of the year rose by approximately NIS 21 million and was adversely affected by negative translation differences into Shekels, amounting to approximately NIS 8 million (see also the exchange rate table in section 6 in this report).

Excluding the profits of the investees in the Group's incubator, the Group's non-GAAP EBIT amounted to approximately NIS 262 million, reflecting 0.5% organic growth (excluding foreign currency effects).

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

Components of Change in Operating Profit – First Quarter



The change in the Group's operating profit in the first quarter of 2021 was the result of the following:

- See section 16.1 below for further explanations on the change in operating profit in the Strauss Israel segment.
- See section 16.2 below for further explanations on the change in operating profit in the Strauss Coffee segment.
- See section 16.3 below for further explanations on the change in operating profit in the International Dips & Spreads segment.
- See section 16.4 below for further explanations on the change in operating profit in the Strauss Water segment.

- Growth of approximately NIS 22 million in the profit of the Other Operations segment in the current quarter compared to the corresponding period last year, largely due to gains as a result of a decrease in holding rate and loss of control of investees in the Group's incubator.

15. Comprehensive Income for the Period (According to the GAAP Financial Statements)

In the first quarter of 2021 the GAAP comprehensive income amounted to approximately NIS 207 million, compared to a comprehensive loss of NIS 31 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 15 million, compared to foreign currency translation losses of NIS 203 million in the corresponding period in 2020.

Foreign currency translation losses in the first quarter of 2021 mainly originated in the operations of Strauss Coffee; of said losses, approximately NIS 32 million are the result of the weakening of the Brazilian Real against the Shekel compared to exchange rates at the end of 2020.

16. Analysis of the Non-GAAP Business Results of the Group's Major Business Units

16.1 The Group's activity in Israel

Strauss Group is the second-largest company in the Israeli food market, and in the first quarter of 2021, according to StoreNext[4] figures, held a 12.5% share of the total domestic retail food and beverage market in value terms (compared to 12.2% in the corresponding period in 2020), an increase of 0.3% compared to the corresponding period.

Following are sales by all of Strauss Group's businesses in Israel, which include the Health & Wellness and Fun & Indulgence divisions, the coffee business in Israel and Strauss Water Israel (Tami 4):

Information on Strauss Group's Sales in Israel				
	First Quarter			Explanation
	2021	2020	% change	
The Group's sales in Israel	1,344	1,355	(0.8%)	The drop in sales in Q1 2021 compared to the corresponding period is due to decreased sales by the Israel Coffee segment following the closure of Elite Café points of sale, and to the Fun & Indulgence segment following the drop in sales of impulse products, which are intended for AFH consumption, and fewer social gatherings due to COVID-19. By contrast, sales by the Health & Wellness segment rose, particularly in dairy products, and in Strauss Water following growth in the customer base and sales of new appliances.

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

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

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of the Israel Operation by activity segment for the quarters ended March 31, 2021 and 2020 (in NIS millions):

Condensed Results of Business Operations – the Israel Operation				
	First Quarter			Explanation
	2021	2020	% change	
Net sales	974	983	(0.9%)	The drop in sales in the first quarter of 2021 was largely the result of the outbreak of COVID-19 in Israel in March 2020, which impacted sales in Q1 2020 and led to growth and strong demand in the food market.
Gross profit	391	396	(1.0%)	The decrease in gross profit was mainly due to the drop in sales as mentioned. The gross profit margin remained unchanged.
% gross profit	40.2%	40.2%		
Operating profit	129	124	3.8%	The increase in operating profit and the operating profit margin largely reflects an improvement and savings in operating expenses.
% operating profit	13.2%	12.6%		

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

Condensed Results of Business Operations by Segment – the Israel Operation				
	First Quarter			Explanation
	2021	2020	% change	
Health & Wellness				
Net sales	639	617	3.6%	Sales growth in the Health & Wellness segment in the first quarter of 2021 compared to the corresponding period in 2020 is the result of growth in sales volumes. Most of the growth was in the yogurt, dairy and milk beverage categories and due to the start of distribution of Alpro products in Israel. The increase in gross profit and the gross profit margin is largely the result of sales growth.
Operating profit	76	66	15.6%	
% operating profit	12.0%	10.7%		
Fun & Indulgence				
Net sales	335	366	(8.4%)	The drop in sales by the Fun & Indulgence segment in the first quarter of 2021 compared to the corresponding period last year is largely the result of the impacts of the COVID-19 pandemic – a drop in sales of individual snack bars and candies mainly consumed away from home, a drop in sales of impulse products and the avoidance of social gatherings. The decrease in operating profit was largely the result of the drop in sales.
Operating profit	53	58	(9.6%)	
% operating profit	15.6%	15.8%		

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

16.2 The Coffee Operation

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 in Romania, Serbia and Ukraine (where the company is ranked in first to third place).

[5] Value market share, excluding mixes, including 100% of Três Corações (JV)'s market share.

In Brazil (through Três Corações (JV)[6]), Israel, Russia and Eastern European countries, the Company 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 away-from-home (AFH) consumption at 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 countrywide, most of which cater to customers frequenting public places. Additionally, as part of its activity in Brazil (through Três Corações (JV)) the Group purchases, processes and sells green coffee, corn products, plant-based (mainly cashews) dairy alternatives and juice powders.

After Passover, in Israel the Company launched ready-to-drink cold coffee in a can, Cold Brew, under the BeanZ brand.

[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).

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 March 31, 2021 and 2020 (in NIS millions):

Condensed Results of Business Operations – The Coffee Operation				
	First Quarter			Explanation
	2021	2020	% change	
Israel Coffee				
Net sales	209	235	(10.9%)	The drop in sales in the first quarter of 2021 compared to the corresponding period last year is largely the result of the closure of Elite Café points of sale and a drop in sales to the institutional and AFH market, as well as strong sales to the retail market in March 2020 following the COVID-19 outbreak.
Operating profit	59	61	(4.1%)	The drop in operating profit is primarily the result of the drop in sales volumes, which was partially offset by savings in operating expenses.
% operating profit	27.8%	25.8%		
International Coffee				
Net sales	542	609	(11.0%)	Coffee sales in the first quarter of 2021 were negatively affected by the appreciation of the Shekel against most of the relevant currencies compared to the corresponding period last year, particularly the Brazilian Real and the Russian Ruble. Growth in local currency coffee sales in most regions largely reflects price increases as a result of the increase in green coffee prices and a reduction in discounts granted to customers. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 16.2.1 below.
Operating profit	40	46	(14.2%)	The change in the operating profit of the International Coffee segment in the first quarter of 2021 reflects: • A drop in the operating profit of Três Corações (JV) as a result of the increase in green coffee prices following the weakening of the Brazilian Real, which was largely offset by increased sales prices. • A drop in operating profit in Russia, mainly as a result of the increase in green coffee prices following the depreciation of the Russian Ruble by a rate that exceeded the increase in sales prices.
% operating profit	7.4%	7.7%		
Total Strauss Coffee				
Net sales	**751**	**844**	**(11.0%)**	In the first quarter of 2021 Strauss Coffee's sales dropped by NIS 93 million compared to the corresponding period last year.
Organic growth excluding foreign currency effect	**(0.7%)**	**5.0%**		Translation differences into Shekels in the quarter had a negative impact on sales by the coffee company and amounted to NIS 104 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 81 million.
Gross profit	**272**	**321**	**(15.5%)**	The decrease in gross profit and the gross profit margin in the first quarter of the year is the result of the drop in sales and the increase in green coffee prices, mainly in Brazil and Russia, which was partially offset by price increases and reduced customer discounts. Gross profit in the quarter was negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**36.2%**	**38.1%**		
Operating profit	**99**	**107**	**(8.5%)**	Growth in the operating margin is largely due to savings in marketing expenses and operational efficiency enhancement.
% operating profit	**13.1%**	**12.7%**		

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

16.2.1 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 quarters ended March 31, 2021 and 2020 (in NIS millions):

Sales by the Coffee Operation in Major Geographical Regions					
Geographical region	First Quarter				Explanation
	2021	2020	% change	% organic change in local currency[1]	
Israel Coffee	**209**	**235**	**(10.9%)**	**(10.9%)**	The drop in sales in the first quarter of 2021 compared to the corresponding period last year is largely the result of the closure of Elite Café points of sale and a drop in sales to the institutional and AFH market, as well as strong sales to the retail market in March 2020 following the COVID-19 outbreak.
International Coffee					
Brazil (Três Corações JV)) [2] [3] - 50%	306	343	(10.7%)	10.0%	Growth in Três Corações (JV)'s local currency sales is due to growth in green coffee exports, completion of the acquisition of 100% of Mitsui on July 31 and price increases as a result of the increase in green coffee prices. The Company's sales in the first quarter of 2021 were negatively affected by the appreciation of the Shekel against the Brazilian Real by approximately NIS 81 million compared to the corresponding period last year. For further information, see section 16.2.2 below.
Russia and Ukraine	122	138	(11.3%)	4.9%	Most of the increase in local currency sales is the result of price increases following the increase in green coffee prices and a reduction in customer discounts. The Company's sales in the first quarter of 2021 were negatively affected by the appreciation of the Shekel against the Russian Ruble and the Ukrainian Hryvnia, by approximately NIS 22 million compared to the corresponding period last year.
Poland	51	68	(24.3%)	(21.8%)	The drop in local currency sales compared to the corresponding period in 2020 is largely the result of a drop in quantities sold, mostly to the retail market, as a result of a temporary drop in sales to a certain customer following commercial negotiations. It is noted that in April, sales to said customer resumed. The Company's sales in the first quarter of 2021 were negatively affected by the weakening of the Polish Zloty against the Shekel, by approximately NIS 2 million compared to the corresponding period last year.
Romania	38	37	0.2%	(0.4%)	The stability in local currency sales is the result of volume growth, which was offset by a drop in AFH sales and discounts granted to customers. The Company's sales in the first quarter of the year were not materially affected by exchange rates compared to the corresponding period last year.
Serbia	25	23	10.1%	7.7%	Growth in local currency sales was largely due to an increase in quantities sold, which was partially offset by discounts granted to customers. The Company's sales in the first 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	**542**	**609**	**(11.0%)**	**4.0%**	
Total Coffee	**751**	**844**	**(11.0%)**	**(0.7%)**	

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.

