STRAUSS GROUP LTD.
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STRAUSS GROUP LTD.

BOARD 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 2017[1] (HEREINAFTER: THE "PERIODIC REPORT")

In accordance with Regulation 39A of the Securities Regulations (Periodic and Immediate Reports), 1970, following is a description of material developments that occurred in the Company's business in the nine months ended September 30, 2018 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 2017 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 appearing in this chapter shall have the meaning ascribed to them in the Periodic Report, unless expressly stated otherwise.

1. Section 2 in the Description of the Company's Business Report, Operating Segments

Commencing from the financial statements as at March 31, 2018, Strauss Water's activity is presented in the financial statements of the Company as a separate operating segment. For information on Strauss Water's business, see the Description of the Company's Business Report and also **Annex "A"** to this chapter.

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

On May 22, 2018 the Board of Directors of the Company approved the distribution of a cash dividend to the shareholders of the Company. For further information, see the Immediate Report of May 23, 2018 (reference no. 2018-01-050464), the Immediate Report of May 30, 2018 (reference no. 2018-01-053434) and also Note 4.2 to the condensed consolidated interim financial statements of the Company as at September 30, 2018.

3. Section 14 in the Description of the Company's Business Report, the International Dips & Spreads segment

On September 5, 2018 the Company reported that an investee (50%), Sabra Dipping Company ("Sabra"), had signed an agreement for the sale of its salsa business in consideration for 10.5 million dollars in cash. The buyers are a group of companies and investors engaged in the manufacture of soups, sauces and salsa. 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. Most of the salsa products are sold under other brands. It is the buyers' intention to retain the employees of Sabra's salsa business. The impact on Strauss Group's business results is immaterial. For further information, see the Immediate Report of September 5, 2018 (reference no. 2018-01-084957).

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

Section 21.1, General: On May 9, 2018 the Company reported that the Securities Authority had decided to extend the period for the offering of securities under the Company's shelf prospectus until May 18, 2019. For further information, see the Immediate Report of May 9, 2018 (reference no. 2018-01-046276).

Section 21.2, Reportable credit: On October 28, 2018 the Company announced a private placement to institutional investors of NIS 200 million face value of Series E debentures through an expansion of the series in consideration for approximately NIS 201 million, subject to the satisfaction of suspending conditions. For further information, see the Immediate Report of October 28, 2018 (reference no. 2018-01-097375). Following satisfaction of the suspending conditions, the Company allotted the debentures. For further information, see the Immediate Report of November 4, 2018 (reference no. 2018-01-103818).

Section 21.6, Credit rating: On March 28, 2018 the Company announced the reaffirmation of Standard & Poor's Maalot's ilAA+ rating with stable outlook. For further information, see the Immediate Report of March 28, 2018 (reference no. 2018-01-025362).

On May 21, 2018 the Company announced the reaffirmation of Midroog's Aa2il rating for the Company's Series D and E debentures, with a revision of outlook to positive. For further information, see the Immediate Report of May 21, 2018 (reference no. 2018-01-049858).

[1] As published on March 14, 2018 (reference number 2018-01-019932).

On October 28, 2018 the Company announced Standard & Poor's Maalot's ilAA+ rating for the expansion of its Series E debentures and Midroog's Aa2il rating for said expansion of the series, outlook positive. For further information, see the Immediate Reports of October 28, 2018 (reference no. 2018-01-097489 and 2018-01-101505, respectively).

5. **Section 22 in the Description of the Company's Business Report, Taxation**

Section 22.2, Tax assessments issued to the Group companies in and outside Israel: Further to the contents of Note 35.7 to the financial statements, which were attached to the Periodic Report (the **"Financial Statements"**), with respect to negotiations pertaining to tax assessments for the years 2009-2013 under way between an investee and the local tax authorities, it is noted that the subsidiary Strauss Romania has been issued with final tax assessments for said years amounting to a total of approximately NIS 15.2 million, which it disputes, *inter alia* in respect of certain disallowed expenses. For further information, see Note 4.1 to the condensed consolidated interim financial statements of the Company as at September 30, 2018.

