STRAUSS GROUP LTD.
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STRAUSS GROUP LTD.

DESCRIPTION OF THE CORPORATION'S BUSINESS

UPDATE TO THE CHAPTER "DESCRIPTION OF THE COMPANY'S BUSINESS"
IN THE PERIODIC REPORT OF STRAUSS GROUP LTD. (HEREINAFTER: THE "COMPANY")
FOR THE YEAR 2018[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, 2019 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 2018 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 12, 2019 the Board of Directors of the Company approved the distribution of a cash dividend to shareholders of the Company. For further information on said dividend distribution, see the Immediate Report of March 20, 2019 (reference no. 2019-01-023538) and also Note 4.1 to the condensed consolidated interim financial statements of the Company as at March 31, 2019.

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

Section 21.6, Credit rating: On April 3, 2019 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 3, 2019 (reference no. 2019-01-030720).

On May 15, 2019 the Company announced the upgrade of Midroog's rating of the Company's Series D and Series E debentures from Aa2.il with positive outlook to Aa1.il with stable outlook. For further information, see the Immediate Report of May 15, 2019 (reference no. 2019-01-041517).

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

For updates, see Note 6 to the condensed consolidated interim financial statements of the Company as at March 31, 2019.

4. Regulation 20 in the Additional Information Report

On March 31, 2019 the Company effectuated a partial redemption of its Series D debentures. For further information, see the Immediate Report of April 1, 2019 (reference no. 2019-01-029514).

Date: May 19, 2019

Names and titles of signatories:

Ofra Strauss, Chairperson of the Board of Directors

Giora Bardea, Chief Executive Officer

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Strauss Group Ltd.

[1] As published on March 13, 2019 (reference number 2019-01-020559).

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

AS AT MARCH 31, 2019

Unofficial Translation from Hebrew

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED MARCH 31, 2019

EXPLANATIONS BY THE BOARD OF DIRECTORS REGARDING THE COMPANY'S BUSINESS POSITION, THE RESULTS OF ITS OPERATIONS, ITS SHAREHOLDERS' EQUITY AND CASH FLOWS

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

The Board of Directors of Strauss Group Ltd. (hereinafter: the **"Company"**) herewith respectfully submits the Board of Directors' Report for the first quarter of 2019 in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (the **"Regulations"**).

The review presented below is limited in scope and refers to events and changes that occurred in the state of the Company's affairs in the reporting period, which have a material impact, and should be read together with the chapter Description of the Company's Business in the Periodic Report as at December 31, 2018, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 13, 2019 (reference no. 2019-01-020559) (the "2018 Periodic Report").

Strauss Group Ltd. and the companies it controls, including joint ventures (hereinafter: the **"Group"**), are a group of industrial and commercial companies engaged mainly in the development, manufacture, sale and marketing of a variety of branded food and beverage products. The Group is also active in the development, marketing, servicing and sale of water filtration, purification and carbonation systems.

The Group is active in seven segments, as follows: **Strauss Israel**, which comprises two activity segments (Health & Wellness and Fun & Indulgence); **Strauss Coffee**, which comprises two segments (Israel Coffee (which includes the coffee company's headquarters) and the International Coffee operation); the **International Dips & Spreads** segment; the **Strauss Water** segment; and other activities that are included in the financial statements as the **"Other Operations"** segment, which comprises other activities that are immaterial.

The Group is a leading player in most of the markets in which it operates. The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In the first quarter of 2019 the Group held a 12.2% share of the total domestic food and beverage market (in value terms[1]) compared to 11.7% at the end of 2018, and it has the highest sales turnover among Israeli food companies (according to the Company's sales turnover in its non-GAAP reports, as defined below).

The operation in Israel includes the activity of Strauss Israel (sale of a broad variety of refrigerated and dry food products), the coffee operation in Israel and Strauss Water's activity in Israel. In addition to the operation in Israel, the Group is also active in three other major geographical regions: **the operation in Brazil**, which is conducted through the Três Corações joint venture[2] and mainly focuses on roast and ground (R&G) coffee in the domestic market; **the operation in Europe**, which mainly includes the coffee business in Russia, Ukraine and Central and Eastern Europe as well as Obela's[3] activity in the Netherlands and Germany and the Florentin brand; and **the operation in the US and Canada**, which includes Sabra's[4] operations. The Group is also active in dips and spreads in Australia, New Zealand and Mexico through Obela; and in China and the UK through Strauss Water.

The Group manages and develops its business with the aim of providing the entire public with a broad variety of top-quality branded products for different consumption opportunities. The products of the Group are generally sold through a variety of sales channels including large food chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, e-commerce, etc.

[1] According to StoreNext figures. StoreNext is engaged in the measurement of the fast-moving consumer goods (FMCG) segment in the barcoded retail market (hereinafter: **"StoreNext"**).

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

[3] A joint venture with PepsiCo in the dips and spreads business. See also section 3.2.3 below.

[4] The Company's brand in the dips and spreads business in the United States and Canada, in partnership with PepsiCo. See also section 3.2.3 below.

The controlling shareholders of the Company are Mr. Michael Strauss (indirectly) through his holdings in Strauss Holdings Ltd. (hereinafter: the **"Parent Company"** or **"Strauss Holdings"**) and through a direct holding in the Company, and Ms. Ofra Strauss, who is considered a joint holder of the Company's shares with Mr. Strauss.

The Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

2. CHANGES IN THE ECONOMIC ENVIRONMENT

2.1 Prices of raw materials and other production inputs – A substantive part of the raw materials used to manufacture the Group's products are traded on the commodities markets. In the first quarter of 2019 there were changes in the average market prices of part of the Group's raw materials. On the one hand, green coffee and sugar prices dropped, whereas on the other, the prices of cocoa, sesame, tahini, potatoes, milk powders and plastic bottles (used in packaging) rose. At the beginning of the second quarter of 2019 the price of raw milk (the "target price") was revised downward by 1% for the months April-June 2019 following a similar decrease in the first quarter, as opposed to a total increase of approximately 2% during 2018.

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

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

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

Gains or losses arising from the economic hedging of commodities are mainly included in the non-GAAP income statement on the date of sale of the inventory to outside parties.

2.2 Energy prices – In the first quarter of 2019 the average prices of Brent oil were approximately 5% lower than the average price in the corresponding period last year. However, since the beginning of 2019 Brent oil prices have increased by approximately 30%. Energy prices mainly affect the procurement of packaging materials, energy costs at the manufacturing sites and distribution costs.

2.3 Exchange rate fluctuations – The impact of the revaluation of the Shekel (on the basis of average exchange rates) against most of the Group's functional currencies, including the Brazilian Real and the Russian Ruble, led to negative translation differences on the income statement in the first quarter of 2019. In terms of quarterly change (based on closing prices) the Shekel appreciated against most of the currencies, including the Brazilian Real, which had a negative net effect on the Group's equity in the first quarter of 2019. During the quarter, the average exchange rates of all relevant currencies depreciated against the US Dollar compared to the corresponding period; however, part of the currencies were revalued against the Dollar on the basis of closing prices since the beginning of the year.

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

The following table presents the average exchange rates **versus the Shekel** in the first quarter of 2019 compared to the corresponding period last year:

Currency		Average Exchange Rate in the First Quarter		% change
		2019	2018	
United States Dollar	USD	3.645	3.463	*5.3*
Euro	EUR	4.140	4.258	*(2.8)*
Ukrainian Hryvnia	UAH	0.133	0.127	*5.1*
Russian Ruble	RUB	0.055	0.061	*(9.6)*
Serbian Dinar	RSD	0.035	0.036	*(2.6)*
Romanian Leu	RON	0.874	0.914	*(4.3)*
Polish Zloty	PLN	0.962	1.018	*(5.5)*
Brazilian Real	BRL	0.968	1.067	*(9.3)*
Chinese Renminbi	CNY	0.540	0.545	*(0.8)*
Canadian Dollar	CAD	2.742	2.742	*0.0*
Australian Dollar	AUD	2.596	2.722	*(4.6)*
Mexican Peso	MXN	0.190	0.185	*2.6*
Pound Sterling	GBP	4.744	4.823	*(1.6)*

The following table presents the average exchange rates **versus the Dollar** in the first quarter of 2019 compared to the corresponding period last year:

Currency		Average Exchange Rate in the First Quarter		% change
		2019	2018	
New Israeli Shekel	ILS	0.274	0.289	*(5.0)*
Ukrainian Hryvnia	UAH	0.037	0.037	*(0.1)*
Russian Ruble	RUB	0.015	0.018	*(14.1)*
Serbian Dinar	RSD	0.010	0.010	*(7.4)*
Romanian Leu	RON	0.240	0.264	*(9.1)*
Polish Zloty	PLN	0.264	0.294	*(10.2)*
Brazilian Real	BRL	0.265	0.308	*(13.8)*
Chinese Renminbi	CNY	0.148	0.157	*(5.8)*
Pound Sterling	GBP	1.301	1.393	*(6.5)*

2.4 Regulatory developments in input prices – The Group is influenced by regulatory changes applying from time to time to wages and the price of raw milk, which account for a major part of its inputs.

In 2016 the Locker Guideline, which led to a drop in the price of milk and was intended to maintain low milk prices in the long term, ended. De facto, when the plan ended the price of milk began to rise (at the end of 2016 the price of milk was approximately NIS 1.86 per liter, whereas shortly before the date of publication of this report it is NIS approximately 1.98 per liter).
The Minister of Finance recently refused to sign the order for a 3.4% increase in controlled prices (despite the recommendation of the professional committee to raise prices as a result of the increase in the target price). Tnuva Dairy petitioned the High Court of Justice to direct the Minister of Finance to sign the order to raise controlled prices. In parallel, negotiations were held between the Ministry of Finance and the dairy farmers with the aim of reaching an agreed outline for the continued regulation of the dairy market. The outline that was proposed and accepted by the majority of dairy farmers includes a reduction of customs tariffs, efficiency enhancement of the cowsheds such that the target price will be calculated according to the cost structure of a minimum sized cowshed that supplies 1.2 million liters of milk per year, efficiency enhancement and retirement bonuses totaling NIS 450 million for small cowsheds, and a gradual decrease in the target price. To the best of the Company's knowledge, a small group of cowshed owners approached the court, claiming that the proceeding in which the agreement was signed by the dairy farmers' representatives was not legal, and the court issued a temporary injunction pertaining to the performance of the agreement. Additionally, the High Court of Justice issued its decision, according to which the prices of controlled products are to be raised by 3.4%. An exact timeframe for the price increase was not determined. In light of the elections and the process of forming a coalition that is now under way, regulation of the dairy market has been put on hold, most likely until a new government is formed, which will devise policy vis-à-vis all other parties in the dairy industry.

3. ANALYSIS OF FINANCIAL RESULTS

The Group has a number of jointly controlled companies in which the Company and/or subsidiaries hold 50%: the Três Corações joint venture (in Brazil)[1], Sabra Dipping Company (an investee company active in dips and spreads in North America), Strauss Frito-Lay Ltd. (the salty snack operation in Israel) and PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, **"Obela"**). To clarify, the above companies are included in the management (non-GAAP) reports of the Company according to the holdings of the Company and/or the subsidiaries therein (50%).

In accordance with the guidance in IFRS 11 – Joint Arrangements, in the financial statements of the Company, the statements of income and statements relating 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 not presented according to the Group companies' relative holding in the joint venture, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section) (hereinafter: **"Financial Statements"**).

Notwithstanding the foregoing and in view of the fact that the Group's non-GAAP reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies have remained unchanged, the Group has continued to present the activity segments by presenting the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%) (hereinafter: the **"Management (Non-GAAP) Reports"** or the **"Non-GAAP Reports"**). Presentation of the data in this manner is different to the manner of their presentation in the audited Financial Statements of the Company.

In view of the fact that the Group's Non-GAAP Reports and the method in which Group Management measures the results of the subsidiaries and jointly owned companies have remained unchanged, the Group has continued to present the activity segments in the same manner in which they were presented before IFRS 11 was applied, i.e. presentation of the Group's relative holding in the income and expenses, assets and liabilities of the jointly controlled companies (50%).