16.2.2 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 the first quarter of 2021 Três Corações (JV)'s[7] average value market share in roast and ground (R&G) coffee was approximately 30.9%, compared to 31.0% in the corresponding period last year. It is noted that market share includes growth following the acquisition of Mitsui, which contributed approximately 2.4%. Excluding the Mitsui acquisition, market share increased by approximately 0.3% (value market share reflecting 100% of Três Corações (JV)'s sales according to Nielsen figures). In the GAAP 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				
BRL millions	**First Quarter**			**Explanation**
	2021	**2020**	**% change**	
Sales	514	439	17.1%	Sales growth mainly reflects price increases as a result of the increase in green coffee prices following the weakening of the Brazilian Real, volume growth in green coffee sales and the acquisition of 100% of Mitsui, which was completed on July 31, 2020.
Organic growth	10.0%	3.3%		
Gross profit	121	127	(4.7%)	The drop in gross profit and the gross profit margin largely reflects the increase in green coffee prices, at a rate exceeding the increase in sales prices.
Gross profit margin	23.5%	29.1%		
Operating profit before other income / expenses	20	25	(20.0%)	The drop in operating profit and the operating profit margin is largely due to the drop in gross profit and the gross profit margin, which was partially offset by savings in marketing expenses and operational efficiency enhancement.
Operating profit margin	3.9%	5.6%		

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

[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).

Following are selected data on Três Corações (JV)[8]'s business, **in NIS millions** (data reflect the Group's holding (50%)):

Selected Financial Data on Três Corações (JV)'s business			
NIS millions	First Quarter		
	2021	2020	% change
Sales	306	343	(10.7%)
Gross profit	72	100	(27.7%)
Gross profit margin	23.5%	29.1%	
Operating profit before other income/expenses	12	19	(36.6%)
Operating profit margin	3.9%	5.6%	

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

16.3 The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes refrigerated dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia, New Zealand and Western Europe. The operations of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). In the GAAP 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 overall refrigerated dips and spreads category in the 13 weeks ended March 31, 2021 was 61.4% (Number 1 in the market), compared to 62.7% in the corresponding period last year.

16.3.1 Sabra

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

Condensed Results of Business Operations – Sabra				
USD millions	First Quarter			Explanation
	2021	2020	% change	
Sales	88	101	(13.4%)	The drop in sales is largely the result of strong sales in March 2020 and a drop in AFH sales following the COVID-19 outbreak in the US.
Operating profit before other expenses	10	11	(13.0%)	The drop in operating profit is the result of the drop in sales as mentioned. The operating profit margin remained unchanged largely as a result of an increase in transportation and labor costs, which was offset by a drop in marketing expenses compared to high expenses in the corresponding period as a result of advertising in the US Super Bowl.
% operating profit	11.0%	11.0%		

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

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

[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).

Condensed Results of Business Operations – Sabra			
NIS millions	First Quarter		
	2021	2020	% change
Sales	287	355	(19.2%)
Operating profit before other expenses	32	39	(19.0%)
% operating profit	11.0%	11.0%	

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

16.3.2 Obela

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

Condensed Results of Business Operations – Obela			
NIS millions	First Quarter		
	2021	2020	% change
Sales	44	40	9.8%
Organic growth excluding foreign currency effects	3.1%	0.9%	
Operating loss	(5)	(3)	(61.4%)

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

16.4 Strauss Water

Through Strauss Water the Group is active in the drinking water market in the development, assembly, marketing, sale and servicing of POU (point-of-use) systems for the filtration, purification and carbonation of drinking water, mainly in Israel and the UK. Strauss Water also has insubstantial activities in a number of other countries, which are carried out through local franchisees. In addition, Strauss Water has a material investment (49%) in an associate (HSW), 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.

In the second quarter of 2021 Strauss Water launched new, advanced water bars of the Edge series.

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Water for the quarters ended March 31, 2021 and 2020 (in NIS millions):

Condensed Results of Business Operations – Strauss Water				
NIS millions	First Quarter			Explanation
	2021	2020	% change	
Net sales	170	144	18.2%	Sales growth in the first quarter of 2021 compared to the corresponding period last year is due to growth in the customer base, an increase in sales of new appliances and the lockdown in Israel in March 2020, which had a negative effect on first-quarter sales last year.
Operating profit	22	15	46.7%	Growth in the operating profit largely reflects an increase in sales of new appliances in Israel in the first quarter of 2021, as well as an increase in the profits of the company in China. Excluding the profits of the joint venture, EBIT in Q1 2021 grew by approximately NIS 6 million, and the EBIT margin rose by 2.7% and amounted to 8.2%.
% operating profit	12.8%	10.3%		

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

16.4.1 Results of Haier Strauss Water (HSW)

Following are selected financial data on HSW's business **in RMB millions** (data reflect 100% ownership):

Condensed Results of Business Operations – HSW				
RMB millions	First Quarter			Explanation
	2021	2020	% change	
Sales	305	212	44.1%	Sales growth in the first quarter of 2021 is primarily due to the outbreak of COVID-19 in China in December 2019, which had a negative effect on the first quarter of 2020.
Net profit	34	27	26.3%	The increase in net profit is the result of sales growth as mentioned, which was partially offset by an increase in operating expenses.

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			
NIS millions	First Quarter		
	2021	2020	% change
Sales	154	106	44.8%
Net profit	17	14	27.1%

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

In January 2021, HSW signed an agreement for the establishment of a partnership which will be active in POE (point-of-entry) filters. HSW's stake in the partnership is 70% (with the option of decreasing the holding percentage in coming years or acquiring an additional stake upon the satisfaction of certain conditions). The investment in the partnership amounts to RMB 45 million and was independently financed by the company.

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. In early May 2021, the facility became operational. 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 stake in the partnership.

The information contained in this section, the date of construction of the manufacturing facility, 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 COVID-19. See also sections 3-7, "Changes in the Economic Environment".

16.5 Other Operations

Since it was established in January 2015, the FoodTech incubator has invested in 19 companies, some of which have completed product development, commenced initial sales and raised further investments. The Company participated in some of these funding rounds, investing sums that are immaterial to the Company. For a list of the companies in the incubator project and their areas of activity, see section 15 in the chapter Description of the Company's Business in the 2020 Periodic Report. On the reporting date, the securities of a company that participated in the project, Flying SpArk Ltd., are listed on the Tel Aviv Stock Exchange Ltd. ("TASE").

On March 31, 2021, the total value of the investments in the incubator investees, which are presented in the financial statements according to the equity method, was approximately NIS 44 million.

The fair value of the investments on said date was approximately NIS 149 million.

Fair value was calculated by applying the expedient in IAS 28 (in sections 18-19) with respect to investments held by a venture capital organization to all of the Company's investments in the incubator investees, excluding two companies in which respect a decision was made to write off the investment. The fair value of each of the companies is based on the data of the most recent funding round completed, multiplied by the Company's actual holding in that company.

In the first quarter of 2021, three incubator investees completed funding rounds at an aggregate amount of approximately NIS 40 million. As a result of these rounds, an aggregate gain was recognized on the decrease in the holding rate in the investees and on loss of control at a total of NIS 30 million, in the "share of profit of equity-accounted investees" item.

For information on the method of calculating the gain on the decrease in holding rate and the gain on loss of control, see Notes 3.1.4 and 3.1.5 to the Consolidated Financial Statements for the year 2020.

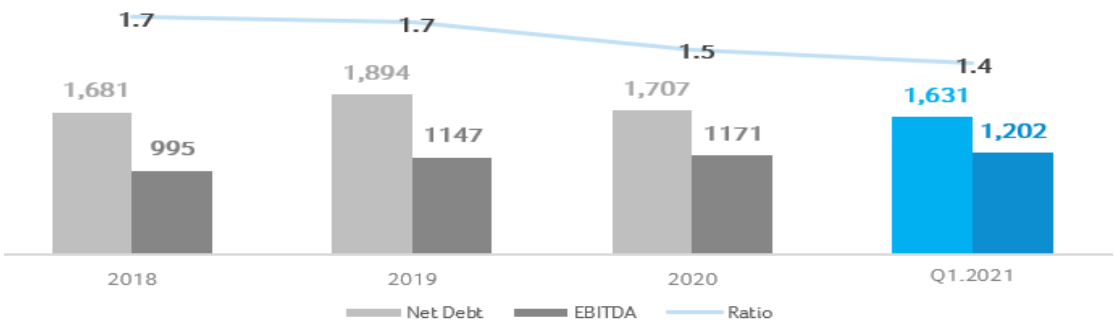
To the best of the Company's knowledge, the cash flows provided by the abovementioned funding rounds are earmarked to serve the incubator investees for the purpose of further investment activity, research and development, sales and marketing, and consequently, in the Company's estimate, in the foreseeable future the Company is expected to record a loss on the profit of the incubator companies, which is likely to reduce all or part of the gains recognized in the reporting period.

The information contained in this section with respect to the anticipated losses 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 with respect to the uses to be made by the investees. Actual results may differ materially from those anticipated if the uses actually made of the funds are different to the uses anticipated by the Company, and also as contingent on the results of the incubator investees.