On June 3, 2018, further to the Company's Immediate Report of March 15, 2017 (reference no. 2017-01-021388) and Note 35.7 to the Financial Statements pertaining to income tax assessments received by the Company and subsidiaries, and further to Note 35.1.2(a) to the Financial Statements pertaining to entitlement to tax benefits under the Law for the Encouragement of Capital Investments, the Company reported that on May 31, 2018 the Company and the subsidiaries had signed an assessment agreement with the Assessing Officer for Large Enterprises, which constitutes agreement concerning all matters in dispute with respect to the 2011-2014 tax years, except as regards entitlement to benefits under the Law for the Encouragement of Capital Investments. Said entitlement to benefits under the Law for the Encouragement of Capital Investments remains in dispute; however, (as described in Note 35.1.2(a) to the Financial Statements), the Company and the subsidiaries have recorded the tax expenses and have also paid the entire tax obligation in accordance with the Tax Authority's position and accordingly, to the extent that the Company's position is not accepted, no material impact on the Financial Statements is expected. For further information, see the Immediate Report of June 3, 2018 (reference no. 2018-01-046512), and see also Note 4.3 to the condensed consolidated interim financial statements of the Company as at September 30, 2018.

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

For updates, see Note 6 to the condensed consolidated interim financial statements of the Company as at September 30, 2018.

7. **Regulation 20 in the Additional Information Report**

On April 1, 2018 the Company effectuated a partial redemption of its Series D debentures. For further information, see the Immediate Report of April 1, 2018 (reference no. 2018-01-027858).

With regard to the allotment of NIS 200 million face value of Series E debentures, issued by way of an expansion of the series, see section 4 above.

8. **Regulation 26 in the Additional Information Report, Directors of the Company**

On July 1, 2018 Mr. Gil Midyan was appointed a director of the Company. For further information, see the Immediate Report of July 2, 2018 (reference no. 2018-01-063154).

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

On May 10, 2018 the Company reported that Strauss Group CEO Mr. Gadi Lesin would be taking medical leave for an anticipated period of three months, commencing on May 14, 2018. During his absence, Mr. Giora Bardea, Deputy CEO of Strauss Group, will serve as Interim CEO. For further information, see the Immediate Report of May 10, 2018 (reference no. 2018-01-037134).

On July 9, 2018, further to the Immediate Report of May 10, 2018, the Company reported that for medical reasons Mr. Gadi Lesin would be stepping down as CEO of Strauss Group. Mr. Giora Bardea will continue to serve as Interim CEO of Strauss Group. The Board of Directors of the Group will take action to appoint a permanent CEO for Strauss Group. For further information, see the Immediate Report of July 9, 2018 (reference no. 2018-01-065419).

On September 5, 2018, further to the Immediate Report of July 9, 2018, the Company reported that the Board of Directors of the Group had appointed Giora Bardea as CEO of Strauss Group. For further information, see the Immediate Reports of September 5, 2018 (reference no. 2018-01-082588 and 2018-01-085104).

10. Regulation 29 in the Additional Information Report, Recommendations and Resolutions of the Board of Directors

On May 3, 2018 it was resolved to approve an allotment of 1,173,326 options of the Company to 15 senior managers in the Group, in accordance with the terms and conditions of option plan for senior employees of the Company. For further information, see the Immediate Report of May 6, 2018 (reference no. 2018-01-044578).

11. Regulations 21, 22 and 29A in the Additional Information Report, Payments to Interested Parties and Senior Officers, Transactions with a Controlling Shareholder and Company Resolutions, respectively

On July 9, 2018 the Meeting of Shareholders of the Company discussed and approved the proposed resolution on the agenda for the meeting with regard to the grant of letters of exemption to Ms. Ofra Strauss and Mr. Adi Strauss, For further information, see the Immediate Reports of May 23, 2018 (reference no. 2018-01-041586 and 2018-01-041577), and see also the Immediate Report regarding the results of the meeting, dated July 9, 2018 (reference no. 2018-01-062109).