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

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarters ended March 31, 2019 and 2018 (in NIS millions)*:

	Year			Explanations
	2019	**2018**	**% Chg**	
Sales	**2,106**	**2,167**	**(2.8%)**	The decrease in sales is due to the Strauss Coffee segment and is the result of negative translation differences, mainly due to the depreciation of the Brazilian Real against the Shekel, as well as price reductions introduced in certain countries following the drop in green coffee prices, mainly in Brazil while market share continued to grow. By contrast, an increase in sales by Strauss Israel was registered following innovation, launches and the sales mix, in the International Dips & Spreads segment following the adjustment of hummus prices in the US and of guacamole prices in the US and Canada for changes in manufacturing costs, and in Strauss Water following growth of the customer base. For further information, see section 3.1.1 below.
Organic growth excluding foreign currency effect	(0.1%)	7.8%		
Cost of sales	1,261	1,334	(5.5%)	Most of the increase in the gross profit margin is the result of a drop in green coffee prices, which was offset in part by the adjustment of prices to reflect changes in raw material costs and currencies in some countries, and of a change in the sales mix. For further information, see section 3.1.2 below.
Gross profit – non-GAAP	**845**	**833**	**1.4%**	
% of sales	40.1%	38.4%		
Selling and marketing expenses	449	457	(1.7%)	There was no substantial change in the percentage of selling and marketing expenses in relation to total sales.
General and administrative expenses	133	124	7.4%	The increase is primarily due to non-recurring expenses.
Total operating expenses	**582**	**581**		
Company's share of profit of equity-accounted investees	6	2	233.5%	The increase is primarily the result of growth in the profits of the Haier Strauss Water (HSW) joint venture. For further information, see section 3.2.4 below.
Operating profit – non-GAAP	**269**	**254**	**5.7%**	The change in the operating profit margin is primarily due to the International Dips & Spreads segment following the adjustment of hummus prices in the US and of guacamole prices in the US and Canada for changes in manufacturing costs, Strauss Coffee and Strauss Israel following the improvement in the gross profit margin, and Strauss Water following growth in the customer base combined with operational efficiency enhancement and an improvement in the income of the HSW joint venture. For further information, see section 3.1.3 below.
% of sales	12.8%	11.7%		
Financing expenses, net	(30)	(17)	71.1%	The increase in financing expenses is primarily the result of expenses recognized in respect of foreign currency derivatives following the depreciation of the Dollar and the Euro against the Shekel in the first quarter of the year, as opposed to the recognition of income as a result of their appreciation against the Shekel in the corresponding period last year, as well as first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16). The increase in expenses was partially offset by a decrease in interest expenses.
Income before taxes – non-GAAP	**239**	**237**	**0.9%**	
Income tax	(55)	(76)	(26.7%)	The decrease in the effective tax rate in the first quarter of 2019 is the result of the profit mix for tax purposes between the companies in the various countries, as well as non-recurring provisions for tax recognized in Romania and other countries in the corresponding period last year.
Effective tax rate	23.2%	32.0%		
Income for the period – non-GAAP	**184**	**161**	**13.9%**	The change primarily consists of an increase in operating profit and a decrease in tax expenses, which was partially offset by the increase in financing expenses.
Attributable to the Company's shareholders	**172**	**146**	**16.8%**	
% of sales	8.1%	6.8%		
Attributable to non-controlling interests	12	15	(15.1%)	
EPS (NIS)	1.49	1.28	16.3%	

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarters ended March 31, 2019 and 2018 (in NIS millions)*:

	First Quarter		
	2019	**2018**	**% Chg**
Israel			
Net sales	877	866	*1.3%*
Operating profit	112	109	*2.2%*
Coffee			
Net sales	894	986	*(9.4%)*
Operating profit	112	119	*(5.7%)*
International Dips & Spreads			
Net sales	192	180	*6.5%*
Operating profit	25	11	*118.0%*
Water			
Net sales	143	135	*6.0%*
Operating profit	16	10	*67.7%*
Other			
Net sales	-	-	*N/A*
Operating profit	4	5	*(21.6%)*
Total			
Net sales	**2,106**	**2,167**	***(2.8%)***
Operating profit	**269**	**254**	***5.7%***

Following are the condensed financial accounting (GAAP) statements of income for the quarters ended March 31, 2019 and 2018 (in NIS millions)*:

	First Quarter		
	2019	**2018**	**% Chg**
Sales	1,430	1,446	*(1.1%)*
Cost of sales excluding impact of commodity hedges	830	856	*(3.0%)*
Adjustments for commodity hedges**	13	(11)	
Cost of sales	843	845	*(0.2%)*
Gross profit	**587**	**601**	***(2.3%)***
% of sales	41.1%	41.6%	
Selling and marketing expenses	314	315	*(0.6%)*
General and administrative expenses	99	95	*3.9%*
Total expenses	**413**	**410**	
Share of profit of equity-accounted investees	68	58	*16.2%*
Operating profit before other expenses	**242**	**249**	***(2.4%)***
% of sales	17.0%	17.2%	
Other income (expenses), net	(1)	2	
Operating profit after other expenses	**241**	**251**	***(3.6%)***
Financing expenses, net	(27)	(16)	*67.6%*
Income before tax	**214**	**235**	***(8.4%)***
Income tax	(46)	(67)	*(30.3%)*
Effective tax rate	21.6%	28.3%	
Income for the period	**168**	**168**	***0.3%***
Attributable to: The Company's shareholders	**156**	**153**	***1.9%***
Non-controlling interests	12	15	*(17.1%)*

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

** Reflects mark-to-market as at end-of-period of open positions in the Group in respect of financial derivatives used to hedge commodity prices, and all adjustments necessary to delay recognition of gains and losses arising from commodity derivatives until the date when the inventory is sold to outside parties.

Following is the condensed financial accounting (GAAP) statement of financial position as at March 31, 2019 and December 31, 2018 (in NIS millions)*:

	As at March 31, 2019	As at December 31, 2018	% Chg	Explanations
Total current assets	2,217	2,150	3.1%	The change is primarily the result of an increase in inventory and receivables balances.
Of which: Cash and cash equivalents balance	409	426	(4.0%)	For information on the change in the cash and cash equivalents item, see section 3.1.5 below. In accordance with Company policy, these assets are mainly held in liquid deposits.
Total non-current assets	4,373	4,093	6.9%	The change primarily originates in the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Total current liabilities	2,019	1,698	18.9%	The change is primarily the result of a dividend declared and not yet paid to shareholders as well as the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Total non-current liabilities	2,428	2,299	5.6%	The change is primarily the result of the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Total equity attributable to the Company's shareholders	1,981	2,096	(5.4%)	The change is primarily the result of an increase in net income attributable to the majority shareholders, which was partly offset by a dividend declared in the period and by negative translation differences following the depreciation of the Brazilian Real against the Shekel based on exchange rates at the end of the period.
Total equity attributable to non-controlling interests	162	150	8.2%	The change is primarily the result of an increase in the profit of investees.

Following is the outstanding debt balance as at March 31, 2019 and December 31, 2018 (in NIS millions)*:

	As at March 31, 2019	As at December 31, 2018	Change	Explanations
Gross debt – Non-GAAP Reports	2,866	2,650	216	The change primarily originates in the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).
Gross debt – Financial Statements	2,524	2,340	184	
Net debt – Non-GAAP Reports	2,344	1,964	380	
Net debt – Financial Statements	2,114	1,843	271	

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

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

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

	First Quarter 2019			First Quarter 2018		
	Equity method	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**
Sales	1,430	676	2,106	1,446	721	2,167
Cost of sales excluding impact of commodity hedges	830	431	1,261	856	478	1,334
Adjustments for commodity hedges	13	-	13	(11)	-	(11)
Cost of sales	843	431	1,274	845	478	1,323
Gross profit	**587**	**245**	**832**	**601**	**243**	**844**
% of sales	41.1%		39.5%	41.6%		39,0%
Selling and marketing expenses	314	135	449	315	142	457
General and administrative expenses	99	38	137	95	33	128
Company's share of profit of equity-accounted investees	68	(62)	6	58	(56)	2
Operating profit before other expenses	**242**	**10**	**252**	**249**	**12**	**261**
% of sales	17.0%		12.0%	17.2%		12.1%
Other income (expenses), net	(1)	-	(1)	2	-	2
Operating profit after other expenses	**241**	**10**	**251**	**251**	**12**	**263**
Financing expenses, net	(27)	(3)	(30)	(16)	(1)	(17)
Income before tax	**214**	**7**	**221**	**235**	**11**	**246**
Income tax	(46)	(7)	(53)	(67)	(11)	(78)
Effective tax rate	21.6%		24.1%	28.3%		31.7%
Income for the period	**168**	**-**	**168**	**168**	**-**	**168**
Attributable to: **The Company's shareholders**	**156**	**-**	**156**	**153**	**-**	**153**
Non-controlling interests	12	-	12	15	-	15

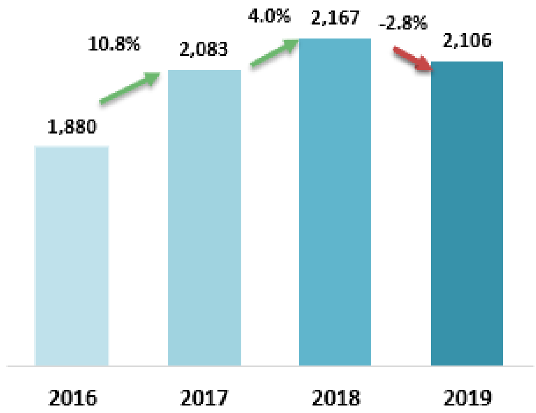
* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.

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

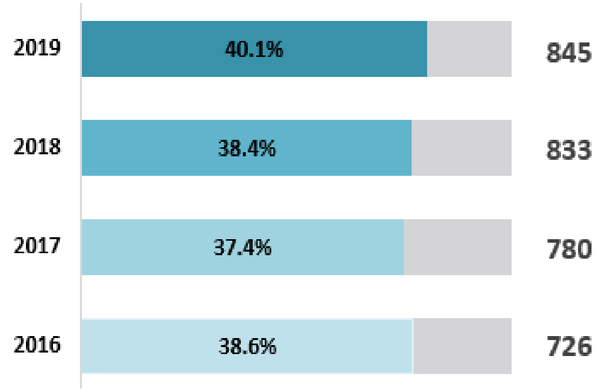
	First Quarter		
	2019	**2018**	**% Chg**
Operating profit (according to proportionate consolidation method) after other expenses	**251**	**263**	***(4.4%)***
Share-based payment	4	4	
Adjustments for commodity hedges	13	(11)	
Other expenses, net	1	(2)	
Operating profit – non-GAAP	**269**	**254**	***5.7%***
Financing expenses, net	(30)	(17)	
Income tax	(53)	(78)	
Taxes in respect of adjustments to the above non-GAAP operating profit	(2)	2	
Income for the period – non-GAAP	**184**	**161**	***13.9%***
Attributable to: **The Company's shareholders**	**172**	**146**	***16.8%***
Non-controlling interests	**12**	**15**	***(15.1%)***

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

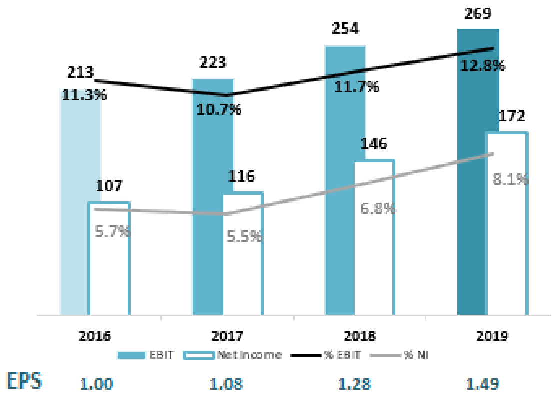
Net sales



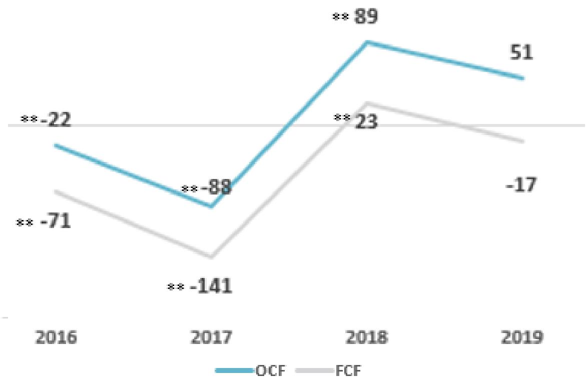
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow

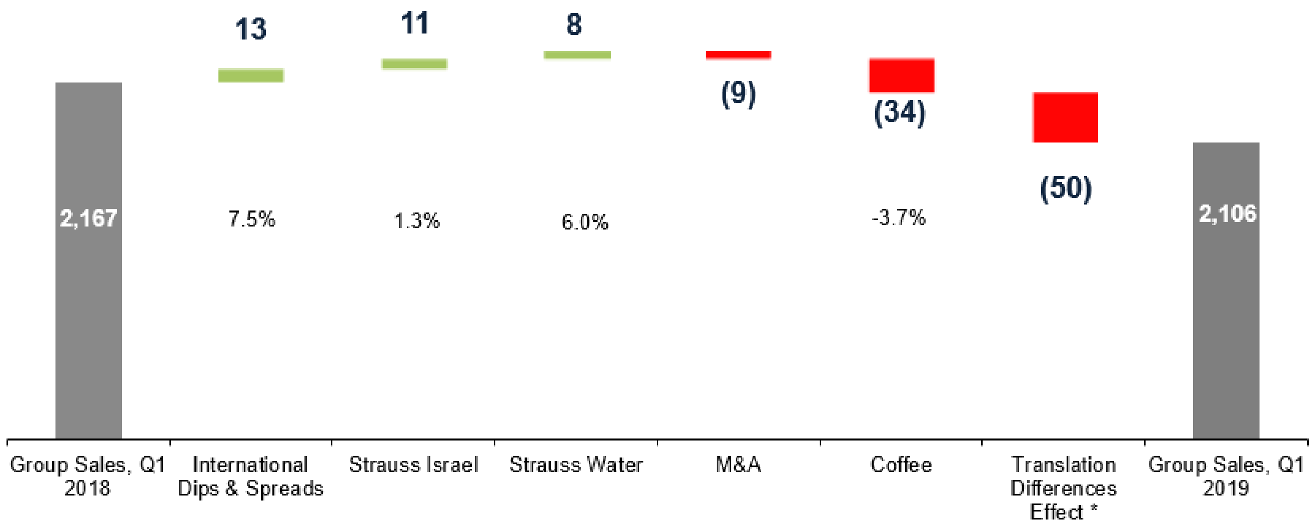


* Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.
**Reclassified - For further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.
For the effects of first-time adoption of IFRS 16, *Leases*, see section 3.2.6 below.

3.1 Analysis of the Business Results of the Group

3.1.1 Sales – non-GAAP

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



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

The Group's sales in the first quarter of 2019 were impacted by negative translation differences amounting to approximately NIS 50 million, of which NIS 44 million are due to the depreciation of the Brazilian Real against the Shekel (see also the foreign exchange rate table in section 2.3 in this report).