LIQUIDITY, SOURCES OF FINANCE AND FINANCIAL POSITION

5.6	Aa1il	ilAA+	2,202	1,631
Average life	Moody's rating	S&P rating	Gross debt	Net debt

Net Debt-to-EBITDA Ratio



Financial data are GAAP data in NIS millions. Percentages were calculated on the basis of the exact figures in NIS thousands.

17. Liquidity

17.1 Credit rating

In April 2021 the Company announced Standard & Poor's Maalot's reaffirmation of an ilAA+ rating with stable outlook.

In May 2021 the Company announced Midroog's reaffirmation of an Aa1.il rating with stable outlook.

17.2 Cash flows

Following is information on cash flows from the Group's operating activities, which were used in investing and financing activities:

Cash Flows				
	First Quarter			Explanation
	2021	2020	Change	
Cash flows from operating activities	209	121	88	Most of the increase is due to an increase in profit, a change in working capital and to a decrease in interest paid as a result of the early redemption of debentures and prepayment of long-term loans in 2020.
Cash flows from (used in) investing activities	(47)	(98)	51	Most of the increase is due to the grant of a long-term loan for the purpose of building a manufacturing facility for the production and assembly of HSW products sold in China in the corresponding period last year.
Cash flows used in financing activities	(84)	(114)	30	Most of the increase is due to the repayment of long-term loans in the corresponding period last year, which was partially offset by a dividend paid in the reporting period.

Financial data were rounded to NIS millions.

17.3 Average credit volumes

Following is information on average credit volumes:

Average Credit Volume				
	First Quarter			Explanation
	2021	2020	Change	
Long-term credit volume according to the Non-GAAP Report	2,443	2,538	(95)	The change is largely due to a decrease in long-term loans and credit, which was partially offset by the issuance of the Series F debentures and an increase in liabilities in respect of credit card factoring.
Average short-term credit volume according to the Non-GAAP Report	133	219	(86)	
Long-term credit volume according to the GAAP Financial Statements	2,172	2,319	(147)	
Average short-term credit volume according to the GAAP Financial Statements	24	4	20	

Financial data were rounded to NIS millions.

17.4 Status of Liabilities Report according to payment dates

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

17.5 Net working capital

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

Change in Net Working Capital		
	For the Years	
	2021	2020
Change in net working capital according to the GAAP Financial Statements	(23)	(79)
Change in net working capital according to the Non-GAAP Reports	(110)	(163)

Financial data were rounded to NIS millions.

17.6 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 accounts payable.

17.7 Additional information on liquidity and operating cash flow

Following is additional financial information on the Company's liquidity:

Additional information		
	March 31, 2021	December 31, 2020
Liquidity ratio	1.12	1.20
Liabilities in respect of long-term loans and credit (including current maturities)	2,176	2,168
Short-term credit (excluding current maturities)	27	29
Supplier credit	791	755
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	32.9%	35.2%
Equity attributable to the shareholders of the Company	2,185	2,260

Financial data were rounded to NIS millions.

Following is the distribution of EBITDA between the Group's operating segments (in NIS millions):

Distribution of EBITDA Between the Group's Operating Segments			
	First Quarter		
	2021	2020	% change
Strauss Israel	167	161	3.4%
Strauss Coffee	125	136	(8.2%)
International Dips & Spreads	20	25	(19.1%)
Strauss Water	30	24	27.1%
Other Operations	31	8	273.3%
Total	**373**	**354**	**5.3%**

Financial data were rounded to NIS millions.

The Group's non-GAAP EBITDA, excluding the profits of the incubator investees, amounted to approximately NIS 347 million, a decrease of 2.9%.

18. 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 the first quarter of 2021 there is a working capital deficiency of approximately NIS 274 million. There is no such deficiency in the Consolidated Financial Statements of the Company for the first quarter of 2021. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 173 million. In light of the working capital deficiency in the solo report, on May 24, 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 March 31, 2021, 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 developments 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.

19. Information on Debenture Series

Following is financial information on the debentures series as at March 31, 2021.

Information on the Debenture Series		
	Series E Debentures	Series F Debentures
A. Nominal/par value	573	700
B. Carrying value of debentures	570	691
C. Carrying value of interest payable	4	3
D. Market value	619	697

For information on covenants pertaining to the Series E and Series F debentures, see Notes 20.4 and 20.6 to the Consolidated Financial Statements as at December 31, 2020.

On March 31, 2021, equity attributable to the shareholders of the Company was NIS 2,185 million. The financial debt-to-EBITDA ratio according to the GAAP Financial Statements was 1.4, and the equity-to-assets ratio was 32.9%. As at March 31, 2021, the Company is in compliance with the required covenants.

ASPECTS OF CORPORATE GOVERNANCE

20. Sustainability, CSR, Social Investment and Contributions

At the beginning of 2021 the Group continued to develop its sustainability infrastructure, while persevering in ongoing social activities in alignment with growing needs in the wake of COVID-19. In the first quarter of the year, social activities focused on helping population groups that were economically harmed by the pandemic, with emphasis on diverse groups, including women experiencing or emerging from domestic abuse – a phenomenon that sadly increased substantially during this period. The Group also continued to donate a variety of the Company's products to populations in need and to people at the forefront of the fight against COVID-19.

In recent months, the Group, through the "Latet" food bank, supported 4,000 families by donating food parcels for the upcoming spring festivals – Ramadan and Passover. The Group simultaneously reinstated the "Doing Good Together" project, with Latet's help, in which some 7,500 families were given digital coupons for the purchase of Strauss products at the food chains on an ongoing basis. This innovative project, which was first launched in September 2020, was reinstated in March 2021, and the contribution is valued at approximately NIS 2 million. On Purim, the Group donated "mishloach manot", traditional Purim baskets containing food and beverages, to domestic violence safe houses for women and families. In addition, in 2021 the Group launched a unique pilot for reducing food waste in collaboration with a leading retailer and Latet, in which in a small number of stores food is rescued from the shelves, rather than being destroyed, as it nears its sell-by date. The products are distributed to families in need by organizations that partner with Latet.

In addition to food contributions, the Group has continued to advance social initiatives that focus on diversity and inclusion and the promotion of a healthy, balanced diet. Among other initiatives, in Israel, the Group leads the roundtable to raise productivity in Arab society as part of the Social Economic Forum. In this context, Strauss initiated a discussion around International Women's Day 2021 by the Business Roundtable Israel, which works under the Social Economic Forum. The discussion, which brought together senior executives in the Israeli economy of both genders, addressed the prevention of violence against women and the integration of women in tech professions. Also presented at the event was a research study, funded by Strauss Group and conducted by the Adva Center, a non-partisan policy analysis center that monitors social and economic developments, on the impacts of the COVID-19 crisis on women in Israel. At another event marking International Women's Day, Strauss, in collaboration with the Globes business daily, hosted actress and activist Jane Fonda at the Influential Women Conference. Ms. Fonda talked about her own personal journey and her social and environmental activism. Strauss distributed dozens of tickets to social activities to nonprofits and women in Strauss Group.

In March 2021 Strauss led a CSR conference, held in Israel. Various prominent members of the private and third sectors spoke at the conference, as well as senior Strauss executives. Strauss Group's President & CEO emphasized sustainability's role both as a value and as a business strategy. The Vice President of Communication, Sustainability and Corporate Brand talked about the Group's sustainability goals in the spheres of social and environmental sustainability and corporate governance.

In the first quarter of 2021 the Company's Annual Sustainability Report was also published, together with the Annual Financial Statements. The report was launched in digital format on a dedicated website at sustainability.strauss-group.com. The site enables the Group's efforts to be mapped according to the UN's Sustainable Development Goals (SDGs) and according to ESG – Environmental, Social and Governance criteria. The Group added a new chapter on COVID-19 to its 2020 Sustainability Report, which integrates all of the diverse activities undertaken, inward and outward, in the shadow of the pandemic. Another novel element in the report is the use of multi-gender language, thus contributing to its accessibility to people of different genders. Strauss also recently signed a gender-inclusive charter in Hebrew, and will officially continue to promote an intra-organizational and marketing gender-conscious language.

21. Aspects of Corporate Governance

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

22. 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 38c(a).

23. Events After the Reporting Period

For a review of events occurring after the statement of financial position date, see Note 9 to the Condensed Consolidated Interim Financial Statements as at March 31, 2021.

The Board of Directors and Management express their gratitude and appreciation to the employees and managers of Strauss Group.

Ofra Strauss
Chairperson of the Board

Giora Bardea
Chief Executive Officer

May 24, 2021

Strauss Group LTD.