On September 6, 2018 the Remuneration Committee and the Board of Directors approved the terms and conditions of office and employment of Prof. Joshua (Shuki) Shemer and Mr. Gil Midyan as directors of the Company, in accordance with the Company's Remuneration Policy and the Companies Regulations (Rules Regarding Compensation and Expense Reimbursement of External Directors), 2000 (the **"Compensation Regulations"**). Mr. Midyan's remuneration is the maximum amount pursuant to the Compensation Regulations, and Prof. Shemer's remuneration is the maximum amount payable to an expert external director pursuant to the Compensation Regulations, all of the foregoing considering the Company's ranking. Prof. Shemer and Mr. Midyan shall also be entitled to a letter of undertaking of indemnification and a letter of exemption in the identical form to the letters granted to other officers of the Company, to their inclusion in the Company's directors and officers liability insurance policy and to a refund of expenses. For further information, see the Immediate Report of September 9, 2018 (reference no. 2018-01-086268).

Date: November 13, 2018

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.

Annex "A"

The Strauss Water Segment[2]

1. **General information on the Strauss Water segment**

Through Strauss Water the Group is active in the 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. The systems are mainly based on advanced technology developed by the Group that consists of the integration of innovative developments in engineering, chemistry and microbiology.

As at the reporting date, Strauss Water is active mainly in Israel, where operations began in 2009 following the acquisition of Tana Industries Ltd. ("Tami 4"). Strauss Water is also active in the UK in collaboration with Virgin Group (see section 15 below), and has insubstantial activities in a number of other countries, which are carried out through local franchisees.

In addition, Strauss Water has a material investment (49%) in an associate, which is a joint venture established by Strauss Water and Haier Group of China and is active in the filtration and purification of drinking water in China (see section 16 below).

Changes in the scope of the activity framework and its profitability: In recent years activities in this segment have grown. The Company estimates that this is due to increasing awareness of water quality and various forms of water pollution, which are liable to occur even in parts of the world where water quality is considered good. In addition, the health trend, which among other things is expressed in reduced sugar consumption and a switch to consuming water instead of sweetened beverages, has also supported increased consumption of bottled and filtered water.

Critical success factors in the activity framework and changes therein: There are several critical success factors in the water business, such as the development of technology and advanced products, an extensive distribution network, quick and efficient service, innovation and operational efficiency.

Major entry barriers to the activity framework and changes therein: The main entry barriers to the water business are the need for large-scale investments in product development and the development of infrastructure for sales, distribution and customer service, including shelf occupancy. The main barrier to exit is the warranty provided to customers as well as the obligation to provide spare parts for the appliances.

Substitutes for the products of the activity framework and changes therein: Substitutes for Strauss Water's products include tap water, mineral water (in jugs and bottles), filtered water in bottles or jugs, and water filter pitchers (such as Brita).

2. **Products and services**

The Group's products in the operating segment are water bars, which are connected to the under-sink water line (point-of-use – POU) in the customer's home and filter and purify the water, including cooling and heating, and in Israel – carbonation as well.

The Group also provides services for its water filtration and purification appliances, including maintenance, the supply of filters and UV lamps, and technician services at the customer's home.

The products are based on various filtration and purification technologies, the main one as at the reporting date being Strauss Water's proprietary Maze technology, an innovative technology that improves filtration quality and the clarity and taste of the water.

Products include appliances for the in-home market (households) as well as away-from-home solutions – appliances tailored to the requirements of customers in the business and institutional sectors.

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[2] The terms appearing in this chapter have the meaning ascribed to them in the Company's 2017 Periodic Report (as published on March 14, 2018 (reference number 2018-01-019932), unless expressly stated otherwise (the **"2017 Periodic Report"**).