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

- Inorganic growth in the Group's sales (a decrease of approximately NIS 9 million in the first quarter, compared to the corresponding period last year), primarily as a result of the sale of the salsa operation by Sabra (for further information, see Note 3.2.3.1 below).
- See section 3.2.1.1 below for further explanations on organic growth in sales by the Coffee segment.
- See section 3.2.2 below for further explanations on organic growth in sales by the Strauss Israel segment.
- See section 3.2.3 below for further explanations on organic growth in sales by the International Dips & Spreads segment.
- See section 3.2.4 below for further explanations on organic growth in sales by the Strauss Water segment.

3.1.2 Gross Profit – Non-GAAP

	First Quarter			
	2019	**2018**	**% Chg**	**% chg less translation differences effect**
Gross profit	845	833	*1.4%*	*3.1%*
Gross profit margin	40.1%	38.4%		

The Group's non-GAAP gross profit in the first quarter of 2019 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 14 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 13 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the first quarter of 2019 rose by approximately NIS 12 million compared to the corresponding period last year:

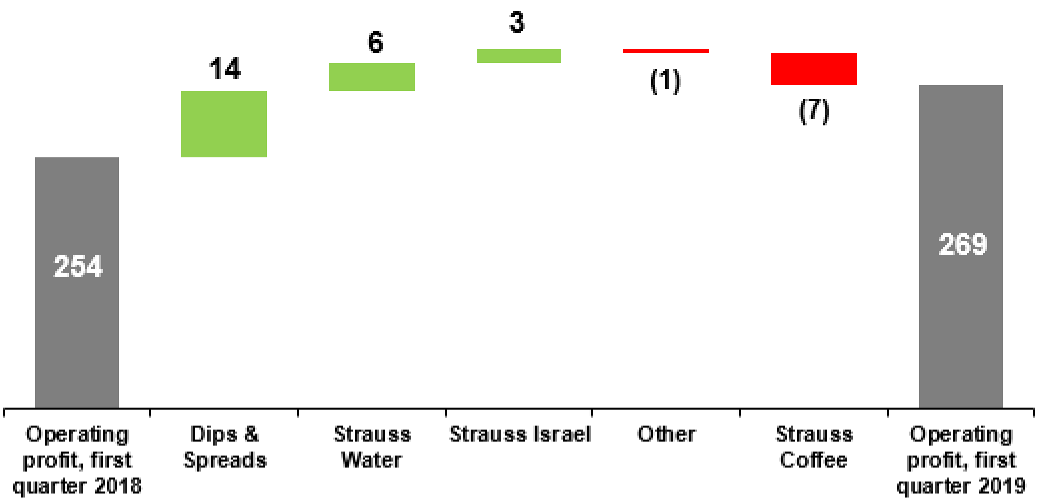
- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments rose by approximately NIS 22 million in the first quarter compared to the corresponding period last year. The increase in gross profit in the period is mainly the result of growth in Strauss Water's customer base and price increases by Sabra.
- See section 3.2.1 below for further explanations on the change in gross profit in the Coffee segment.
- See section 3.2.2 below for further explanations on the change in gross profit in the Strauss Israel segment.

3.1.3 Operating Profit before Other Expenses – Non-GAAP

	First Quarter			
	2019	**2018**	**% Chg**	**% chg less translation differences effect**
Operating profit (EBIT)	269	254	*5.7%*	*7.7%*
Operating profit margin	12.8%	11.7%		

The Group's non-GAAP operating profit (EBIT) in the first quarter of 2019 increased by approximately NIS 15 million and was adversely influenced by negative translation differences into Shekels, which amounted to approximately NIS 5 million (see also the exchange rate table in section 2.3 in this report).

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



The change in the Group's operating profit in the first quarter of 2019 was the result of the following:

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

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

In the first quarter of 2019 the GAAP comprehensive income amounted to approximately NIS 106 million, compared to comprehensive income of NIS 210 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 61 million, compared to foreign currency translation gains of NIS 42 million in the corresponding period last year.

Foreign currency translation losses in the first quarter of the year are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 30 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of 2018.

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

	First Quarter			Explanations
	2019	2018	Change	
Cash flows from operating activities	90	*61	29	The change is mainly the result of the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16), as well as tax rebates in respect of prior years.
Cash flows from investing activities	24	101	(77)	The change is primarily due to the encashment of a deposit in the first quarter of 2018.
Cash flows used in financing activities	(127)	*(210)	83	The change is primarily the result of higher repayments of long-term loans and debentures in the corresponding period last year, partially offset by the payment of lease liabilities following the first-time adoption of IFRS 16, Leases (see section 3.2.6 for the impacts of the application of IFRS 16).

Following is information on average credit volumes:

	First Quarter			Explanations
	2019	2018	Change	
Long-term credit volume according to the Non-GAAP Report	2,696	*2,707	(11)	A decrease in gross debt following excess repayments in respect of new capital raisings, which was partially offset by the effects of first-time adoption of IFRS 16, Leases.
Average short-term credit volume according to the Non-GAAP Report	124	74	50	
Long-term credit volume according to the Financial Statements	2,464	*2,451	13	
Average short-term credit volume according to the Financial Statements	19	26	(7)	

* Reclassified - For further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.

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

	First Quarter	
	2019	**2018**
Change in net working capital, Financial Statements	(111)	*(123)
Change in net working capital, Non-GAAP Report	(235)	*(174)

* Reclassified - For further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.

Additional information

	March 31, 2019	**December 31, 2018**
Liquidity ratio	*1.1	1.27
Liabilities in respect of long-term loans and credit (including current maturities)	2,501	2,316
Short-term credit (excluding current maturities)	23	24
Supplier credit	730	730
Ratio of equity attributable to the Company's shareholders to total assets on the Company's consolidated statement of financial position	*30.1%	33.6%
Net financial debt-to-EBITDA ratio	**2.0	1.9
Equity attributable to the shareholders of the Company	1,981	2,096

* See section 3.2.6 for the impacts of IFRS 16, Leases.
** EBITDA for the 12 months ended March 31, 2019 was adjusted to reflect the effects of IFRS 16, Leases.

As at March 31, 2019, the Company is in compliance with the required covenants.

On March 12, 2019 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 200 million (approximately NIS 1.74 dividend per share), which will be paid on April 2, 2019.

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

In April 2019 the Company announced Standard & Poor's Maalot's reaffirmation of an ilAA+ rating with stable outlook.

In May 2019 the Company announced the upgrade of Midroog's rating to Aa1.il with stable outlook.

After IFRS 11 took effect on January 1, 2013 the Company elected to include a number of relevant data that correspond to the GAAP reporting method that was in practice prior thereto. The data below are in the proportionate consolidation method (as reported by the Company up to and including 2012). The Company reserves the right not to include this information in the future.

	First Quarter		**Year Ended December 31**
	2019	**2018**	**2018**
Cash flow from operating activities (according to the Non-GAAP Report)	51	*89	783
Acquisition of fixed assets and investment in intangibles, net (according to the Non-GAAP Report)	68	66	309
Net debt balance (according to the Non-GAAP Report) as at the reporting date	2,344	*2,208	1,964
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	80	57	237
Strauss Israel:			
Health & Wellness	18	13	56
Fun & Indulgence	14	10	38
Strauss Coffee:			
Israel Coffee	9	3	15
International Coffee	18	14	57
International Dips & Spreads	7	7	27
Strauss Water	9	5	23
Other	5	5	21

* Reclassified - For further information, see Note 1.3 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.
For the effects of first-time adoption of IFRS 16, *Leases*, see section 3.2.6 below.

The Group's EBITDA (non-GAAP) totaled approximately NIS 349 million in the first quarter of 2019 compared to NIS 311 million in the corresponding period last year, an increase of 12.0%.

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

3.2.1 Strauss Coffee

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Coffee by reportable segments for the quarters ended March 31, 2019 and 2018 (in NIS millions)*:

	First Quarter			Explanation
	2019	2018	% Chg	
Israel Coffee				
Net sales	222	217	2.5%	Sales growth in the first quarter of 2019 compared to the corresponding period is primarily due to an increase in quantities sold and improvement of the sales mix.
Operating profit	58	41	39.8%	The increase in operating profit in the first quarter compared to the corresponding period is primarily the result of sales growth as mentioned, a change in the sales mix, erosion of raw material costs and the timing of marketing expenses and other overhead costs.
% operating profit	26.0%	19.0%		
International Coffee				
Net sales	672	769	(12.7%)	Coffee sales in the first quarter of 2019 were negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year. The decrease in coffee sales in local currency in the quarter mainly reflects a drop in sales volumes and price reductions introduced in certain regions. For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.1 below.
Operating profit	54	78	(30%)	The change in the operating profit of the International Coffee segment in the first quarter reflects: • A drop in the operating profit of the Três Corações joint venture in Brazil[1] in the quarter, mainly as a result of a decrease in sales prices at a rate that exceeded the drop in green coffee prices, as well as an increase in logistics and distribution expenses; • A drop in operating profit in most CEE countries in the quarter, mainly as a result of a decrease in sales in most countries; • The operating profit and profit margin in Russia in the first quarter dropped compared to the corresponding period as a result of an increase in the cost of sales following the depreciation of the Ruble against the US Dollar and in light of the challenging competitive environment. Operating profit in the first quarter of 2019 was negatively affected by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% operating profit	8.1%	10.1%		
Total Strauss Coffee				
Net sales	**894**	**986**	**(9.4%)**	In the first quarter Strauss Coffee's sales dropped by approximately NIS 92 million compared to the corresponding period. Translation differences into Shekels in 2019 had a negative impact on sales by the coffee company and amounted to NIS 59 million, of which the negative effect of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 44 million.
Organic growth excluding foreign currency effect	**(3.7%)**	**7.3%**		
Gross profit	**333**	**352**	**(5.6%)**	The increase in the gross profit margin in the quarter is the result of the adjustment of prices to reflect changes in raw material costs and currencies in certain regions following the drop in green coffee prices. Gross profit in the quarter was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding period last year.
% gross profit	**37.2%**	**35.7%**		
Operating profit	**112**	**119**	**(5.7%)**	The increase in the operating profit margin is mainly the result of the improvement in the gross profit margin in the period, as well as savings in marketing expenses.
% operating profit	**12.5%**	**12.0%**		

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

3.2.1.1 Strauss Coffee sales by major geographical regions

Following are sales by the coffee business in the major geographical regions (not including intercompany sales) and growth rates for the quarters ended March 31, 2019 and 2018 (in NIS millions)*:

Geographical region	**First Quarter 2019**	**2018**	**% Chg**	**% Chg in domestic currency****	**Explanation**
Israel Coffee	**222**	**217**	**2.5%**	**2.5%**	Most of the sales growth in the first quarter compared to the corresponding period is the result of an increase in quantities sold and an improved sales mix.
International Coffee					
Brazil (Três Corações joint venture) (1) (2) - 50%	410	472	(13.1%)	(4.1%)	The decrease in the Três Corações joint venture's[1] sales in domestic currency is the result of the product mix, as well as price reductions introduced in the period. For further information, see section 3.2.1.1.1 below.
Russia and Ukraine	119	133	(10.4%)	(5.7%)	Most of the drop in domestic currency sales is the result of the challenging competitive environment in Russia, as well as discounts granted to customers during the period. The Company's sales in the first quarter of 2019 were negatively impacted by the appreciation of the Shekel against the Russian Ruble, and in parallel, the depreciation of the Shekel against the Ukrainian Hryvnia, which amounted to NIS 7 million compared to the corresponding period in 2018.
Poland	71	84	(16.2%)	(11.3%)	Most of the drop in domestic currency sales is the result of discounts granted to customers in the period due to challenging competitive conditions compared to the corresponding period last year. The Company's sales in Poland in the first quarter of 2019 were negatively affected by the depreciation of the Polish Zloty against the Shekel (approximately NIS 5 million) compared to the corresponding period.
Romania	43	50	(14.2%)	(10.1%)	Most of the drop in domestic currency sales is the result of the growing competition, which led to a drop in quantities sold. The Company's sales in the first quarter were negatively affected by the depreciation of the Romanian Leu against the Shekel (approximately NIS 2 million) compared to the corresponding period last year.
Serbia	29	30	(4.0%)	(1.1%)	The Company's sales in 2019 were negatively affected by the depreciation of the Serbian Dinar against the Shekel (approximately NIS 1 million) compared to the corresponding period last year.
Total International Coffee	**672**	**769**	**(12.7%)**	**(5.4%)**	
Total Coffee	**894**	**986**	**(9.4%)**	**(3.6%)**	

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

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

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

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

3.2.1.1.1 The Três Corações (3C) joint venture (Brazil) – A company jointly held by the Group (50%) and the São Miguel Group (50%); (Data reflect Strauss Coffee's share (50%))

In the first quarter of 2019 the Três Corações joint venture's[1] average value market share in roast and ground (R&G) coffee amounted to approximately 28.1%, compared to 27.2% in the corresponding period last year (value market share reflecting 100% of the Três Corações joint venture's[1] sales according to A.C. Nielsen figures). In the Financial Statements, the Group's share of the joint venture is accounted for in the equity method.

The Três Corações joint venture's domestic currency sales in the first quarter decreased by 4.1% (3.9% before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee), despite an increase in volume sold.

The drop in Três Corações'[1] domestic currency sales, particularly in R&G, reflects price reductions introduced as a result of the drop in green coffee prices, which encompassed most of the products sold by the company in Brazil.

The Três Corações joint venture's[1] Shekel sales in the first quarter of 2019 were adversely affected by the appreciation of the Shekel against the Brazilian Real, which amounted to NIS 44 million compared to the corresponding period in 2018.

The Três Corações joint venture's[1] gross profit in domestic currency dropped by 3.8% in the first quarter and amounted to approximately BRL 122 million (approximately NIS 118 million). Três Corações' gross profit margin remained unchanged in the quarter and amounted to 28.7%. The gross profit margin primarily reflects a reduction in the cost of green coffee at a rate similar to the decrease in the Três Corações joint venture's[1] shelf prices. Operating profit (before other income/expenses) in Brazilian Reals fell 24.4% in the first quarter and amounted to BRL 32 million (NIS 30 million) as a result of the drop in gross profit and increased operating expenses (see the financial statements of Três Corações Alimentos S.A., which are attached to the financial statements of the Group).