Financial Statements

as at March 31 ,2021

Condensed Consolidated Interim Financial Statements as at March 31, 2021 (unaudited)

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Condensed Consolidated Interim Statements of Financial Position

	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	571	430	491
Trade receivables	1,069	1,156	996
Income tax receivables	9	2	16
Other receivables and debit balances	128	139	120
Inventory	590	557	557
Assets held for sale	7	15	12
Total current assets	2,374	2,299	2,192
Investments and non-current assets			
Investment in equity-accounted investees	1,279	1,266	1,222
Other investments and long-term debit balances	114	131	110
Fixed assets	1,748	1,737	1,754
Right-of-use assets	198	199	198
Intangible assets	914	893	916
Investment property	4	4	4
Deferred tax assets	19	19	18
Total investments and non-current assets	4,276	4,249	4,222
Total assets	6,650	6,548	6,414

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

Date of approval of the interim financial statements: May 24, 2021

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

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

	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Current liabilities			
Current maturities of debentures	30	67	30
Short-term credit and current maturities of long-term loans and other long-term liabilities	257	394	256
Current maturities of lease liabilities	77	86	78
Trade payables	791	804	755
Income tax payables	45	98	37
Other payables and credit balances	609	602	575
Dividends payable	270	180	70
Provisions	35	27	32
Total current liabilities	2,114	2,258	1,833
Non-current liabilities			
Debentures	1,231	707	1,231
Long-term loans and other long-term liabilities	466	869	461
Lease liabilities	141	144	142
Long-term payables and credit balances	21	15	18
Employee benefits, net	48	44	49
Deferred tax liabilities	255	288	248
Total non-current liabilities	2,162	2,067	2,149
Equity and reserves			
Share capital	253	253	253
Share premium	1,051	1,051	1,051
Reserves	(2,169)	(2,043)	(2,155)
Retained earnings	3,050	2,792	3,111
Total equity attributable to the shareholders of the Company	2,185	2,053	2,260
Non-controlling interests	189	170	172
Total equity	2,374	2,223	2,432
Total liabilities and equity	6,650	6,548	6,414

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

Condensed Consolidated Interim Statements of Income

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Sales	1,509	1,545	5,873
Cost of sales	879	910	3,485
Gross profit	630	635	2,388
Selling and marketing expenses	321	336	1,316
General and administrative expenses	104	108	420
	425	444	1,736
Share of profit of equity-accounted investees (1)	68	48	235
Operating profit before other income (expenses)	273	239	887
Other income	5	-	2
Other expenses	(1)	(1)	(3)
Other income (expenses), net	4	(1)	(1)
Operating profit	277	238	886
Financing income	20	12	6
Financing expenses	(17)	(22)	(144)
Financing income (expenses), net	3	(10)	(138)
Income before income tax	280	228	748
Income tax	(59)	(57)	(149)
Income for the period	221	171	599
Attributable to:			
The shareholders of the Company	203	156	533
Non-controlling interests	18	15	66
Income for the period	221	171	599
Earnings per share			
Basic earnings per share (in NIS)	1.75	1.34	4.60
Diluted earnings per share (in NIS)	1.74	1.33	4.55

(1) Including a gain relating to loss of control over an incubator investee. For further information, see Note 4.3.

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Income for the period	221	171	599
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:			
Foreign currency translation differences	(5)	(74)	(76)
Other comprehensive loss from equity-accounted investees	(10)	(129)	(239)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net	(15)	(203)	(315)
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods, net:			
Changes in employee benefits, net	1	1	-
Total other comprehensive income items that will not be reclassified to profit or loss in subsequent periods, net	1	1	-
Comprehensive income (loss) for the period	207	(31)	284
Attributable to:			
The shareholders of the Company	190	(47)	217
Non-controlling interests	17	16	67
Comprehensive income (loss) for the period	207	(31)	284

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

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Three-month period ended March 31, 2021 – unaudited:									
Balance as at January 1, 2021	253	1,051	(20)	(393)	(1,742)	3,111	2,260	172	2,432
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	203	203	18	221
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(4)	-	(4)	(1)	(5)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(10)	-	(10)	-	(10)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the period, net	-	-	-	-	(14)	1	(13)	(1)	(14)
Total comprehensive income (loss) for the period	-	-	-	-	(14)	204	190	17	207
Share-based payment	-	-	-	-	-	5	5	-	5
Dividend payments to shareholders	-	-	-	-	-	(270)	(270)	-	(270)
Balance as at March 31, 2021	253	1,051	(20)	(393)	(1,756)	3,050	2,185	189	2,374

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

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

	Attributable to the shareholders of the Company								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Three-month period ended March 31, 2020 – unaudited:									
Balance as at January 1, 2020	253	1,051	(20)	(392)	(1,426)	2,811	2,277	153	2,430
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	156	156	15	171
Components of other comprehensive income(loss):									
Foreign currency translation differences	-	-	-	-	(75)	-	(75)	1	(74)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(129)	-	(129)	-	(129)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the period, net	-	-	-	-	(204)	1	(203)	1	(202)
Total comprehensive income (loss) for the period	-	-	-	-	(204)	157	(47)	16	(31)
Share-based payment	-	-	-	-	-	4	4	-	4
Improved interest to subsidiary	-	-	-	(1)	-	-	(1)	1	-
Dividend payments to shareholders	-	-	-	-	-	(180)	(180)	-	(180)
Balance as at March 31, 2020	253	1,051	(20)	(393)	(1,630)	2,792	2,053	170	2,223

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

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

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2020:	253	1,051	(20)	(392)	(1,462)	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 loss:									
Foreign currency translation differences	-	-	-	-	(77)	-	(77)	1	(76)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(239)	-	(239)	-	(239)
Total other comprehensive income (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 but not yet paid	-	-	-	-	-	(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.

Condensed Consolidated Interim Statements of Cash Flows

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Cash flows from operating activities			
Income for the period	221	171	599
Adjustments:			
Depreciation	57	61	249
Amortization of intangible assets	9	8	35
Other income, net	(4)	-	-
Expenses in respect of share-based payment	5	4	17
Financing expenses (income), net	(3)	10	138
Income tax expenses	59	57	149
Share of profit of equity-accounted investees	(68)	(48)	(235)
Change in inventory	(32)	(27)	(38)
Change in trade and other receivables	(69)	(181)	(21)
Change in long-term trade receivables	(1)	4	18
Change in trade and other payables	78	127	45
Change in employee benefits	1	(2)	2
Interest paid	(10)	(25)	(123)
Interest received	-	1	2
Income tax paid, net	(34)	(39)	(227)
Net cash provided by operating activities	209	121	610
Cash flows from investing activities			
Proceeds from sale of fixed assets, intangible assets and investment property	2	2	6
Investment in fixed assets	(35)	(39)	(184)
Investment in intangible assets	(13)	(9)	(55)
Repayment of loans granted	6	4	21
Loans granted	(5)	(46)	(66)
Income from sublease	2	2	8
Dividends from investee companies	-	-	133
Investment in investee companies	(4)	(12)	(32)
Net cash used in investing activities	(47)	(98)	(169)

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

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

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Cash flows from financing activities			
Short-term bank credit, net	(3)	(1)	24
Proceeds from issue of debentures, net of issuance costs	-	-	691
Redemption of debentures and repayment of long-term loans	-	(88)	(344)
Early redemption of debentures and prepayment of long-term loans	-	-	(555)
Change in liabilities in respect of credit card factoring	9	1	38
Payment of lease liabilities	(20)	(26)	(86)
Dividends paid	(70)	-	(180)
Dividend to non-controlling interests in a subsidiary	-	-	(49)
Net cash used in financing activities	(84)	(114)	(461)
Increase (decrease) in cash and cash equivalents	78	(91)	(20)
Cash and cash equivalents at beginning of period	491	525	525
Effect of exchange rate changes on cash	2	(4)	(14)
Cash and cash equivalents at end of period	571	430	491

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

Note 1 - Reporting Principles and Accounting Policy

1.1 General

1.1.1 The reporting entity, Strauss Group Ltd (hereinafter: the "Company" or "Strauss Group") is an Israeli resident company. The address of the Company's registered office is 49 Hasivim St. Petach Tikva.

The Company and its investee companies (hereinafter: the "Group") are a group of industrial and commercial companies operating in Israel and abroad and active mainly in the development, manufacture, marketing and sale of a variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration, carbonation and purification products. The condensed consolidated interim financial statements of the Company as at March 31, 2021 and for the three-month period then ended (hereinafter: the "Interim Statements") comprise those of the Company and its subsidiaries and the Group's rights in joint arrangements.

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 had 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.

1.1.2 The Interim Statements were prepared in accordance with IAS 34 with respect to interim financial reporting and Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2020 and for the year then ended together with their accompanying notes (hereinafter: the "Annual Financial Statements"). The Group's accounting policy in these Interim Statements was applied consistently with the Annual Financial Statements.

1.1.3 The consolidated interim financial statements are presented in NIS, which is the functional currency of the Company. The financial information is presented in NIS millions and has been rounded to the nearest million.

1.1.4 These Interim Statements were approved for publication by the Board of Directors of the Group on May 24, 2021.

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

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

The amendment contains a practical expedient for the accounting treatment of rent concessions in leases where the Group is the lessee, occurring as a direct consequence of the COVID-19 pandemic. The expedient may be applied when the lease payments waived by the lessor were to have been paid until June 30, 2022, and not until June 30, 2021, as formerly determined.

Accordingly, the practical expedient for the accounting treatment of rent concessions in leases where the Group is the lessee may be applied when these concessions are a direct consequence of the COVID-19 pandemic, and also when:

- 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, 2022; and
- There is no substantive change to the remaining terms and conditions of the lease.

In such cases, the amendment enables the Company not to assess whether the rent concession is a lease modification (in general, it will be accounted for as a variable lease payment). The amendment will be applied retrospectively commencing in annual reporting periods beginning on April 1, 2021. Application of the standard does not have a material effect on the financial statements.

Note 2 – Seasonality

Sales of Fun & Indulgence products are characterized by seasonality, and are usually higher in the first quarter of the year. Seasonality is mainly affected by the winter, which is characterized by greater consumption of chocolate products, as well as by increased consumption of Fun & Indulgence products as Passover approaches.

In the Israel Coffee segment there is no distinct trend of seasonality. However, total revenues are usually high in the first quarter of the year, due to increased consumption of coffee products prior to Passover.

In Health and Wellness products there is no distinct trend of seasonality. However, total revenues are usually relatively high in the third quarter of the year in the hot summer months, which are characterized by increased consumption of dairy products.

International coffee sales are usually higher in the fourth quarter of the year. Seasonality is mainly affected by the timing of the Christian holidays and the end of the calendar year in the fourth quarter, a period characterized by higher purchases of coffee products.

Sales of the Group's water bars are generally higher in the summer months (April-October) compared to the rest of the year, with a corresponding increase in servicing the fourth quarter of the year.
For further information, see Note 4.2 with regard to the impact of the COVID-19 pandemic on the Group's activity.

Note to the Condensed Consolidated Interim Financial Statements (unaudited)

Note 3 - Operating Segments

Segment information and reconciliation to the consolidated financial statements:

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Income			
Sales to external customers:			
Health & Wellness	639	617	2,537
Fun & Indulgence	335	366	1,144
Total Israel	974	983	3,681
Israel Coffee	209	235	712
International Coffee	542	609	2,567
Total Coffee	751	844	3,279
International Dips and Spreads	166	197	722
Water	170	144	668
Other	-	-	-
Sales to other segments:			
Health & Wellness	1	2	6
Fun & Indulgence	2	3	9
Total Israel	3	5	15
Israel Coffee	1	1	2
International Coffee	-	1	2
Total Coffee	1	2	4
Total segment income	2,065	2,175	8,369
Elimination of intersegment sales	(4)	(7)	(19)
Total segment income excluding intersegment sales	2,061	2,168	8,350
Adjustment to the equity method	(552)	(623)	(2,477)
Total consolidated income	1,509	1,545	5,873

Note to the Condensed Consolidated Interim Financial Statements (unaudited)

Note 3 - Operating Segments (cont'd)

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS millions		
Profit			
Health & Wellness	76	66	307
Fun & Indulgence	53	58	111
Total Israel	129	124	418
Israel Coffee	59	61	158
International Coffee	40	46	196
Total Coffee	99	107	354
International Dips and Spreads	13	18	56
Water	22	15	91
Other (1)	26	4	5
Total segment profit	289	268	924
Unallocated income (expenses):			
Adjustments for commodity hedges (2)	(1)	(14)	4
Other income (expenses), net	4	(1)	(4)
Share-based payment	(5)	(4)	(17)
Total segment operating profit	287	249	907
Adjustment to the equity method	(10)	(11)	(21)
Total operating profit in the consolidated financial statements	277	238	886
Financing income (expenses), net	3	(10)	(138)
Income before income tax	280	228	748

(1) For further information see Note 4.3.
(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 gains and losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

Note 4 - Material Events in the Reporting Period

4.1 On March 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). The dividend was paid on April 13, 2021.

4.2 Since the outbreak of COVID-19, Company management has continued to manage the event and to assess the risks on an ongoing basis in all countries of operations, in light of its nature as an unfolding event that is constantly evolving and transforming. At the date of this report, all of the Group's manufacturing facilities continue to operate regularly. The Group has cooperated and continues to cooperate closely with its suppliers and customers to ensure that the supply chain is able to meet the sustained strong demand that has continued in some regions in the first quarter as well.

In the first quarter of 2021, the growth trend in demand in Israel for the Group's products that are consumed at home has continued, although compared to the first quarter of 2020 a decrease has been observed as a result of the exceptional demand seen in March 2020 (in light of the fact that in March 2020, a worldwide trend of overbuying in initial response to the outbreak of the pandemic was noted). In other territories, restrictions on movement and social distancing continued throughout the quarter at varying degrees of intensity. The behavior characteristics that began to emerge when the pandemic broke out also continued in the first quarter, among other things, growth in at-home consumption continued while away-from-home consumption dropped, as did purchases of impulse products.

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

- The Company examined whether there has been a negative effect on its results, which may be indicative of signs of impairment of cash-generating units. No such signs of impairment in those units were detected;
- The Company reviewed and revised the estimated credit risks of its customers by immaterial amounts;
- The Company has secure lines of credit from financial and banking institutions. For further information, see Note 28.6 to the Annual Financial Statements;
- The Company examined the impact on critical estimates and judgments applied in the financial statements.

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

4.3 In January 2021, a startup in The Kitchen Food-Tech incubator completed a funding round. As a result of the funding round, the Group lost control of the startup while retaining substantial influence, and consequently, the investment is accounted for in the equity method. Following the foregoing, the Group recognized a gain on loss of control at a total amount of NIS 25 million, which was classified to the Company's share of profit of equity-accounted investees.

Note 5 - Share-Based Payment

5.1 Grants in the reporting period

Following is information on the fair value of new option warrants granted in the reporting period:

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Expected annual volatility	Discount rate
		NIS M	NIS	NIS	Years	%	%
March 21, 2021	1,146,655 to 19 managers	17.3	93.8	95.49	3.95-4.95	18.75-19.2	0.44-0.64

Entitlement to exercise the options will vest in two equal tranches in each of the years 2023 and 2024. The benefit arising from these grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

The fair value of option warrants granted to employees is measured using the Black-Scholes model. For further information on the Black-Scholes model assumptions, see Note 23.2 to the Annual Financial Statements

5.2 Options exercised in the reporting period

In the reporting period, 66,667 option warrants granted to managers were exercised for 17,783 shares in consideration for their par value.

Note 6 - Contingent Liabilities

6.1 For information on claims and contingent liabilities against the Company and its investees pending as at December 31, 2020, see Note 24.1.1 to the Annual Financial Statements. There were no material changes pertaining to these claims in the reporting period.

6.2 The Company did not recognize a provision for claims pending as at March 31, 2021, which, in the opinion of its legal counsel, are not expected to be accepted, or the chances of which cannot be estimated. The claims whose chances cannot be estimated amount to approximately NIS 38 million.

Note 7 – Investment in Equity-Accounted Investees

7.1 Concise information on material equity-accounted investees:

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	March 31		December 31	March 31		December 31
	2021	2020	2020	2021	2020	2020
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Current assets	311	359	291	893	1,182	1,134
Of which:						
Cash and cash equivalents	69	89	71	115	441	388
Non-current assets	499	545	486	812	783	865
Total assets	810	904	777	1,705	1,965	1,999
Current liabilities	150	128	164	673	893	839
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	14	8	14	282	487	401
Non-current liabilities	89	107	91	284	274	377
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	79	99	79	219	259	299
Total liabilities	239	235	255	957	1,167	1,216

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	For the three months ended March 31		For the year ended December 31	For the three months ended March 31		For the year ended December 31
	2021	2020	2020	2021	2020	2020
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Income	287	335	1,281	615	688	2,946
Profit for the period	22	27	88	14	29	178
Other comprehensive income (loss)	20	20	(46)	(50)	(223)	(332)
Total comprehensive income (loss)	42	47	42	(36)	(194)	(154)
Of which:						
Depreciation and amortization	11	11	45	16	16	58
Interest income	-	-	1	1	4	12
Interest expenses	-	1	3	5	7	26
Income tax expense	(9)*	(11)*	(35)*	-	(2)	4

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

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

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

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

	Shekel-real exchange rate		
	Average exchange rate for the period	**Closing rate for the period**	**% change based on closing rate**
For the three-month period ended on:			
March 31, 2021	0.60	0.58	(6.2)
March 31, 2020	0.79	0.68	(20.3)
For the year ended December 31, 2020	0.67	0.62	(27.9)

Since the beginning of the year through to the date of approval of the financial statements, the Brazilian real has depreciated against the shekel approximately by 2%.

Note 8 - Financial Instruments

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

The carrying amount of cash and cash equivalents, short and long-term deposits and investments, trade receivables, other receivables and debit balances, trade payables, other payables and credit balances is the same as or proximate to their fair value. There was no material change in the fair value (as stated in the Annual Financial Statements) of long-term loans.

Presented below are the carrying amounts (including accrued interest) and fair value of the Company's debentures, based on the prices of the Tel Aviv Stock Exchange:

	March 31, 2021		March 31, 2020		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited				Audited	
	NIS millions					
Series D Debentures	-	-	175	185	-	-
Series E Debentures	574	619	603	640	570	622
Series F Debentures	694	697	-	-	691	718

8.2 Fair value hierarchy of financial instruments measured at fair value

The different levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in an active market for similar instruments.
- Level 2: Inputs, directly or indirectly, other than quoted prices within Level 1.
- Level 3: Inputs that are not based on observable market data.

	March 31, 2021		March 31, 2020		December 31, 2020	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	Unaudited				Audited	
	NIS millions					
Financial assets (liabilities)						
Trade receivables- derivatives	11	8	15	13	18	3
Trade payables- derivatives	(3)	(5)	(23)	(3)	(5)	(16)
	8	3	(8)	10	13	(13)

For details on the method of determining the fair value of derivative financial instruments measured at Level 2, see Note 28.7.2.1 to the Annual Financial Statements.

Note 9 – Events After the Reporting Period

9.1 On May 24, 2021 the board of directors of the Group approved a grant of 133,333 option warrants to one manager. The exercise price was set at the average closing price of the Company's share in the 30 trading days that preceded the grant date, plus a 5% premium. Entitlement to exercise the options will vest in two equal tranches on May 24 of each of the years 2023 and 2024. According to an initial estimate, the value of grant is approximately NIS 2 million**.**

Strauss Group LTD.