The company markets and distributes coffee capsules and machines under the TRES brand. In April 2017 a manufacturing site for the production of coffee capsules designated for the domestic market began operating in Brazil. The plant is a joint venture between the Três Corações joint venture[1] and the Italian company, Caffitaly. The plant is currently operating at full capacity.

The overall impact of the TRES brand on Três Corações' operating profit in the first quarter of the year amounted to an operating loss of approximately NIS 0.2 million (approximately BRL 0.2 million), compared to a loss of NIS 1.7 million (BRL 1.6 million) in the corresponding period last year (figures reflect Strauss Coffee's share (50%)), which is mainly the result of an improvement in gross profit following an increase in quantities sold.

In April 2018 Três Corações acquired the activity attributed to the retail coffee brands of the coffee company Tapajós Indústria de Café Ltda. The agreement between the companies includes the acquisition of the retail coffee brands (Manaus, Tapajós, Betânia) as well as additional products in the R&G category in northern Brazil in consideration for approximately NIS 23 million (reflecting 100%).

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

3.2.2 The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry, and in the first quarter of 2019, according to StoreNext[1] figures, held a 12.2% share of the total domestic retail food and beverage market in value terms (compared to 11.9% in the corresponding period last year), an increase of 0.3% over the corresponding period. The Israeli market is the Group's home market, where it is active in various categories. The Company's sales in the Strauss Israel segment, which includes the Health & Wellness and Fun & Indulgence divisions, grew 1.3% in value terms, whereas according to StoreNext, in the first quarter of the year the Israeli food and beverage market dropped 0.6% in value.

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

In the first quarter of 2019 Strauss Group's Israel sales totaled approximately NIS 1,235 million versus NIS 1,211 million last year, an increase of 2%.

Strauss Israel

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments for the quarters ended March 31, 2019 and 2018 (in NIS millions)*:

	First Quarter			Explanation
	2019	2018	% Chg	
Net sales	877	866	1.3%	Sales growth in the first quarter of 2019 compared to the corresponding period reflects volume growth due, among other things, to the launch of new products in the yogurt, milk beverage and sweet and salty snack categories.
Gross profit	350	341	2.6%	The increase in gross profit is attributed to growth in sales volumes and an improvement in the gross profit margin in the first quarter as a result of a positive sales mix and efficiency enhancement processes implemented at manufacturing sites.
% gross profit	39.9%	39.4%		
Operating profit	112	109	2.2%	The increase in operating profit mainly reflects growth in sales volumes and the streamlining of manufacturing site overhead costs compared to the corresponding period.
% operating profit	12.7%	12.6%		

	First Quarter		
	2019	**2018**	**% Chg**
Health & Wellness			
Net sales	538	532	1.3%
Operating profit	55	54	1.8%
% operating profit	10.3%	10.2%	
Fun & Indulgence			
Net sales	339	334	1.3%
Operating profit	57	55	2.6%
% operating profit	16,6%	16.4%	

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

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

3.2.3 The International Dips & Spreads Activity

The Group develops, manufactures, sells, markets and distributes refrigerated dips and spreads through Sabra in the US and Canada, and through Obela in Mexico, Australia, New Zealand and Western Europe. The operations of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). In the Financial Statements, the Group's share of the operations of Sabra and Obela is accounted for in the equity method.

Sabra is the largest refrigerated dips and spreads company in the US. According to IRI, Sabra's value market share of the total refrigerated dips and spreads category in the 12 weeks ended March 31, 2019 was 24.6% (Number 1 in the market), compared to 25.7% in the corresponding period last year. Sabra's value market share of the hummus category in the above period was 61.0%, compared to 59.5% in the corresponding period last year.

Obela is leader of the hummus market in Australia and Mexico in terms of market share. In Australia, growth of approximately 4.1% was registered in domestic currency sales in the first quarter of 2019 compared to the corresponding period. In Mexico, New Zealand, Germany and Holland, sales volumes are immaterial.

3.2.3.1 Sabra

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

	First Quarter			Explanation
	2019	**2018**	**% Chg**	
Sales	341	322	5.8%	Sabra's sales in the first quarter of 2019 increased by approximately NIS 19 million compared to the corresponding period last year. The change is primarily the result of the adjustment of the prices of Sabra's hummus products in the US and of its guacamole products in the US and Canada to reflect changes in manufacturing costs, which were offset by the sale of the salsa operation in the third quarter of 2018. Sabra's sales were positively influenced by translation differences of approximately NIS 17 million in the first quarter of 2019 (of which NIS 9 million are the Company's share).
Organic growth excluding foreign currency effect	6.5%	20.8%		
Operating profit before other expenses	54	29	90.8%	The operating profit in the first quarter of 2019 grew by NIS 25 million compared to the corresponding period last year (of which NIS 13 million are the Company's share). The growth in operating profit is due to the continued improvement of processes that were modified following the voluntary recall as well as the abovementioned price adjustments. The increase in the operating profit margin is due, among other things, to the sale of the salsa operation in the third quarter of 2018.
% operating profit	16.0%	8.9%		

On September 4, 2018 Sabra sold its salsa business for USD 10.5 million (approximately NIS 19 million represents the Group's share). The sale of the salsa business is in alignment with Sabra's strategy to focus on its core business, which mainly includes hummus, tahini and guacamole, sold under the Sabra brand. The impact of the transaction on Strauss Group's business results is immaterial.

3.2.3.2 Obela

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

	First Quarter		
	2019	**2018**	**% Chg**
Sales	45	40	11.6%
Organic growth excluding foreign currency effect	15.8%	25.9%	
Operating loss	(5)	(6)	19.3%

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

3.2.4 Strauss Water

Through Strauss Water the Group is active in the drinking water market in the development, assembly, sale, marketing and servicing of POU (point-of-use) systems for the filtration, purification and carbonation of drinking water, mainly in Israel and the UK. Strauss Water also has insubstantial activities in a number of other countries, which are carried out through local franchisees. In addition, Strauss Water has a material investment (49%) in an associate, which is a joint venture that was established by Strauss Water and Haier Group of China, which 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 engagement at any time (subject to the terms and conditions of the service agreement). Payment for the service is made on a monthly basis throughout the term of the agreement. Customer payments are generally made by credit card, and the Group has factoring arrangements with third parties for part of these payments.

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Water for the quarters ended March 31, 2019 and 2018 (in NIS millions)*:

	First Quarter			Explanation
	2019	**2018**	**% Chg**	
Net sales	143	135	6.0%	Growth in the first quarter of 2019 compared to the corresponding period originated in the business in Israel and is primarily the result of increased sales of new appliances and growth of the customer base.
Operating profit	16	10	67.7%	The increase in operating profit mainly reflects growth in the customer base, volume growth in sales versus the corresponding period last year and operational efficiency enhancement, as well as an improvement in the results of the joint venture. For further information, see section 3.2.4.1 below. Excluding the profits of the joint venture, in the first quarter of 2019 the operating profit rose by approximately NIS 2 million, and the operating profit margin rose by 1.3% and amounted to 6.5%.
% operating profit	11.4%	7.2%		

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

3.2.4.1 Results of the Joint Venture

Sales by the Haier Strauss Water joint venture in China, which are not included in the Non-GAAP Report, totaled NIS 155 million in the first quarter of 2019 compared to NIS 121 million in the corresponding period last year, an increase of 27.6%. Sales growth in the first quarter of the year, excluding the foreign currency effect, amounted to 28.8% compared to the corresponding period last year (unaudited, reflecting 100%).

The first quarter was marked by an improved growth trend. The improvement is due to focus placed on various sales channels and the launch of new products.

The net profit of the joint venture amounted to approximately NIS 16 million in the quarter compared to NIS 7 million in the corresponding period last year, an increase of 134%. Excluding the foreign currency effect, growth was 135.8% (reflecting 100%).

3.2.5 Other Operations

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

3.2.6 <u>Effects of first-time adoption of IFRS 16, *Leases*</u>

Following are the effects of IFRS 16, *Leases*, on selected indices as at the date of initial application*:

	January 1, 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Liquidity ratio – Financial Statements	1.27	(0.06)	1.21
Percentage equity attributable to the Company's shareholders of total assets on the statement of financial position – Financial Statements	33.6%	(1.8%)	31.8%
Equity attributable to the Company's shareholders – Financial Statements	2,096	(13)	2,083

Following are the effects of IFRS 16, *Leases*, on the Group's outstanding debt*:

	March 31, 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Gross debt – Non-GAAP Reports	2,519	347	2,866
Gross debt – Financial Statements	2,226	298	2,524
Net debt – Non-GAAP Reports	1,997	347	2,344
Net debt – Financial Statements	1,816	298	2,114

Following are the effects of IFRS 16, *Leases*, on the Group's cash flows*:

	March 31, 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Cash flows from operating activities – Non-GAAP Reports	28	23	51
Cash flows from operating activities – Financial Statements	70	20	90
Cash flows from investing activities – Financial Statements	23	1	24
Cash flows from financing activities – Financial Statements	(106)	(21)	(127)

* Financial data were rounded to NIS millions.

Following are the effects of IFRS 16, *Leases*, on the EBITDA of the Group's operating segments*:

	First Quarter 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Strauss Israel			
Health & Wellness	67	6	73
Fun & Indulgence	65	6	71
Strauss Coffee			
Israel Coffee	62	5	67
International Coffee	68	4	72
International Dips & Spreads	32	-	32
Strauss Water	22	3	25
Other	8	1	9

Following are the effects of IFRS 16, *Leases*, on depreciation and amortization expenses of the Group's operating segments*:

	First Quarter 2019		
	Under the previous policy	**Change**	**Under IFRS 16**
Strauss Israel			
Health & Wellness	13	5	18
Fun & Indulgence	9	5	14
Strauss Coffee			
Israel Coffee	4	5	9
International Coffee	15	3	18
International Dips & Spreads	7	-	7
Strauss Water	6	3	9
Other	4	1	5

* Financial data were rounded to NIS millions.

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

In the Company's separate financial information ("solo report") for the first quarter of 2019 there is a working capital deficiency of approximately NIS 202 million. There is no such deficiency in the consolidated financial statements of the Company for the first quarter. The cash flow from operating activities in the solo report is positive and amounts to approximately NIS 42 million. In light of the working capital deficiency in the solo report, on May 19, 2019 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, 2019, and is also based on data pertaining to the Company's projected cash flow for the next two years given the Company's existing and anticipated liabilities, including the Company's liabilities to the holders of its debentures (Series D and Series E) and to banking corporations and their maturity dates, and on an inspection of existing and anticipated sources for the repayment of these liabilities and the resources arising from the Company's holdings in its major investees, including the receipt of dividends, repayment of loans made available to investees, raising capital from banking corporations and/or other sources if necessary; as well as on the financial strength of the major investees of the Company and their leading competitive position in the markets where these companies operate. The Board of Directors also reviewed sensitivity analyses of the Company's projected cash flow for the next two years, and determined that the working capital deficiency is not indicative of a liquidity issue in the Company.

It is emphasized that the abovementioned assessment by the Board of Directors is forward-looking information, as this term is defined in the Securities Law, 1968, which is primarily based on the Company's forecasts and on its analysis of its actual cash flows in the period since the end of the quarter and its future cash flows, its existing and anticipated liabilities, its existing assets, its expectations as to future profits and dividend distributions by investees, etc. There can be no assurance that these assessments, in whole or in part, will, in fact, occur, or that they will not occur in a different form, including materially, than estimated, among other things as a result of market behavior and the occurrence of the risk factors set forth in section 29 in the Description of the Company's Business Report as at December 31, 2018.

ASPECTS OF CORPORATE GOVERNANCE

5. DIRECTORS

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

6. GENERAL

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

7. INFORMATION ON DEBENTURE SERIES

		Series D Debentures	Series E Debentures
A.	Nominal/par value	204	603
B.	Carrying value of debentures	207	599
C.	Carrying value of interest payable	-	4
D.	Market value	224	632

8. STATUS OF LIABILITIES REPORT ACCORDING TO PAYMENT DATES

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

9. MATERIAL EVENTS IN THE REPORTING PERIOD

For a review of material events occurring in the reporting period, see the update to the chapter Description of the Company's Business as at March 31, 2019 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.

10. POST-STATEMENT OF FINANCIAL POSITION DATE EVENTS

For a review of events occurring after the statement of financial position date, see Note 9 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019.