Separate Financial Information

as at March 31 ,2021

Separate Financial Information as at March 31, 2021

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Condensed Interim Information on Financial Position

	March 31 2021	March 31 2020	December 31 2020
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	281	153	204
Trade receivables	221	263	185
Income tax	5	-	8
Other receivables and debit balances	36	45	34
Investee receivables	105	169	110
Inventory	113	124	135
Assets held for sale	5	9	5
Total current assets	766	763	681
Investments and non-current assets			
Investments in investees	2,288	2,054	2,115
Other investments and long-term debt balances	539	627	531
Right-of-use assets	97	90	96
Fixed assets	936	937	937
Investment property	3	3	3
Intangible assets	48	45	48
Total investments and non-current assets	3,911	3,756	3,730
Total assets	4,677	4,519	4,411

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

Date of approval of the separate financial information: May 24, 2021

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

Condensed Interim Information on Financial Position (cont'd)

	March 31 2021	March 31 2020	December 31 2020
	Unaudited	Unaudited	Audited
		NIS Millions	
Current liabilities			
Current maturities of debentures	30	67	30
Short-term credit and current maturities of long-term loans and other long-term liabilities	-	190	-
Current maturities of lease liabilities	40	36	38
Trade payables	207	244	196
Income tax	-	25	-
Other payables and credit balances	271	269	241
Investee payables	222	170	127
Dividend declared and not yet paid	270	180	70
Total current liabilities	1,040	1,181	702
Non-current liabilities			
Debentures	1,231	707	1,231
Long-term loans and other long-term liabilities	-	332	-
Lease liabilities	66	65	67
Long-term payables and credit balances	18	13	16
Employee benefits, net	28	25	29
Deferred tax liabilities	109	143	106
Total non-current liabilities	1,452	1,285	1,449
Total equity attributable to the shareholders of the Company	2,185	2,053	2,260
Total liabilities and equity	4,677	4,519	4,411

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

Condensed Interim Information on Income

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS Millions		
Sales	291	321	1,034
Cost of sales	181	199	664
Gross profit	110	122	370
Selling and marketing expenses	52	60	227
General and administrative expenses	28	25	86
	80	85	313
Operating profit before other income (expenses)	30	37	57
Other income	-	-	1
Other expenses	-	-	(1)
Other income, net	-	-	-
Operating profit	30	37	57
Financing income	12	14	22
Financing expenses	(9)	(14)	(101)
Financing expenses, net	3	-	(79)
Income (loss) before taxes	33	37	(22)
Income tax	(12)	(20)	(12)
Net income (loss) after taxes	21	17	(34)
Income from investees	182	139	567
Income for the period attributable to the shareholders of the Company	203	156	533

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

Condensed Interim Information on Comprehensive Income

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS Millions		
Income for the period attributable to the shareholders of the Company	203	156	533
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:			
Other comprehensive loss from investees	(14)	(204)	(316)
Total other comprehensive loss items for the period that will be reclassified to profit or loss in subsequent periods, net	(14)	(204)	(316)
Other comprehensive income items that will not be reclassified to profit or loss in subsequent periods:			
Changes in employee benefits, net	1	1	-
Total other comprehensive income items that will not be reclassified to profit or loss in subsequent periods, net	1	1	-
Comprehensive income (loss) for the period attributable to the shareholders of the Company	190	(47)	217

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

Condensed Interim Information on Cash Flows

	For the three months ended		For the year ended
	March 31 2021	March 31 2020	December 31 2020
	Unaudited		Audited
	NIS Millions		
Cash flows from operating activities			
Income for the period attributable to the shareholders of the company	203	156	533
Adjustments:			
Depreciation	24	24	98
Amortization of intangible assets	3	3	13
Expenses in respect of share-based payment	3	2	12
Income from investees	(182)	(139)	(567)
Financing expenses (income) , net	(3)	-	79
Income tax	12	20	12
Change in inventory	22	12	1
Change in trade and other receivables	(42)	(81)	(2)
Change in investee receivables	(1)	(14)	1
Change in trade and other payables	43	68	5
Change in investee payables	95	27	(16)
Change in employee benefits	1	-	2
Interest paid	(1)	(17)	(92)
Interest received	-	-	24
Income tax paid, net	(4)	(13)	(72)
Net cash provided by operating activities	173	48	31
Cash flows from investing activities			
Proceeds from sale of fixed and other assets	-	2	5
Investment in fixed assets	(15)	(11)	(66)
Investment in intangible assets	(4)	(2)	(13)
Repayment of long-term loans	4	2	15
Loans granted	(2)	(6)	(17)
Dividends from investees	6	-	289
Cash received in respect of investing activities with investees	-	21	122
Cash paid in respect of investing activities with investees	(4)	(37)	(53)
Net cash provided by (used in) investing activities	(15)	(31)	282
Cash flows from financing activities			
Repayment of debentures and long-term loans	-	(88)	(258)
Early redemption of debentures and loans	-	-	(555)
Dividends paid	(70)	-	(180)
Proceeds from issuance of debentures, net of issuance costs	-	-	691
Repayment of principal of lease liabilities	(11)	(11)	(42)
Net cash used in financing activities	(81)	(99)	(344)
Net increase (decrease) in cash and cash equivalents	77	(82)	(31)
Cash and cash equivalents as at beginning of period	204	235	235
Cash and cash equivalents as at end of period	281	153	204

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

Additional Information (Unaudited)

Note 1 - Reporting Rules and Accounting Policies

1.1 General

1.1.1 The Company's business comprises the activity of Group Headquarters, the Group's salads (dips and spreads) business in Israel and the Group's confectionery business in Israel, which includes the development, manufacture and marketing of branded candy products.

1.1.2 The Interim Separate Financial Information of Strauss Group Ltd. (hereinafter: the "Company") is presented in accordance with Regulation 38D of the Securities Regulations (Periodic and Immediate Reports), 1970 and the Tenth Addendum to the said regulations with respect to the separate financial information of the corporation. This financial information should be read in conjunction with the Financial Information as at and for the year ended on December 31, 2020, and in conjunction with the Condensed Consolidated Interim Financial Statements as at March 31, 2021 (hereinafter: the "Condensed Consolidated Interim Financial Statements").

The accounting policy in this Separate Interim Financial Information was applied consistently with the accounting policy and rules described in the Separate Financial Information as at December 31, 2020.

1.1.3 In this Separate Financial Information – the Company and investee companies as defined in Note 1 to the Consolidated Financial Statements of the Company as at December 31, 2020.

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

Note 2 - Seasonality

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

For further information on the effects of the coronavirus pandemic on the Group's activity, see Note 4.2 to the Condensed Consolidated Interim Financial Statements.

Note 3 - Material Events during the Reported Period

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

Note 4 - Share-Based Payment

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

Note 5 - Contingent liabilities

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

Note 6 - Financial Instruments

6.1 Fair value of financial instruments

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

6.2 Fair value hierarchy of financial instruments measured at fair value

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

Note 7 – Post-Statement of Financial Position Date Events

7.1 On April 13, 2021 the subsidiary Strauss Coffee declared a dividend distribution at the amount of NIS 25 million, which was paid to the Company on April 21, 2021.

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

Strauss Group LTD.

Quarterly Report on the Effectiveness of Internal Control

QUARTERLY REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE PURSUANT TO REGULATION 38c(a):

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

For this purpose, the members of management are:

1. Giora Bardea, Chief Executive Officer;
2. Ariel Chetrit, Chief Financial Officer;
3. Shahar Florence, 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.

In the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure,

which was attached to the Periodic Report for the period ended December 31, 2020 (hereinafter: the

"Latest Annual Report on Internal Control"), the Board of Directors and Management evaluated

internal control in the Corporation; Based on this estimate, the Board of Directors and Management of the corporation reached the conclusion that internal control as at December 31, 2020 is effective.

Until the reporting date the Board of Directors and Management were not informed of any event or

matter that are able to alter the evaluation of the effectiveness of the internal control, as presented in the Latest annual Report on the Internal Control.

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

MANAGERS' DECLARATIONS:

A. Declaration by the Chief Executive Officer pursuant to Regulation 38c(d)(1):

I, Giora Bardea, declare that:

(1) I have reviewed the Quarterly Report of Strauss Group Ltd. (the "Corporation") for the first quarter of 2021 (the "Reports" or the "Interim 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. I Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2020) and the date of the Reports, which could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

The foregoing shall not derogate from my responsibility or from the responsibility of any other person, pursuant to applicable law.

May 24, 2021

Giora Bardea, Chief Executive Officer

MANAGERS' DECLARATIONS:

B. Declaration by the most senior financial officer pursuant to Regulation 38c(d)(2):

I, Ariel Chetrit, declare that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the first quarter of 2021 (hereinafter: the "Reports" or the "Interim Reports").

(2) To my knowledge, the Interim Financial Statements and other financial information contained in the Interim Reports do not contain any misrepresentation of a material fact, nor omit any representation of a material fact which is required for the representations included therein, in view of the circumstances in which such representations were included, not to be misleading in reference to the period of the Reports.

(3) To my knowledge, the Financial Statements and other financial information included in the Interim Reports adequately reflect, 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 Interim Financial Statements and other financial information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of 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. I was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2020) and the date of the Reports, which I estimate could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

d. The foregoing shall not derogate from my responsibility or from the responsibility of any other person, pursuant to applicable law.

May 24, 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.

Condensed consolidated interim financial statements as of and for the three month period ended 31 March 2021 and independent auditors' report on review of condensed consolidated interim financial statements

Contents

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

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

Introduction
We have reviewed the accompanying 31 March 2021 condensed consolidated interim financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise:

- the condensed consolidated statement of financial position as at 31 March 2021;
- the condensed consolidated statement of income and other comprehensive income for the three month period ended 31 March 2021;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2021;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2021 and
- notes to the condensed consolidated interim financial statements.

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

Scope of Review
We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Statement Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2021 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, May 18, 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 Interim Statements of Financial Position as of 31 March 2021 and 31 December 2020

(In thousand of Brazilian Reais)

Assets	31 March 2021	31 December 2020
Current		
Cash and cash equivalents	198,808	627,002
Deposits	9,045	10,743
Trade receivables	574,202	456,646
Inventories	628,759	615,743
Recoverable taxes	99,207	93,069
Income tax receivables	11,700	11,656
Other current assets	16,847	17,707
	1,538,568	**1,832,566**
Non-current		
Judicial deposits	7,533	8,012
Loans to related parties	12,332	12,272
Recoverable taxes	147,694	140,426
Other non-current assets	61,627	63,411
Deferred tax assets	4,826	6,634
Investments	57,411	53,401
Fixed assets	640,299	636,233
Intangible assets	393,751	396,532
Right-of-use assets	72,444	80,920
	1,397,917	**1,397,841**
Total assets	**2,936,485**	**3,230,407**

Liabilities and equity	31 March 2021	31 December 2020
Current		
Short term loans	461,597	621,269
Trade payables	446,551	472,106
Short term lease liabilities	23,638	27,277
Income tax payables	3,737	21
Employees and other payroll related liabilities	69,743	69,707
Proposed dividends	58,526	58,526
Interest on equity payable	44,724	44,724
Payable taxes	21,367	28,729
Other current liabilities	29,692	33,208
	1,159,575	**1,355,567**
Non-current		
Long term loans	317,114	417,932
Long term lease liabilities	60,904	65,324
Other non-current liabilities	44,660	44,332
Deferred tax liabilities	-	14,359
Provision for legal proceedings	66,109	66,757
	488,787	**608,704**
Equity		
Share capital	275,531	275,531
Translation reserve	(174,331)	(172,316)
Retained earnings	1,185,081	1,161,063
Equity attributable to owners of the Company	1,286,281	1,264,278
Non-controlling interests	1,842	1,858
Total Equity	**1,288,123**	**1,266,136**
Total liabilities and equity	**2,936,485**	**3,230,407**

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

	Three month period ended 31 March	
	2021	**2020**
Revenue	1,027,311	877,545
Cost of sales	(785,962)	(622,559)
Gross profit	**241,349**	**254,986**
Selling and marketing expenses	(164,376)	(161,488)
General and administrative expenses	(40,834)	(45,482)
Equity method	4,039	1,040
Other income (expenses), net	(2,560)	(690)
Operating profit	**37,618**	**48,366**
Financial income	1,848	5,291
Financial expenses	(15,382)	(13,941)
Net financial expenses	**(13,534)**	**(8,650)**
Profit before income tax	**24,084**	**39,716**
Income tax expenses	(135)	(3,072)
Profit for the period	**23,949**	**36,644**
Profit attributable to:		
Owners of the Company	24,018	37,524
Non-controlling interests	(69)	(880)
Total profit for the period	**23,949**	**36,644**

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

	Three month period ended 31 March	
	2021	**2020**
Profit attributable to:	23,949	36,644
Other comprehensive income (loss) items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation differences	(2,015)	(24,443)
Comprehensive income for the period	**21,934**	**12,201**
Comprehensive income attributable to:		
Owners of the Company	22,003	13,081
Non-controlling interests	(69)	(880)
Total comprehensive income for the period	**21,934**	**12,201**

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

		Retained earnings							
	Share capital	Legal reserve	Tax incentives	Profit to distribute	Translation adjustments	Accumulated profit	Total	Non- controlling interests	Total Equity
Balance as of 31 December, 2019	**275,531**	**55,106**	**385,086**	**553,454**	**(101,323)**	**-**	**1,167,854**	**1,715**	**1,169,569**
Profit for the period	-	-	-	-	-	37,524	37,524	(880)	36,644
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(24,443)	-	(24,443)	-	(24,443)
Total other comprehensive gain (loss):	-	-	-	-	(24,443)	37,524	13,081	(880)	12,201
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	733	733
State VAT and Federal tax incentives	-	-	11,599	-	-	(11,599)	-	-	-
Profit destination									-
Interest on equity credited	-	-	-	-	-	(16,100)	(16,100)	-	(16,100)
Reserve for profit to be distributed	-	-	-	9,825	-	(9,825)	-	-	-
	-	-	11,599	9,825	-	(37,524)	(16,100)	733	(15,367)
Balance as of 31 March, 2020	**275,531**	**55,106**	**396,685**	**563,279**	**(125,766)**	**-**	**1,164,835**	**1,568**	**1,166,403**
Balance as of 31 December, 2020	**275,531**	**55,106**	**449,550**	**656,407**	**(172,316)**	**-**	**1,264,278**	**1,858**	**1,266,136**
Profit for the period	-	-	-	-	-	24,018	24,018	(69)	23,949
Other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(2,015)	-	(2,015)	-	(2,015)
Total other comprehensive gain (loss):	-	-	-	-	(2,015)	24,018	22,003	(69)	21,934
Internal equity changes									
Non-reciprocal capital contributions to subsidiary	-	-	-	-	-	-	-	53	53
State VAT and Federal tax incentives	-	-	10,246	-	-	(10,246)	-	-	-
Profit destination									-
Reserve for profit to be distributed	-	-	-	13,772	-	(13,772)	-	-	-
	-	-	10,246	13,772	-	(24,018)	-	53	53
Balance as of 31 March, 2021	**275,531**	**55,106**	**459,796**	**670,179**	**(174,331)**	**-**	**1,286,281**	**1,842**	**1,288,123**

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

	Three month period ended 31 March	
	2021	**2020**
Cash flows from operating activities		
Profit for the period	23,949	36,644
Adjustments for:		
Depreciation and amortization	24,030	20,692
Gains in tax lawsuits	(9,838)	(20,491)
Termination of lease contracts	-	(13)
Provision for legal proceedings	(648)	3,226
Other income, net	2,560	690
Equity method	(4,039)	(1,040)
Finance expenses, net	13,534	8,650
Income tax expenses	135	3,072
Change in:		
Trade receivables	(106,079)	(63,468)
Inventories	1,539	(50,776)
Recoverable and payable taxes, net	(8,873)	3,397
Judicial deposits	479	1,232
Trade payables	(25,555)	18,046
Employees and other payroll related liabilities	36	9,777
Other current and non-current assets and liabilities	(491)	(6,287)
Change in operating activities	**(89,261)**	**(36,649)**
Interest paid	(17,723)	(7,341)
Interest received	1,769	5,141
Income tax paid	(17)	(20)
Net cash flows used in operating activities	**(105,232)**	**(38,869)**
Cash flows from investing activities		
Change in deposits	2,262	(2,452)
Payment for acquisition of operations, net of cash	-	(31,400)
Proceeds from sales of fixed assets	1,595	283
Acquisition of fixed assets	(22,610)	(29,726)
Investments in intangible assets	(689)	(812)
Net cash flows used in investing activities	**(19,442)**	**(64,107)**
Cash flows from financing activities		
Proceeds from loans	9,249	294,918
Repayment of loans	(308,146)	(81,424)
Payment of lease liabilities	(4,623)	(4,190)
Net cash flows provided by (used in) financing activities	**(303,520)**	**209,304**
Net increase (decrease) in cash and cash equivalents	**(428,194)**	**106,328**
Net increase (descrease) in cash and cash equivalents		
Cash and cash equivalents as at beginning of period	627,002	538,045
Cash and cash equivalents as at end of period	198,808	644,373
	(428,194)	**106,328**

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

1 General information

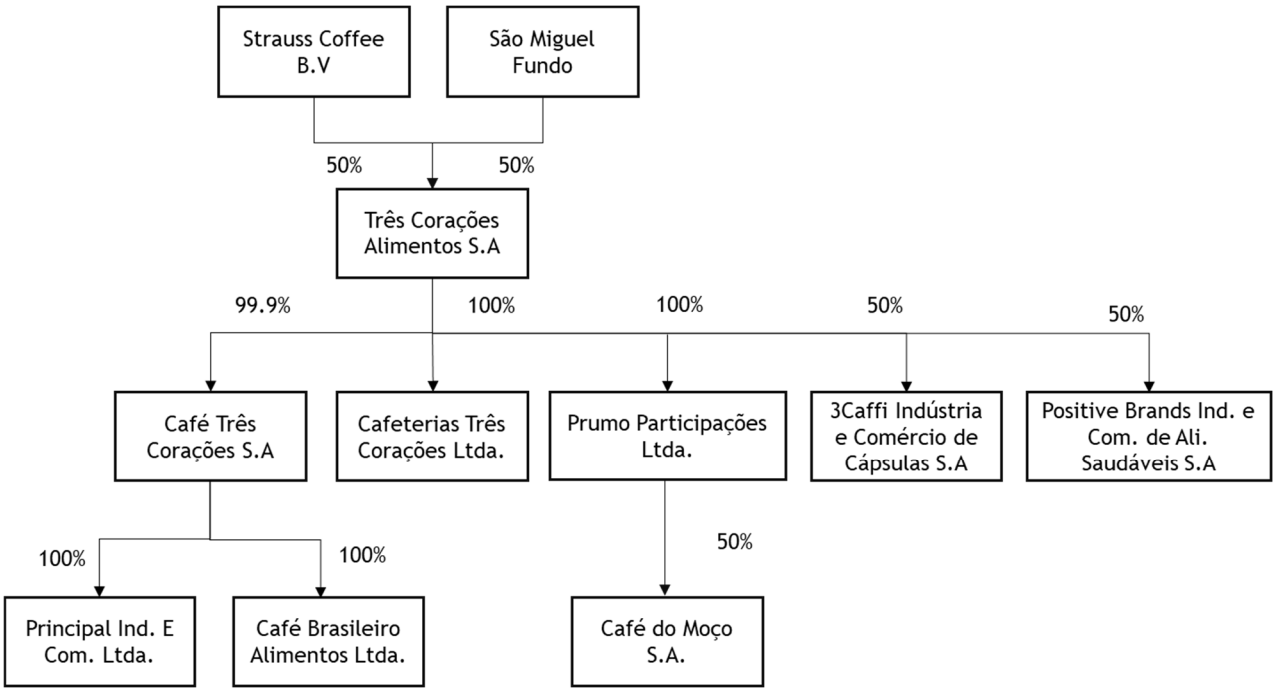
Três Corações Alimentos S.A. (the "Company") together with its subsidiaries (the "Group") are an industrial and commercial Group, which operate in Brazil, in producing and selling branded coffee products, multi-beverage single portion capsules and machines, powdered juices, chocolate drinks and corn 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 operates in the industrialization and sales of plant-based beverages, especially nuts milk and isotonic ones, cashew butter and cashew and nuts snacks.