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

Ofra Strauss	Giora Bardea
Chairperson of the Board	Chief Executive Officer

March 19, 2019

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT MARCH 31, 2019

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at March 31, 2019 (Unaudited)

Contents

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	March 31 2019*	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS Millions		
Current assets			
Cash and cash equivalents	409	346	426
Securities and deposits	1	33	71
Trade receivables	1,094	1,121	978
Income tax receivables	3	22	6
Other receivables and debit balances	103	106	93
Inventory	588	559	557
Assets held for sale	19	24	19
Total current assets	2,217	2,211	2,150
Investments and non-current assets			
Investment in equity-accounted investees	1,330	1,273	1,315
Other investments and long-term debt balances	88	82	80
Fixed assets	1,729	1,718	1,738
Right-of-use assets	271	-	-
Intangible assets	931	959	938
Investment property	5	11	5
Deferred tax assets	19	19	17
Total investments and non-current assets	4,373	4,062	4,093
Total assets	6,590	6,273	6,243

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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 19, 2019

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

	March 31 2019*	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Current liabilities			
Current maturities of debentures	32	56	15
Short-term credit and current maturities of long-term loans and other liabilities	305	**258	347
Current maturities of lease liabilities	84	-	-
Trade payables	730	752	730
Income tax payables	68	40	53
Other payables and credit balances	572	**569	522
Dividend declared and not yet paid	200	-	-
Provisions	28	31	31
Total current liabilities	2,019	1,706	1,698
Non-current liabilities			
Debentures	774	797	805
Long-term loans and other liabilities	1,110	**1,286	1,173
Lease liabilities	219	-	-
Long-term payables and credit balances	17	**39	19
Employee benefits, net	49	49	47
Deferred tax liabilities	259	231	255
Total non-current liabilities	2,428	2,402	2,299
Equity and reserves			
Share capital	252	252	252
Share premium	1,051	1,051	1,051
Reserves	(1,735)	(1,578)	(1,647)
Retained earnings	2,413	2,288	2,467
Total equity attributable to the Company's shareholders	1,981	2,013	2,096
Non-controlling interests	162	152	150
Total equity	2,143	2,165	2,246
Total liabilities and equity	6,590	6,273	6,243

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

** Reclassified (see Note 1.3)

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Income

	For the three months ended		For the year ended
	March 31 2019*	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Sales	1,430	1,446	5,604
Cost of sales	843	845	3,353
Gross profit	587	601	2,251
Selling and marketing expenses	314	315	1,293
General and administrative expenses	99	95	394
	413	410	1,687
Share of profit of equity-accounted investees	68	58	250
Operating profit before other income (expenses)	242	249	814
Other income	-	3	7
Other expenses	(1)	(1)	(13)
Other income (expenses), net	(1)	2	(6)
Operating profit	241	251	808
Financing income	4	10	28
Financing expenses	(31)	(26)	(121)
Financing expenses, net	(27)	(16)	(93)
Income before taxes	214	235	715
Taxes on income	(46)	(67)	(181)
Income for the period	168	168	534
Attributable to:			
The Company's shareholders	156	153	478
Non-controlling interests	12	15	56
Income for the period	168	168	534
Earnings per share			
Basic earnings per share (in NIS)	1.36	1.34	4.16
Diluted earnings per share (in NIS)	1.34	1.33	4.13

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended		For the year ended
	March 31 2019*	**March 31 2018**	**December 31 2018**
	Unaudited		**Audited**
	NIS millions		
Income for the period	168	168	534
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods:			
Foreign currency translation differences	(17)	29	(25)
Other comprehensive income (loss) from equity-accounted investees	(44)	13	(28)
Total other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods, net	(61)	42	(53)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net:			
Changes in employee benefits, net	(1)	-	1
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	(1)	-	1
Comprehensive income for the period	106	210	482
Attributable to:			
The Company's shareholders	94	196	426
Non-controlling interests	12	14	56
Comprehensive income for the period	106	210	482

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2019 - audited	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246
*Impact of first-time adoption of IFRS 16**	-	-	-	-	-	(13)	(13)	-	(13)
Balance as at January 1, 2019 after first-time adoption	252	1,051	(20)	(392)	(1,262)	2,454	2,083	150	2,233
Changes in the three-month period ended March 31, 2019 - unaudited:									
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	156	156	12	168
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(17)	-	(17)	-	(17)
Other comprehensive loss from equity-accounted investees					(44)	-	(44)	-	(44)
Changes in employee benefits, net	-	-	-	-	-	(1)	(1)	-	(1)
Other comprehensive loss for the period, net	-	-	-	-	(61)	(1)	(62)	-	(62)
Total comprehensive income (loss) for the period, net	-	-	-	-	(61)	155	94	12	106
Share-based payment	-	-	-	-	-	4	4	-	4
Dividend declared	-	-	-	-	-	(200)	(200)	-	(200)
Balance as at March 31, 2019	252	1,051	(20)	(392)	(1,323)	2,413	1,981	162	2,143

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Strauss Group Ltd.

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

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2018 - audited	252	1,051	(20)	(392)	(1,209)	2,135	1,817	138	1,955
Impact of first-time adoption of IFRS 9	-	-	-	-	-	(4)	(4)	-	(4)
Balance as at January 1, 2018 after first-time adoption	252	1,051	(20)	(392)	(1,209)	2,131	1,813	138	1,951
Changes in the three-month period ended March 31, 2018 - unaudited:									
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	153	153	15	168
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	30	-	30	(1)	29
Other comprehensive income from equity-accounted investees	-	-	-	-	13	-	13	-	13
Other comprehensive income (loss) for the period, net	-	-	-	-	43	-	43	(1)	42
Total comprehensive income for the period, net	-	-	-	-	43	153	196	14	210
Share-based payment	-	-	-	-	-	4	4	-	4
Balance as at March 31, 2018	252	1,051	(20)	(392)	(1,166)	2,288	2,013	152	2,165

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

Strauss Group Ltd.

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

	Attributable to the Company's shareholders								
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2018	252	1,051	(20)	(392)	(1,209)	2,135	1,817	138	1,955
Impact of first-time adoption of IFRS 9	-	-	-	-	-	(4)	(4)	-	(4)
Balance as at January 1, 2018 after first-time adoption	252	1,051	(20)	(392)	(1,209)	2,131	1,813	138	1,951
Changes in 2018									
Total comprehensive income (loss) for the period									
Income for the period	-	-	-	-	-	478	478	56	534
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(25)	-	(25)	-	(25)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(28)	-	(28)	-	(28)
Changes in employee benefits, net	-	-	-	-	-	1	1	-	1
Total other comprehensive income (loss) for the year, net	-	-	-	-	(53)	1	(52)	-	(52)
Total income (loss) for the year	-	-	-	-	(53)	479	426	56	482
Share-based payment	-	-	-	-	-	17	17	-	17
Dividends	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(44)	(44)
Balance as at December 31, 2018	252	1,051	(20)	(392)	(1,262)	2,467	2,096	150	2,246

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

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows

	For the three months ended		For the year ended
	March 31 2019*	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Cash flows from operating activities			
Income for the period	168	168	534
Adjustments:			
Depreciation	55	35	145
Amortization of intangible assets and deferred expenses	7	9	36
Impairment (reversal of impairment) loss of fixed assets, intangible assets and investment property, net	-	(2)	(1)
Other income, net	-	(1)	-
Expenses in respect of share-based payment	4	4	17
Financing expenses, net	27	16	93
Income tax expenses	46	67	181
Share of profit of equity-accounted investees	(68)	(58)	(250)
Change in inventory	(37)	(12)	(25)
Change in trade and other receivables	(119)	(172)	(26)
Change in long-term trade receivables	(1)	1	1
Change in trade and other payables	45	**58	(7)
Change in employee benefits	1	2	7
Interest paid	(24)	(29)	(124)
Interest received	3	1	6
Income tax paid, net	(17)	(26)	(85)
Net cash flows provided by operating activities	90	**61	502
Cash flows from investing activities			
Sale of marketable securities and deposits, net	70	149	110
Proceeds from sale of fixed assets, intangible assets and investment property	1	5	19
Investment in fixed assets and investment property	(34)	(36)	(169)
Investment in intangible assets	(12)	(10)	(46)
Acquisition of operations, net cash acquired	-	(1)	(1)
Repayment of deposits and loans granted	4	4	17
Loans granted	(5)	(9)	(16)
Income from sublease	1	-	
Dividends from investee companies	-	-	118
Investment in investee companies	(1)	(1)	(15)
Net cash flows provided by investing activities	24	101	17

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

** Reclassified (see Note 1.3)

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 2019*	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Cash flows from financing activities			
Acquisition of non-controlling interests in a subsidiary	-	(18)	(36)
Short-term bank credit, net	(2)	(16)	(14)
Proceeds from issue of debentures, net of issuance costs	-	-	200
Repayment of long-term loans and debentures	(116)	(186)	(280)
Early redemption of debentures	-	-	(203)
Change in liabilities in respect of credit card factoring	12	**17	53
Redemption of share options	-	(7)	(7)
Payment of lease liabilities	(21)	-	-
Dividends	-	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	(44)
Net cash flows used in financing activities	(127)	**(210)	(491)
Net increase (decrease) in cash and cash equivalents	(13)	(48)	28
Cash and cash equivalents as at beginning of period	426	390	390
Effect of exchange rate fluctuations on cash balances	(4)	4	8
Cash and cash equivalents as at end of period	409	346	426

* See Note 1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

** Reclassified (see Note 1.3)

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 broad 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 as at March 31, 2019 and for the three-month period then ended (hereinafter - the "Interim Statements") comprise the Company and its subsidiaries and the Group's rights in joint arrangements.

The Company's controlling shareholders are Mr. Michael Strauss (indirectly) through his holdings in Strauss Holdings Ltd. (hereinafter: the "Parent Company" or "Strauss Holdings") and through a direct holding in the Company, and Ms. Ofra Strauss, who is considered a joint holder of the Company's shares with Mr. Strauss.

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

These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2018 and for the year then ended together with their accompanying notes (hereinafter: the "Annual Financial Statements"). Other than as described in section 1.2 below, the accounting principles applied in preparing these Interim Statements were 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 by the Board of Directors of the Group on May 19, 2019.

1.2 First-time adoption of IFRS 16, *Leases*

Since the first quarter of 2019 the Group has applied IFRS 16, *Leases*, which replaces the guidance of IAS 17, *Leases*. The main impact of implementing the standard is expressed in the elimination of the current requirement that lessees classify leases as either operating leases (off balance sheet) or finance leases, and the introduction of a single lessee accounting model for the accounting treatment of all leases, similar to the treatment of finance leases under the earlier accounting standard that addressed the subject. Accordingly, until the implementation date the Group classified most of the leases in which it is the lessee as operating leases, since it did not substantially bear all risks and rewards arising from the assets.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

Under IFRS 16, for agreements in which the Group is the lessee it applies a single accounting model, according to which it recognizes a right-of-use asset in respect of the lease at contract inception date for all leases in which the Group has the right to control the use of identified assets for a defined period, excluding exceptions specified in the standard.

Accordingly, the Group recognizes depreciation expenses in respect of right-of-use assets, performs an impairment review for right-of-use assets according to IAS 36, and recognizes financing expenses in respect of lease liabilities. Commencing on the first-time adoption date, lease payments for assets under operating leases, which were presented as expenses in the income statement, are discounted as assets and depreciated as depreciation and amortization expenses.

Commencing at initial application, the Group has applied the standard using the modified retrospective approach, adjusting retained earning balances as at January 1, 2019 without restating comparative figures.

For all leases, the Group has chosen to apply the transition option in which, on initial application, it recognizes a lease liability at the present value of the remaining future lease payments, discounted at the lessee's incremental borrowing rate on that date, and, in parallel, a right-of-use asset at its carrying amount as if the standard had been applied since the lease commencement date, discounted at the same interest rate as the liability and depreciated until the date of initial application. Consequently, on the date of initial application of the standard, there was a negative effect of approximately NIS 13 million on the Group's equity.

Additionally, within the context of first-time adoption of the standard, the Group has chosen to also apply the following expedients for leases in which it is the lessee:

- Apply the exemption not to recognize a right-of-use asset and a lease liability for short-term leases of up to one year, and apply the exemption not to recognize a right-of-use asset and a lease liability for leases for which the term ends within 12 months or fewer from the date of initial application.

- Not to separate non-lease components from lease components, but to account for each lease component and any associated non-lease components as a single lease component.

- Apply the exemption not to recognize a right-of-use asset and a lease liability for leases pertaining to low value assets.

- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

- Reliance on a prior assessment of whether a lease is onerous under IAS 37 as at the transition date as an alternative to testing right-of-use assets for impairment.

- Exclusion of direct costs incurred in the lease from the measurement of the right-of-use asset on the transition date.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

The following table presents the cumulative impact on the items in the statement of financial position affected by first-time adoption, as at January 1, 2019 (in NIS millions):

	Under IAS 17 (audited)	Change	Under IFRS 16 (unaudited)
Receivables and debit balances	93	16	109
Right-of-use assets	-	286	286
Investment in equity-accounted investees	1,315	(2)	1,313
Deferred tax assets	17	3	20
Lease liabilities	-	(321)	(321)
Provisions	(31)	2	(29)
Payables and credit balances	(522)	(1)	(523)
Long-term payables and credit balances	(19)	4	(15)
Retained earnings	(2,467)	13	(2,454)
Non-controlling interests	(150)	-	(150)

The nominal discount rate used to measure the lease liability is mainly within a range of 0.9% to 4.7%. This range is influenced by differences in the lease term, differences in the various asset groups, and differences arising from the identity of lessees in the Group and from the different markets and geographies in which the Group companies operate.

The difference between commitments in respect of operating leases disclosed when applying IAS 17 in the financial statements for the year ended December 31, 2018 at an amount of NIS 311 million, and lease liabilities recognized in the statement of financial position on initial application at an amount of NIS 321 million, primarily arises from options to extend the lease where exercise of the option, in the estimate of Company management, is reasonably certain, which were not included in the commitments relating to operating leases. Conversely, the commitments relating to operating leases were stated in non-discounted nominal amounts and also included contracts under which, on the transition date, the term ends within less than 12 months.

In the three-month period ended March 31, 2019, the Group recognized additional depreciation expenses of approximately NIS 19 million, and additional financing expenses of NIS 2 million, in lieu of recognizing rental costs.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

Following are the main changes in accounting policy following application of the standard commencing January 1, 2019:

1.2.1 Determining whether an arrangement contains a lease

At inception of a contract, the Group determines whether the contract is, or contains, a lease, by reviewing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses if throughout the period of use, it has both of the following rights:

(a) The right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) The right to direct the use of the identified asset.

For lease contracts that include non-lease components, such as services or maintenance, which are associated with the lease component, the Group has chosen to account for the contract as a single lease component, without separating the components.