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 entity Café Brasileiro Alimentos Ltda. The Company also participates in joint-venture agreements, sharing the control with third parties of the companies 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi") and 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 reviewed by independent auditors), and owns the coffee and other food brands of Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Itamaraty, Londrina, Chocolatto, Claralate, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, Cirol, Cirol Real, Realmil, Toko, Astoria, Manaus, Tapajós, Betânia, Tribo do Café, Bar Barista, Café do Moço, Café Brasileiro, Café 3 Fazendas, Café Bandeira, Café Premiado, .br, .br Gold and Coolate. In addition, the Group sells products with the brands A Tal da Castanha, Jungle, Nutco and Possible owned by the Positive Brands joint venture. The Apollo brand is owned by Toko Paticipações e Empreendimentos S.A. and used by the Group 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, 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, the last of which is owned by subsidiary Café do Moço. Positive Brands' physical structure is located in the state of Espírito Santo.

As of 31 March 2021, the Group has the following structure:



2 Basis of preparation

2.1 Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 regarding interim financial reporting. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the IFRS audited consolidated financial statements of the Company as of 31 December 2020 and for the year then ended, together with its accompanying notes (hereinafter - the "Annual Financial Statements").

These condensed consolidated interim financial statements were authorized for issue by the Company's Management on May 18, 2021.

2.2 Significant accounting policies

The accounting policies applied in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended 31 December 2020. The Group has not adopted early any other standards, interpretations or amendments that have been issued but are not yet effective.

3 Material events during the reported period

3.1 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 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 are working 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 imported goods. The Group has been closely monitoring the delivery process of goods by all suppliers and has increased its inventory coverage, wherever feasible, 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. 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 acceptable 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 March 2021 (3.43% 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 period, there has been no significant increase in trade receivable defaults by customers or in the expected credit losses.

(iii) Exchange rate variations on exposed assets and liabilities: The Group uses derivative financial instruments in order to reduce exposure to risks arising from changes in foreign currency exchange rates and does not have significant balances not covered by the financial instruments as at 31 March 2021.

After the Christmas and New Year celebrations of 2020, there was an increase in number of cases of COVID-19 in Brazil. During the first quarter of 2021, state and municipal governments took partial social isolation measures, mostly depending on the level of the disease spread within their territories. Currently, the governments are relaxing some of the restrictions, but future developments cannot be predicted.

The Group understands that in order to make it possible to fully return to the activities of the affected segments in Brazil together with the relaxation of the circulation restriction measures, it will be necessary that the vaccination campaign proceeds as fast as possible.

The vaccination campaign against COVID-19 only started in Brazil in the second half of January 2021 by the priority groups of the so-called phase 1: health workers, people residing in asylums with over 60 years of age or more, people with disabilities and members of indigenous tribal communities. General population over 75 was also being vaccinated, in accordance with availability of the vaccines.

By March 2021, 26,180,254 people had been vaccinated vith the first dose (12.36% of the Brazilian population) and 9,594,276 with the second (4.53% of the Brazilian population), in total of more than 35 million doses were applied. Considering the world-wide vaccine shortages and the logistic and political problems involved, Brazil has been in this area so far one of the best performing countries.

In the current phase of the disease, the Brazilian states with the greatest impact on their hospital networks are taking additional restrictive measures in order to contain the disease. One of these measures relates to the closure of bars and restaurants, limiting the numbers of clients or reducing the opening hours of these establishments.

Although the closing of these establishments or the reduction in numbers of their clients have a direct negative impact on the billing of customers of the Company´s food service channel, management believes that the impact of such measures is not very relevant, since the sales of this channel are relatively small compared to the total volume of business of the Group.

The Group understands that the current impacts are similar to those during the 2020 worst months and the measures to support our network of customers and our employees are similar as well.

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 March 2021.

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

In March 2017, in a judgment with general repercussion effects (Extraordinary Appeal No. 574.706/PR), which means that the decision will serve as a precedent for other legal proceedings involving the same tax issue, the Federal Supreme Court ruled that the State VAT paid does not comprise the taxpayer's equity and should not therefore be included in the calculation basis of the Federal VAT taxes (PIS and COFINS).

The Group and some of its subsidiaries have pending lawsuits that have been definitively judged by the courts related to this matter. The amounts of the tax credits were recognized immediately after receiving notification of the gain of the lawsuit or after performing the calculations for those that were related to the past, where the credit analysis required physical inspection of the documentation. Part of the tax credit was not recognized, where, based on the expectation of using future economic benefits arising from such tax credits, management concluded that the existing balances could probably not be used in the near future (within 5 years in accordance with Brazilian tax law), however, after a review the Group recognized in the period an additional amount of R$ 9,838 relating to the same matter.

The amounts were recognized based upon the expected utilization through tax compensation. The Group recognized in the statement of income the gain arising from the lawsuits (principal, interest, etc.) as revenue deductions (see Note 7).

In calculating tax credits, the Group adopted the method established by the court decision, which considers the State VAT amounts mentioned in the sales invoices, following also the practice adopted by other companies in Brazil.

4 Net debt

	31 March 2021	31 December 2020
Short term loans	461,597	621,269
Long term loans	317,114	417,932
Cash and cash equivalents	(198,808)	(627,002)
Net debt	579,903	412,199

The increase in net debt is mainly due to the decrease of cash and cash equivalents. Below is presented the cash flow use for the period:

- Cash flows used in operating activities, in the amount of R$ 105,232;
- Cash flows used in investing activities, in the amount of R$ 19,442;
- Cash flows used in financing activities, in the amount of R$ 303,520.

During the period there was also a reduction in the short and long term loans, mainly due to repayment of working capital loans in the total amount of R$ 308,146. For further information, see the statements of cash flows.

There are no debt covenants on the Group's loan and borrowing contracts with the banks.

5 Contingent liabilities

There are no material events, except for the usual interest accrued on the provisioned contingent liability balances.

6 Financial instruments

6.1 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term deposits, trade receivables, other receivables and debit balances, credits from banks and others, trade payables and other payables and credit balances, are equal or close to their fair values, except as mentioned below.

Presented below are the carrying amounts and fair values of financial liabilities that are not presented in the financial statements at fair value:

	31 March 2021		31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Short term loans	461,597	453,952	621,269	612,899
Long term loans	317,114	359,199	417,932	440,953

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

6.2 Fair value hierarchy

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

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

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

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

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

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

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

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

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

- **Level 3**: inputs for valuing a financial instrument that is not based on observable market data (that is, unobservable inputs). As of 31 March 2021 and 31 December 2020, the Group had no financial instruments classified at Level 3.

7 Revenue

7.1 Disaggregated revenue information

	Products	Services	31 March 2021
Geographical markets			
Domestic	916,414	2,904	919,318
Foreign	107,993	-	107,993
	1,024,407	**2,904**	**1,027,311**

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

7.2 Revenue reconciliation

	31 March 2021	31 March 2020
Gross revenue:		
Products - domestic	1,145,836	1,065,838
Products - foreign	107,993	42,027
Services	3,188	51
Other	56	33
Revenue deductions:		
Taxes on sales (a)	(112,061)	(88,949)
State VAT incentives	21,537	22,370
Discounts	(108,002)	(130,172)
Other deductions	(31,236)	(33,653)
Revenue	**1,027,311**	**877,545**

(a) As described in Note 3.2, the Group recognized the gain from the lawsuits related to the exclusion of State VAT (ICMS) from the Federal VAT (PIS and COFINS) calculation base. For the three month period ended 31 March 2021 the amount recognized was R$ 9,838 (R$ 20,491 for the three month period ended 31 March 2020).

The decrease in gross profit for the period is mainly related to the increase in the price of green coffee, the Group's main raw material.

8 Subsequent events

8.1 Tax assessment notice - São Paulo State VAT (ICMS)

On May 10, 2021, the Company received a tax assessment notice, issued by the São Paulo State Treasury Office, in the total amount of R$ 36,169. Tax authorities state that the Company, in the fiscal year 2017, calculated incorrectly the ICMS (state VAT) in transactions with goods subject to the ICMS tax substitution method (ST), claiming that the price used should have been the consumer sales price rather than 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.

In December 2020 the Company had already received a similar tax assessment notice related to the same matter, however for the fiscal year of 2016. The tax authority has the right to inspect transactions of the last 5 years and therefore additional tax assessments may still be issued.

The Group and its tax advisors responsible for monitoring these proceedings classify the risk of loss as remote. As of 31 March 2021 the amount of the legal claim was R$ 66,961 (R$ 30,673 as of 31 December 2020).

8.2 Brazilian Supreme Court final decision over exclusion of State VAT (ICMS) from the Federal VAT (PIS and COFINS) calculation base

In the annual reports of 2019 and 2020 the Group disclosed that Federal Regional Courts in Brazil had judged definitively and favorably to Três Corações Alimentos S.A. and its subsidiaries Café Três Corações S.A. and Principal Comércio e Indústria de Café Ltda., proceedings in which the Companies had requested exclusion of state VAT (ICMS) from the Federal VAT (PIS and COFINS) calculation base. 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.

Due to the high impact on public accounts involving the judicial decisions not only for 3corações Group but also for many other companies, the Federal Government questioned in the Brazilian Supreme Court the correct method of calculating the tax credits, as well as the date of application of the effects of the decision.

On May 13th, 2021, the Supreme Court confirmed the methodology that had been adopted by majority of Brazilian taxpayers, defining that the ICMS amount to be excluded from PIS and COFINS calculation basis is the one informed in the sales invoices and ratified the unconstitutionality of the tax collection, in general, for all companies since March 15th, 2017. However, companies that had already initiated judicial proceedings before March 15, 2017, will be entitled to the refund of tax credits as authorized by courts in their own proceedings.

The Brazilian Supreme Court thereby ratified the procedure adopted by taxpayers in general, as well as by the companies of *3corações* Group.

* * *

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Chief Executive Officer

Danisio Costa Lima Barbosa
Chief Financial Officer

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