1.2.2 Leased assets and lease liabilities

Contracts that grant the Group control_of the use of a leased asset for a period of time in exchange for consideration are accounted for as leases. On initial recognition the Group recognizes a liability at the present value of the future lease payments (these payments do not include certain variable lease payments), and, in parallel, a right-of use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments, plus direct costs created in the lease.

Since the interest rate included in the lease cannot be easily determined, the lessee's incremental borrowing rate was used.

Subsequent to initial recognition the asset is accounted for under the cost model and depreciated to the earlier of the end of the lease term or the useful life of the asset.

The Group has chosen to apply the practical expedient in which short-term leases of up to one year and/or leases in which the underlying asset is of low value are accounted for by recognizing the lease payments in profit or loss on a straight-line basis over the lease term, without recognizing an asset and/or liability in the statement of financial position.

1.2.3 Lease term

The lease term is determined as the period in which the lease is non-cancellable, together with periods covered by an option to extend or terminate the lease if it is reasonably certain that the lessee will exercise or not exercise the option, respectively.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

1.2.4 Variable lease payments

Variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date of the lease and are included in the measurement of the lease liability. When there is a change in contractual cash flows resulting from a change in the index or rate, the remaining liability is revised against the right-of-use asset.

Other variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss on the date when the conditions for these payments are satisfied.

1.2.5 Depreciation of a right-of-use asset

After the commencement date of the lease, a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for remeasurements of the lease liability. Depreciation is calculated on a straight-line basis to the earlier of the useful life of the right-of-use asset or the end of the lease term, as follows:

- Buildings 3.8%-40%
- Vehicles 14%-33%
- Coffee stands 10%-50%

1.2.6 Reassessment of lease liabilities

Upon the occurrence of either a significant event or a significant change in circumstances that is within the Group's control and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term, the Group remeasures the lease liability according to the revised lease payments using a revised discount rate that reflects changes in the interest rate. The change in the carrying amount of the liability is recognized against a right-of-use asset or recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1.2.7 Lease modifications

The Group accounts for lease modifications as a separate lease when the modification increases the scope of the lease by adding the right to use one or more underlying assets, and the consideration for the lease has increased by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the contract.

In other cases, at the effective date of the lease modification, the Group allocates the consideration in the modified contract between the contract components, determines the lease term of the modified lease and remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

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

1.2 First-time adoption of IFRS 16, *Leases* (cont'd)

1.2.7 Lease modifications (cont'd)

For modifications that decrease the scope of the lease, the Group decreases the carrying amount of the right-of-use asset to reflect partial or full termination of the lease and recognizes the gain or loss arising from the difference between the decrease in the right-of-use asset and the remeasurement of lease liability in profit or loss.

For other lease modifications, the Group recognizes the amount of the remeasurement of the lease liability as an adjustment to the corresponding right-of-use asset.

1.2.8 Subleases

In leases where the Group subleases the underlying asset, the Group classifies the sublease as a finance lease or operating lease according to the right of use obtained in the head lease. The Group reviewed the subleases in effect on the date of first-time adoption according to their remaining contractual conditions on that date.

1.3 Immaterial adjustment of comparative figures

In the course of preparing the financial statements of the Group as at December 31, 2018, a classification error was discovered in the figures in the quarterly financial statements in 2018. The error was the result of the accounting treatment of credit card factoring transactions in the subsidiary Strauss Water and has no effect on the net profit, comprehensive income and/or the equity of the Company. In a test of the materiality of the error according to the guidelines for testing materiality, quantitatively as well as qualitatively, the error was found to be immaterial with respect to the years 2016 and 2017 and to the quarterly financial statements in 2018. The Company rectified the error by correcting the comparative figures included in these financial statements. The items in the financial statements that were affected by the correction are indicated as an "immaterial adjustment of comparative figures".

1.3.1 Effect of the correction on the statement of financial position

	March 31, 2018 (unaudited)		
	NIS millions		
	As formerly reported	Effect of the correction	As reported in these financial statements
Payables and credit balances	(637)	68	(569)
Long-term payables and credit balances	(97)	58	(39)
Short-term credit and current maturities of long-term loans and other liabilities	(190)	(68)	(258)
Long-term loans and other liabilities	(1,228)	(58)	(1,286)

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

1.3 Immaterial adjustment of comparative figures (cont'd)

1.3.2 Effect of the correction on the statement of cash flows

	March 31, 2018 (unaudited)		
	NIS millions		
	As formerly reported	Effect of the correction	As reported in these financial statements
Operating activities	78	(17)	61
Financing activities	(227)	17	(210)

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 as Passover approaches.

In the Israel Coffee segment there is no clear 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 clear 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.

There is no distinct trend of seasonality in the water business. However, 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 as a result of the increase in sales of water bars in the summer.

Note 3 - Operating Segments

Segment information and reconciliation to the consolidated financial statements:

	For the three months ended		For the year ended
	March 31 2019	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Revenues			
Sales to external customers:			
Health & Wellness	538	532	2,177
Fun & Indulgence	339	334	1,099
Total Israel	877	866	3,276
Israel Coffee	222	217	737
International Coffee	672	769	3,214
Total Coffee	894	986	3,951
International Dips and Spreads	192	180	759
Water	143	135	591
Other	-	-	-
Sales to other segments:			
Health & Wellness	2	2	7
Fun & Indulgence	3	3	10
Total Israel	5	5	17
Israel Coffee	1	1	2
International Coffee	1	1	2
Total Coffee	2	2	4
Total segment revenues	2,113	2,174	8,598
Elimination of intersegment sales	(7)	(7)	(21)
Total segment revenues excluding intersegment sales	2,106	2,167	8,577
Adjustment to the equity method	(676)	(721)	(2,973)
Total consolidated revenues	1,430	1,446	5,604

Note 3 - Operating Segments (cont'd)

	For the three months ended		For the year ended
	March 31 2019	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS millions		
Profit			
Health & Wellness	55	54	229
Fun & Indulgence	57	55	114
Total Israel	112	109	343
Israel Coffee	58	41	119
International Coffee	54	78	299
Total Coffee	112	119	418
International Dips and Spreads	25	11	49
Water	16	10	65
Other	4	5	(10)
Total profit of reportable segments	269	254	865
Unallocated income (expenses):			
Adjustments for commodity hedges (1)	(13)	11	10
Other income (expenses), net	(1)	2	(2)
Share-based payment	(4)	(4)	(17)
Total operating profit of operating segments	251	263	856
Adjustment to the equity method	(10)	(12)	(48)
Total operating profit in the consolidated financial statements	241	251	808
Financing expenses, net	(27)	(16)	(93)
Profit before taxes on income	214	235	715

(1) Reflects accounting revaluation (mark-to-market) as at end-of-period of open positions in the Group in respect of derivative financial instruments 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 12, 2019 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 200 million (approximately NIS 1.74 per share). The dividend was paid on April 2, 2019.

4.2 Further to Note 35.7.1 to the Annual Financial Statements, in the reporting period the Company and the subsidiaries received additional tax refunds. Following said refunds, and to the extent that the Company's position with regard to entitlement to benefits under the Law for the Encouragement of Capital Investments is not accepted, the Company will be subject to an obligation of approximately NIS 21 million.

Note 5 - Share-Based Payment

5.1 Grants in the reporting period

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

Grant date	Number of options and entitled employees	Fair value NIS M	Share price NIS	Exercise price NIS	Expected life Years	Expected annual volatility %	Discount rate %
March 6, 2019 (1)	886,654 to 19 managers	13.7	93.33	89.62	3.96-4.96	18.64	(0.29)-(0.57)
March 12, 2019 (2)	266,666 to 2 managers	3.9	92.80	90.50	3.96-4.96	18.32-18.51	(0.33)-(0.61)

(1) The exercise price of each option is linked to the CPI published on February 15, 2019. Entitlement to exercise the options will vest in two equal tranches on March 6 of each of the years 2021 and 2022. The benefit arising from these grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

(2) The exercise price of each option is linked to the CPI published on February 15, 2019. Entitlement to exercise the options will vest in two equal tranches on March 12 of each of the years 2021-2022. The benefit arising from these grants will be classified as an expense in the financial statements over the abovementioned vesting periods.

5.2 Options exercised in the reporting period:

In the reporting period 100,833 options warrants granted to employees were exercised for 39,310 shares in consideration for their nominal value.

The number of shares (in thousands) of NIS 1 nominal value as at March 31, 2019 is 115,268.

Note 6 - Contingent Liabilities

6.1 For information on claims and contingent liabilities pending as at December 31, 2018 against the Company and its investees, see Note 24.1.1 to the Annual Financial Statements.

6.2 Further to Note 24.1.1 to the Annual Financial Statements with regard to a claim for approximately NIS 38 million against the Company pertaining to alleged excessive pricing by a monopoly of the Elite cocoa product, on January 16, 2019 the Central District Court rejected the motion to hear the claim as a class action.

The Company did not recognize a provision for pending claims as at March 31, 2019, which, in the opinion of its legal counsel, are not expected to be accepted, or the chances of which cannot be estimated.

Note 7 – Investment in Equity-Accounted Investees

7.1 Concise information on material equity-accounted investees:

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	March 31		December 31	March 31		December 31
	2019	2018	2018	2019	2018	2018
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Current assets	301	276	289	1,008	1,114	1,115
Of which:						
Cash and cash equivalents	58	57	68	82	123	214
Non-current assets	553	553	580	842	688	764
Total assets	854	829	869	1,850	1,802	1,879
Current liabilities	147	172	180	679	687	755
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	45	39	37	242	249	266
Non-current liabilities	93	128	108	228	188	169
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	85	123	97	202	157	140
Total liabilities	240	300	288	907	875	924

	Sabra Dipping Company			Três Corações Alimentos S.A.		
	March 31		December 31	March 31		December 31
	2019	2018	2018	2019	2018	2018
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Income	341	322	1,352	821	943	3,937
Income for the period	38	20	85	52	72	294
Other comprehensive income (loss)	(18)	7	43	(41)	9	(77)
Total comprehensive income	20	27	128	11	81	217
Of which:						
Depreciation and amortization	11	11	46	18	10	41
Interest income	-	-	-	2	4	14
Interest expenses	1	1	6	6	5	22
Income tax expense	(15)*	(8)*	(33)*	(6)	(16)	(52)

* 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, a joint venture in Brazil (50% ownership), accounted for under the equity method.

The investee's presentation currency is the Brazilian Real.

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

	Real Exchange Rate		
	Closing exchange rate for the period	**Average exchange rate for the period**	**% change based on closing rates**
For the three-month period ending on:			
March 31, 2019	0.93	0.97	(3.7)
March 31, 2018	1.06	1.07	1.2
For the year ending December 31, 2018	0.97	0.99	(7.6)

Note 8 - Financial Instruments

8.1 Financial instruments measured at fair value

The carrying amount of the cash and cash equivalents, short and long-term investments, trade receivables, other receivables and debit balances, trade payables and other payables and credit balances is the same as or proximate to their fair value. 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 values of the Company's debentures, based on the prices of the Tel Aviv Stock Exchange:

	March 31, 2019		**March 31, 2018**		**December 31, 2018**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	Unaudited				**Audited**	
	NIS millions					
Series D Debentures	207	224	464	469	224	239
Series E Debentures	603	632	402	421	598	604

Note 8 - Financial Instruments (cont’d)

8.2 Fair value hierarchy of financial instruments measured at fair value

The different levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in 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, 2019		March 31, 2018		December 31, 2018	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	Unaudited				Audited	
	NIS millions					
Financial assets (liabilities)						
Marketable securities	-	-	31	-	-	-
Trade receivables- derivatives	4	6	4	9	7	11
Trade payables- derivatives	(26)	(2)	(15)	(2)	(22)	-
	(22)	4	20	7	(15)	11

As at March 31, 2019 and December 31, 2018, the Group has no material financial instruments measured at Level 3.

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

Note 9 – Post-Statement of Financial Position Date Events

9.1 On May 19, 2019 the Board of Directors of the Company approved the 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 preceding the grant date, with no premium, linked to the CPI published on May 15, 2018. Entitlement to exercise the options will vest in two equal tranches on May 19 of each of the years 2021-2022. According to an initial estimate, the value of the grant is approximately NIS 2 million.

9.2 For information on developments in claims after the date of the statement of financial position, see Note 6.

9.3 For information on the payment of a dividend after the date of the statement of financial position, see Note 4.1.

STRAUSS GROUP LTD.

SEPARATE FINANCIAL

INFORMATION AS AT
MARCH 31, 2019

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Separate Interim Financial Information as at March 31, 2019

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Strauss Group Ltd.

Condensed Interim Information on Financial Position

	March 31 2019*	March 31 2018	December 31 2018
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	266	107	222
Securities and deposits	-	-	70
Trade receivables	246	251	183
Income tax receivables	-	10	-
Other receivables and debit balances	33	31	33
Investee receivables	166	207	223
Inventory	103	120	123
Assets held for sale	13	24	13
Total current assets	827	750	867
Investments and non-current assets			
Investments in investees	2,001	1,771	1,931
Other investments and long-term debt balances	629	896	642
Right-of-use assets	140	-	-
Fixed assets	927	929	934
Investment property	3	4	3
Intangible assets	46	48	46
Total investments and non-current assets	3,746	3,648	3,556
Total assets	4,573	4,398	4,423

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Date of approval of the separate financial information: May 19, 2019

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

Strauss Group Ltd.

Condensed Interim Information on Financial Position (cont'd)

	March 31 2019*	March 31 2018	December 31 2018
	Unaudited	Unaudited	Audited
		NIS Millions	
Current liabilities			
Current maturities of debentures	32	56	15
Short-term credit and current maturities of long-term loans and other long-term liabilities	152	116	198
Current maturities of lease liabilities	33	-	-
Trade payables	204	214	195
Income tax	24	-	17
Other payables and credit balances	230	232	202
Investee payables	154	149	159
Provisions	-	2	2
Dividend declared and not yet paid	200	-	-
Total current liabilities	1,029	769	788
Non-current liabilities			
Debentures	774	797	805
Long-term loans and other long-term liabilities	522	674	584
Lease liabilities	113	-	-
Long-term payables and credit balances	12	18	14
Employee benefits, net	25	22	24
Deferred tax liabilities	117	105	112
Total non-current liabilities	1,563	1,616	1,539
Total equity attributable to the Company's shareholders	1,981	2,013	2,096
Total liabilities and equity	4,573	4,398	4,423

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Strauss Group Ltd.

Condensed Interim Information on Income

	For the three months ended March 31 2019*	For the three months ended March 31 2018	For the year ended December 31 2018
	Unaudited	Unaudited	Audited
	NIS Millions		
Sales	305	308	1,032
Cost of sales	188	184	644
Gross profit	117	124	388
Selling and marketing expenses	57	60	247
General and administrative expenses	21	16	82
	78	76	329
Operating profit before other income (expenses)	39	48	59
Other income	-	2	4
Other expenses	-	(1)	(4)
Other income, net	-	1	-
Operating profit	39	49	59
Financing income	8	16	61
Financing expenses	(26)	(20)	(97)
Financing expenses, net	(18)	(4)	(36)
Income before taxes	21	45	23
Taxes on income	(9)	(12)	(28)
Net income (loss) after taxes	12	33	(5)
Income from investees	144	120	483
Income for the period attributable to the shareholders of the Company	156	153	478

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated

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

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the three months ended		For the year ended
	March 31 2019*	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS Millions		
Income for the period attributable to the shareholders of the Company	156	153	478
Other comprehensive loss items that will be reclassified to profit or loss in subsequent periods:			
Other comprehensive income (loss) from investees	(61)	43	(53)
Total other comprehensive income (loss) items that will be reclassified to profit or loss, net of tax	(61)	43	(53)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods:			
Changes in employee benefits, net	(1)	-	1
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	(1)	-	1
Comprehensive income for the period attributable to the shareholders of the Company	94	196	426

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated

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

Strauss Group Ltd.

Condensed Interim Information on Cash Flows

	For the three months ended		For the year ended
	March 31 2019*	March 31 2018	December 31 2018
	Unaudited		Audited
	NIS Millions		
Cash flows from operating activities			
Income for the period attributable to the shareholders of the company	156	153	478
Adjustments:			
Depreciation	21	13	52
Amortization of intangible assets	3	4	18
Other income, net	-	(2)	(3)
Expenses in respect of share-based payment	3	3	12
Income from investees	(144)	(120)	(483)
Financing expenses, net	18	4	36
Tax expense (income), net	9	12	28
Change in inventory	19	17	12
Change in trade and other receivables	(60)	(65)	(5)
Change in investee receivables	(7)	1	(29)
Change in trade and other payables	35	36	(2)
Change in investee payables	(5)	30	40
Change in employee benefits	-	-	4
Interest paid	(15)	(19)	(97)
Interest received	2	-	13
Income tax received (paid), net	7	(1)	15
Net cash flows provided by operating activities	42	66	89
Cash flows from investing activities			
Sale of marketable securities and deposits, net	70	150	80
Proceeds from sale of fixed and other assets	-	4	14
Investment in fixed assets	(15)	(12)	(55)
Investment in intangible assets	(2)	(2)	(13)
Repayment of long-term loans	1	1	11
Loans granted	(3)	(7)	(11)
Dividends from investees	-	-	117
Cash received in respect of investing activities with investees	75	2	307
Cash paid in respect of investing activities with investees	-	-	(16)
Net cash flows provided by investing activities	126	136	434
Cash flows from financing activities			
Repayment of debentures and long-term loans	(116)	(184)	(227)
Early redemption of debentures	-	-	(203)
Dividends paid	-	-	(160)
Proceeds from issue of debentures, net of issuance costs	-	-	200
Repayment of principal of lease liabilities	(8)	-	-
Net cash flows used in financing activities	(124)	(184)	(390)
Net increase in cash and cash equivalents	44	18	133
Cash and cash equivalents as at beginning of period	222	89	89
Cash and cash equivalents as at end of period	266	107	222

* See Note 1.1.2 with regard to the first-time adoption of IFRS 16, *Leases*. According to the transition option that was chosen, comparative figures were not restated.

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

Note 1 - Reporting Rules and Accounting Policies

1.1 General

1.1.1 The Company's business comprises the activity of Group Headquarters, the Group's salads (dips and spreads) operation in Israel and the Group's confectionery operation 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, 2018, and in conjunction with the Condensed Consolidated Interim Financial Statements as at March 31, 2019 (hereinafter: the "Condensed Consolidated Interim Financial Statements").

Except as stated at Note 1 to the Condensed Consolidated Interim Financial Statements as at March 31, 2019, the accounting policy applied in this Interim Separate Financial Information is in accordance with the accounting policy rules described in the Separate Financial Information as at December 31, 2018.

Commencing on January 1, 2019 the Company has applied IFRS 16, *Leases*.

The following table presents the cumulative impact on the items in the statement of financial position affected by first-time adoption, as at January 1, 2019 (in NIS millions):

	Under IAS 17 (audited)	Change	Under IFRS 16 (unaudited)
Right-of-use asset	-	143	143
Investment in investees	1,931	(14)	1,917
Deferred tax liabilities	(112)	1	(111)
Lease liability	-	(148)	(148)
Provisions	(2)	2	-
Payables and credit balances	(202)	(1)	(203)
Long-term payables and credit balances	(14)	4	(10)
Total equity	(2,096)	13	(2,083)

In the three-month period ended March 31, 2019, the Comapny recognized additional depreciation expenses of approximately NIS 8 million, and additional financing expenses of NIS 1 million, in lieu of recognizing rental costs.

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, 2018.

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.

Note 3 - Material Events during the Reported Period

3.1 On March 31, 2019, the Company and the subsidiary, Strauss Coffee, signed a prepayment agreement for a loan granted by the Company to the subsidiary, such that the subsidiary effectuated early repayment of principal at an amount of approximately NIS 73 million and of accrued interest at an amount of approximately NIS 0.4 million. The outstanding principal of the loan was repaid in full after the reporting period, on April 16, 2019.

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 measured at fair value

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

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 - Events after the Reporting Date

For further information on events after the reporting date, see Note 9 to the Condensed Consolidated Interim Financial Statements.

STRAUSS GROUP LTD.

ISOX DECLARATION

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

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

For this purpose, the members of Management are:

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

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

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

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

In the Annual Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure, which was attached to the Periodic Report for the period ended December 31, 2018 (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, 2018 is effective.

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

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

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

Managers' Statement

Statement of the Chief Executive Officer

I, Giora Bardea, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the first quarter of 2019 (hereinafter: the "Reports").

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

(3) To my knowledge, the Financial Statements and other financial information included in the Reports adequately reflect, from all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and -

b. Any fraud, either material or immaterial, which involves the CEO or anyone directly subordinate to him or which involves other employees who play a significant role in the internal control over financial reporting and disclosure.

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under my supervision, which are designed to ensure that material information in reference to the Corporation, including consolidated companies thereof as defined in the Securities Regulations (Annual Financial Statements), 2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and –

b. Have determined controls and procedures or confirmed the determination and existence of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2018) and the date of the Reports, which could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

May 19, 2019

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Giora Bardea, Chief Executive Officer

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

Managers' Statement

Statement of the Most Senior Financial Officer

I, Ariel Chetrit, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the first quarter of 2019 (hereinafter: the "Reports" or the "Interim Reports").

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

(3) To my knowledge, the Financial Statements and other financial information included in the Interim Reports adequately reflect, from all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the Reports relate.

(4) I have disclosed to the Corporation's auditor and to the Corporation's Board of Directors and the Audit and Financial Statement Committees, based on my most current assessment of the internal control over financial reporting and disclosure:

a. Any and all significant flaws and material weaknesses in the determination or operation of internal control over financial reporting and disclosure to the extent that it relates to the Interim Financial Statements and to the other financial information included in the Interim Reports, which may reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner which casts doubt on the reliability of the financial reporting and preparation of the Financial Statements in accordance with the provisions of the law; and –

b. Any fraud, either material or immaterial, which involves the CEO or anyone directly subordinate to him or which involves other employees who play a significant role in the internal control over financial reporting and disclosure.

(5) I, either alone or jointly with others in the Corporation:

a. Have determined controls and procedures, or confirmed the determination and existence of controls and procedures under our supervision, which are designed to ensure that material information in reference to the Corporation, including companies thereof as defined in the Securities Regulations (Annual Financial Statements), 2010, is presented to me by others within the Corporation and the consolidated companies, particularly during the period of preparation of the Reports; and -

b. Have determined controls and procedures or confirmed the determination and existence of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of financial reporting and preparation of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at December 31, 2018) and the date of the Reports that refers to the Interim Financial Statements and to any other financial information included in the Interim Report, which I estimate could alter the conclusion of the Board of Directors and Management regarding the effectiveness of the Corporation's internal control over financial reporting and disclosure.

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

May 19, 2019

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Ariel Chetrit, Chief Financial Officer

STRAUSS GROUP LTD.

Inclusion of the financial statements of an investee pursuant to Regulation 44 of the Securities Regulations, 1970

Três Corações Alimentos S.A.

Condensed consolidated interim financial statements as of and for the three month periods ended 31 March 2019 and 2018

Contents

KPMG Auditores Independentes
Rua Desembargador Leite Albuquerque, 635
Sala 501 e 502 - Aldeota
60150-150 - Fortaleza/CE - Brasil
Telefone +55 (85) 3307-5100
kpmg.com.br

Independent auditors' report on review of interim financial statements

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

Introduction
We have reviewed the accompanying 31 March 2019 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 2019;
- the condensed consolidated statement of income and other comprehensive income for the three month periods ended 31 March 2019;
- the condensed consolidated statement of changes in equity for the three month periods ended 31 March 2019;
- the condensed consolidated statement of cash flows for the three month periods ended 31 March 2019 and
- the 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 2019 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, 06 May 2019

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

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Financial Position as of 31 March 2019 and 31 December 2018

(In thousand of Brazilian Reais)

Assets	31 March 2019	31 December 2018
Current		
Cash and cash equivalents	88,705	221,467
Deposits	2,477	3,678
Trade receivables	492,666	397,223
Inventories	426,208	450,147
Recoverable taxes	47,544	52,356
Income tax receivable	4,469	5,162
Other current assets	21,639	23,919
	1,083,708	1,153,952
Non-current		
Judicial deposits	8,669	8,068
Loans to related parties	22,538	22,203
Recoverable taxes	37,347	33,429
Other non-current assets	7,494	5,257
Deferred tax assets	7,626	7,126
Investments	8,079	6,815
Fixed assets	441,719	407,985
Intangible assets	299,372	300,592
Right-of-use assets	72,770	-
	905,614	791,475
Total assets	1,989,322	1,945,427

Liabilities	31 March 2019	31 December 2018
Current		
Short term loans	242,825	275,446
Trade payables	228,054	278,367
Short term lease liabilities	17,489	-
Income tax payables	4,945	1,180
Employees and other payroll related liabilities	51,969	55,767
Proposed dividends	59,782	59,782
Interest on equity payable	69,061	54,668
Payable taxes	30,383	22,318
Other current liabilities	25,403	34,410
	729,911	781,938
Non-current		
Long term loans	151,425	144,711
Long term lease liabilities	65,979	-
Other non-current liabilities	4,359	4,366
Deferred tax liabilities	8,040	9,130
Provision for legal proceedings	15,604	16,317
	245,407	174,524
Equity		
Share capital	274,546	274,546
Translation reserve	(107,429)	(101,867)
Retained earnings	846,887	816,286
	1,014,004	988,965
Total liabilities	1,989,322	1,945,427

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

Três Corações Alimentos S.A.

Consolidated Interim Satements of Income

Three months period ended 31 March 2019 and 2018

(In thousand of Brazilian Reais)

	Three months period ended 31 March	
	2019	**2018**
Revenue	849,825	884,650
Cost of sales	(605,923)	(631,027)
Gross profit	243,902	253,623
Selling and marketing expenses	(151,048)	(144,389)
General and administrative expenses	(29,941)	(25,820)
Equity method	229	44
Other income (expenses), net	1,071	(14)
Operating profit	64,213	83,444
Financial income	2,200	4,191
Financial expenses	(6,087)	(5,699)
Profit before income tax	60,326	81,936
Income tax expenses	(6,323)	(14,755)
Profit for the period	54,003	67,181

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Comprehensive Income

Three months period ended 31 March 2019 and 2018

(In thousand of Brazilian Reais)

	Three months period ended 31 March	
	2019	**2018**
Profit for the period	54,003	67,181
Other comprehensive los) items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation differences	(5,562)	(1,459)
Comprehensive income for the period	48,441	65,722

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Changes in Equity

Three months period ended 31 March 2019 and 2018

(In thousand of Brazilian Reais)

	Share capital	Retained earnings: Legal reserve	Retained earnings: Tax incentives	Retained earnings: Profit to distribute	Translation adjustments	Accumulated profit	Total
Balance as of 31 December, 2017	273,442	54,688	248,180	334,399	(91,917)	-	818,792
Effect of new standards							
Adjustment from adoption of IFRS 9 (net of tax)	-	-	-	488	-	-	488
Adjustment from adoption of IFRS 15 (net of tax)	-	-	-	121	-	-	121
Total effect of new standards as of 1 January, 2018	-	-	-	609	-	-	609
Profit for the period	-	-	-	-	-	67,181	67,181
Outros resultados abrangentes:							
Foreign currency translation differences	-	-	-	-	(1,459)	-	(1,459)
Total other comprehensive gain:	-	-	-	-	(1,459)	67,181	65,722
Internal equity changes							
State VAT and Federal tax incentives	-	-	12,615	-	-	(12,615)	-
Profit destination							
Interest on equity credited	-	-	-	-	-	(8,000)	(8,000)
Reserve for profit to be distributed	-	-	-	46,566	-	(46,566)	-
	-	-	12,615	46,566	-	(67,181)	(8,000)
Balance as of 31 March, 2018	273,442	54,688	260,795	381,574	(93,376)	-	877,123
Balance as of 31 December, 2018	274,546	54,909	313,513	447,864	(101,867)	-	988,965
Effect of new standards							
Adjustment from adoption of IFRS 16 (net of tax)	-	-	-	(7,842)	-	-	(7,842)
Total effect of new standards as of 1 January, 2019	-	-	-	(7,842)	-	-	(7,842)
Profit for the period	-	-	-	-	-	54,003	54,003
Outros resultados abrangentes:							
Foreign currency translation differences	-	-	-	-	(5,562)	-	(5,562)
Total other comprehensive gain:	-	-	-	-	(5,562)	54,003	48,441
Internal equity changes							
State VAT and Federal tax incentives	-	-	14,826	-	-	(14,826)	-
Profit destination							
Interest on equity credited	-	-	-	-	-	(15,560)	(15,560)
Reserve for profit to be distributed	-	-	-	23,617	-	(23,617)	-
	-	-	14,826	23,617	-	(54,003)	(15,560)
Balance as of 31 March, 2019	274,546	54,909	328,339	463,639	(107,429)	-	1,014,004

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Cash Flow

Three months period ended 31 March 2019 and 2018

(In thousand of Brazilian Reais)

	Three months period ended 31 March	
	2019	**2018**
Cash flows from operating activities		
Profit for the period	54,003	67,181
Adjustments for:		
Depreciation and amortization	17,024	9,082
Gains in tax lawsuits	(9,448)	(5,535)
Provision for legal proceedings	(713)	(603)
Other income, net	(1,071)	14
Equity method	(229)	(44)
Finance expenses, net	3,887	1,508
Income tax expenses	6,323	14,755
Change in:		
Trade receivables	(95,169)	(24,928)
Inventories	4,974	(1,298)
Recoverable and payable taxes, net	16,850	(2,982)
Judicial deposits	(601)	845
Trade payables	(50,313)	(23,966)
Employees and other payroll related liabilities	(3,798)	1,837
Other current and non-current assets and liabilities	(3,981)	(1,196)
Change provided (used) by operating activities	(62,262)	34,670
Interest paid	(3,368)	(6,406)
Interest received	1,823	4,191
Income tax paid	(214)	(266)
Net cash flows provided (used) by operating activities	(64,021)	32,189
Cash flows from investing activities		
Change in deposits	1,202	961
Payment for acquisition of operations	(4,885)	(214)
Proceeds from sales of fixed assets	1,370	449
Acquisition of fixed assets	(25,657)	(36,269)
Investments in intangible assets	(1,505)	(1,771)
Net cash flows used in investing activities	(29,475)	(36,844)
Cash flows from financing activities		
Proceeds from loans	28,338	80,683
Repayment of loans	(63,219)	(73,042)
Payment of lease liabilities	(4,385)	-
Net cash flows provided (used) by financing activities	(39,266)	7,641
Net increase (decrease) in cash and cash equivalents	(132,762)	2,986
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents as of beginning of year	221,467	113,110
Cash and cash equivalents as of end of year	88,705	116,096
	(132,762)	2,986

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

Notes to the condensed consolidated interim financial statements

(Amounts in thousands of Brazilian reais, unless otherwise stated)

1 Reporting entity

Três Corações Alimentos S.A. (the "Company") together with its controlled entities (the "Group") are an industrial and commercial group of companies, which operate in Brazil, in producing and selling branded coffee products, multibeverage 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 and investing in other companies, mainly related to specialty coffees.

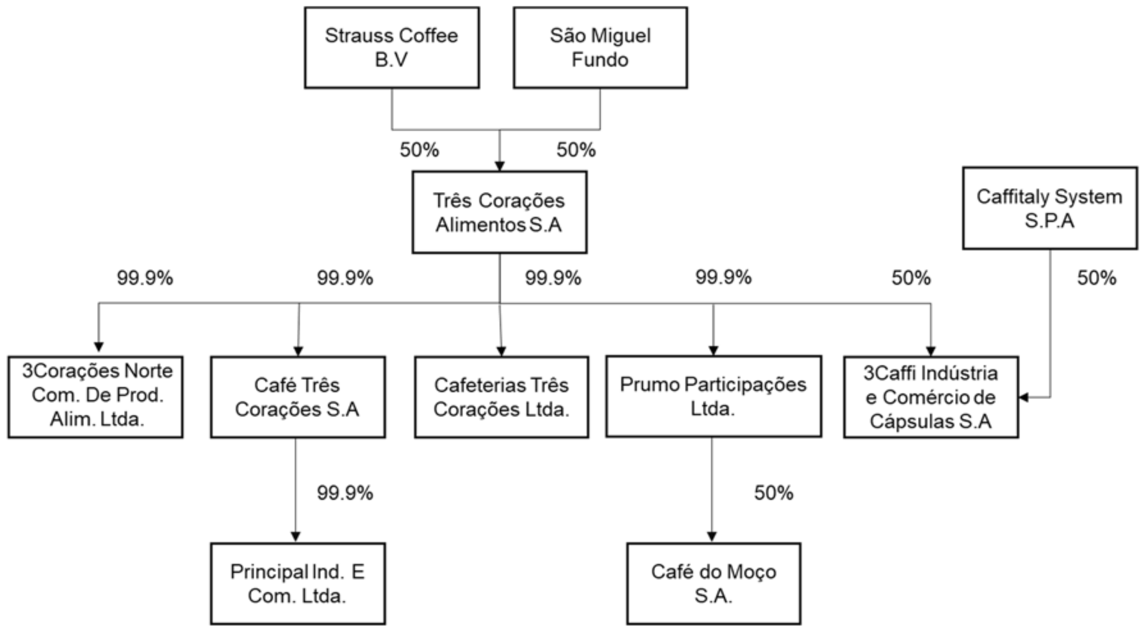
The Company controls the entities Cafeterias Três Corações Ltda., 3Corações Norte Comércio de Produtos Alimentícios Ltda., Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda. and Prumo Participações Ltda., which controls the entity Café do Moço S.A. (see Note 3.2), all together referred to as "the Group". The Company is a party to a joint-venture with Caffitaly System S.p.A., whereby it holds 50% share of company 3Caffi Indústria e Comércio de Cápsulas S.A. ("3Caffi"), which is not consolidated in this report, as the Company no longer controls it.

The Company is located at Rua Santa Clara, 100, Parque Santa Clara, Eusébio, Ceará, Brazil.

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, Dona Clara, Claramil, Frisco, Tornado, Tres, Iguaçu, Cruzeiro, Amigo, Cirol, Cirol Real, Realmil, Toko, Astoria, Manaus, Tapajós, Betânia and the brands Bar Barista and Café do Moço belonging to the most recent controlled company Café do Moço. The Apollo brand is used as a result of a License agreement, with purchase option.

The Group's industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais, Rio de Janeiro and Amazonas, and its distribution centers are located in almost all states of Brazil. In addition to that, the Group owns green coffee processing plants in the state of Minas Gerais. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in these financial statements, since it is not part of the Group structure presented below. Três Corações Imóveis Armazéns Gerais e Serviços Ltda. is owned by São Miguel Holding e Investimentos S.A. (50%) and Strauss Coffee B.V. (50%).

As of 31 March 2019, the Group had 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 financial statements of the Company as of 31 December 2018 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 as of May 06, 2019.

2.2 Changes in significant accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not adopted early any other standards, interpretations or amendments that have been issued but are not yet effective.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group applies, for the first time, IFRS 16 Leases. The nature and effect of these changes are disclosed below.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 - Operating Leases-Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adopting IFRS 16 as at 1 January 2019 (increase/decrease) is as follows:

	1 January 2019
Assets	
Non-current assets:	
Right of use asset	77,257
Deferred tax asset	1,160
Total Assets	**78,417**
Liabilities and equity	
Current liabilities:	
Lease liability	18,324
Non-current liabilities:	
Lease liability	69,528
Deferred tax liability	(1,592)
Equity:	
Retained earnings	(7,843)
Total Liabilities and equity	**78,417**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted- average rate applied is 7.44%.

a. *Significant new accounting policies*

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or as appropriate, changes in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that controls the renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

b. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group has balance R$ 72,770 of right-of-use assets and R$ 83,468 of lease liabilities as at 31 March 2019.

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the three months ended 31 March 2019, the Group recognized R$ 4,487 of depreciation charges and R$ 1,459 of interest from these leases. The payments of the lease liabilities were R$ 5,844.

3 Material events during the reported period

3.1 Manaus Coffee final purchase price allocation

On March 31st, 2019, Management received the purchase price allocation of Manaus Coffee acquisition performed by Ernst & Young Assessoria Empresarial Ltda. The impact of this independent valuation is as presented below:

	Before independent valuation	**Adjustment (not audited)**	**After independent valuation**
Acquisition cost			
Consideration transferred, paid or to be paid	22,138	-	22,138
Identifiable assets			
Tax credit	5,130	-	5,130
Machinery and equipment	1,936	(90)	1,846
Brands and trademarks	484	3,516	4,000
List of customers	1,506	2,394	3,900
Total identifiable assets	9,056	5,820	14,876
Goodwill	13,082	(5,820)	7,262

All adjustments above were recognized in these condensed consolidated interim financial statements.

3.2 Café do Moço Acquisition

As of 11 August 2018 Prumo Participações Ltda. was created with the purpose to invest in other entities, mainly related to specialty coffees.

As of 16 January 2019 Prumo Participações acquired 50% participation in Café do Moço S.A. ("Café do Moço"). Café do Moço operates in the city of Curitiba, State of Paraná, in producing and selling specialty coffees, as well as other food and beverages, in coffee shops and e-commerce. The total investment for the three month periods ended on 31 March 2019 was R$ 1,035.

This acquisition is part of the Group's strategy of participating in the segment of specialty coffees, including greater value-added products in its portfolio.

Management understands that carrying amounts of the assets acquired approximate its fair values. The total proceeds paid for such transaction was R$ 868. After the acquisition, the Group increased its equity investment in the amount of R$167. Despite the additional investment in Café do Moço by the Company, Prumos´s agreed participation remained 50%. Additionally, the Company did not identify any contingent consideration in the transaction.

The Group has the period of 12 months after the acquisition to conclude the valuation of the identifiable assets and confirm or adjust the fair values based on such valuation.

Although the Group owns 50% of Café do Moço, Management concluded that the Group controls this entity, once it has the deciding vote in case of a deadlock or disagreement.

The expenses related to the transaction are mainly represented by expenses with attorneys and auditors and were included in the consolidated statement of income as administrative expenses.

4 Net debt

	31 March 2019 (Unaudited)	**31 December 2018 (Audited)**
Short term loans	242,825	275,446
Long term loans	151,425	144,711
Cash and cash equivalents	(88,705)	(221,467)
Net debt	305,545	198,690

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

- Cash flows used in operating activities, in the amount of R$ 64,021;
- Cash flows used in investing activities, in the amount of R$ 29,475;
- Cash flows used in financing activities, in the amount of R$ 39,266.

For further information, see the Statements of Cash Flows.

5 Contingent liabilities

There were no material events related to contingent liabilities during the reported period, except for the usual interest accrued on the provisioned contingent liabilities balances.

6 Financial instruments

6.1 Fair value of financial instruments

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

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

	31 March 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Audited)	
Financial liabilities				
Short term loans	242,825	230,352	275,446	262,072
Long term loans	151,425	133,477	144,711	126,104

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

7 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 where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs 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 2019 and 31 December 2018, the Group had no financial instruments classified at Level 3.

8 Revenue

8.1 Disaggregated revenue information

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

	R$		
	Products	**Service**	**31 March 2018**
Geographical markets			
Domestic	835,130	54	835,184
Foreign	49,466	-	49,466
	884,596	54	884,650

8.2 Revenue reconciliation

	R$	
	31 March 2019	**31 March 2018**
Gross revenue:		
Products – domestic	1,023,677	1,020,930
Products – foreign	42,105	49,465
Services	54	59
Other	56	1,213
Taxes on sales	(94,478)	(98,502)
State VAT incentives	19,966	21,443
Discounts	(105,101)	(79,416)
Other deductions	(36,454)	(30,542)
	849,825	884,650

9 Subsequent events

9.1 Federal Industrialized Good (IPI) for Powder Juice

Tax authorities claim the tax treatment applied, in respect to federal tax IPI - imposed on certain industrialized goods (powder juice) was incorrect. According to the Company's understanding of the regulation, powder juice is a product classified as entitled to zero IPI tax, which is the rate the Company continues applying. According to the tax authorities, the Company should have used tax rates of 27% for the period from January 2011 to December 2011, 20% for the period from January 2012 to May 2012 and 10% since June 2012. The total updated claim, as of 31 March 2019 is R$ 65,553 (62,578 as of 31 December 2018). The Group and its tax advisors are of the opinion that there is no need to record any liability. The remaining increase is due to interest incurred.

On 17April 2019, the Group obtained favorable outcome in the Board of Tax Appeals (CARF), first administrative instance, on the IPI treatment applied for powder juice process for the period from January 2011 to March 2014.

The Government may still contest the outcome at higher instances.

The process for the period from April to December 2014 is still in progress.

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Pedro Alcântara Rêgo de Lima
Chief Executive Officer
Três Corações Alimentos S.A.

Danisio Costa Lima Barbosa
Chief Financial Officer
Três Corações Alimentos S.A.

Adenise Evangelista de Melo
Accountant
Três Corações Alimentos S.A.