In Israel, the products are marketed under the "Tami 4" brand, and in the UK – under the "Virgin Pure" brand. In other countries sales are made under the Strauss Water brand or in combination with the local distributor's brand.

It is noted that on May 3, 2018 the Company reported that on April 30, 2018, a claim against Strauss Water was filed with the Tel Aviv – Jaffa District Court together with a motion for its certification as a class action, pertaining to an alleged malfunction involving the spraying of boiling water in an appliance manufactured by the company. The amount sought in the claim is approximately NIS 97 million. Strauss Water rejects the arguments enumerated in the claim and the motion and will take action for their withdrawal. For further information, see the Company's Immediate Report of May 3, 2018 (reference no. 2018-01-044044).

3. **Segmentation of income from products and services**

There is no group of similar products or services in the operating segment that accounts for 10% or more of the Company's total consolidated income.

4. **New products**

In early 2018 a new water purifier was launched, based on the Maze technology. The Maze purifier enhances purification capabilities compared to the carbon purifier by removing chemical contaminants resulting from personal use such as residue from pharmaceuticals, hormones and detergents that permeate drinking water; contaminants originating in industrial and agricultural chemical use; pesticides and asbestos; heavy metals such as lead and mercury; and improves the clarity, taste and smell of the water by filtering sand and rust, removing chlorine, eliminating aftertaste and reducing limescale buildup.

5. **Customers**

The Group's customers in the water segment are a very large number of households, businesses (offices and stores) and institutional customers (such as government ministries), which are characterized by great variance and are highly dispersed.

In Israel, 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 the Group 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.

6. **Marketing and distribution**

The Group's products are marketed and distributed to households and businesses by direct sale through call centers or the Group's websites. Marketing and distribution to institutional customers are carried out through sales agents and, if necessary, by submitting bids in tenders.

The major advertising channels in Israel are the mass media (radio, television and print) and online advertising.

7. **Order backlog**

The order backlog presented below contains projected revenue in respect of service agreements signed before March 31, 2018, which has not yet been accounted for as income on the income statement.

Projected revenue recognition period	Projected revenue in respect of signed service agreements (NIS millions)
Q2 2018	26.6
Q3 2018	24.0
Q4 2018	20.3
Total 2018	**70.9**
2019	51.2
2020	21.2
2021 and thereafter	4.7

The information presented in this section includes forward-looking information, which is based, *inter alia*, on current service agreements. Actual results may differ materially from those anticipated, among other things due to the cancellation of service agreements or defaults on payments by customers.

8. **Competition**

The Group's main competitors in Israel are companies selling water in bottles and jugs and companies selling POU water filtration devices. The major rivals are Mey Eden, Neviot, E-Bar, Brita and Maayanot, and there are also additional, smaller competitors. In 2017 the POU category grew, while other categories in the water market remained stable or decreased. The Group's share of the water market in Israel is about one-quarter of the market (some 601,000 water bars under active service agreements).

The Group has dealt with the competition by solidifying its brand ("Tami 4") among new and existing customers and through technological improvements, product innovation and improving its services. Thanks to these efforts, the Group has succeeded in attracting new customers and in retaining existing ones.

9. **Seasonality**

Following is information for the years 2017 and 2016 on income from the water segment, by quarter, in NIS millions, according to the Company's Management (Non-GAAP) Reports, as defined in section 5 of the 2017 Periodic Report:

	2017		2016	
	Income (NIS Millions)	% of Total Segment Income	Income (NIS Millions)	% of Total Segment Income
Q1	125	23.3%	114	23.0%
Q2	136	25.0%	124	25.0%
Q3	144	26.4%	133	26.8%
Q4	136	25.3%	125	25.2%
Total	541	100%	496	100%

The figures presented above are not indicative of a seasonal effect in the water business. In general, sales of the Company's products are higher in the summer months compared to the rest of the year.

10. **Fixed assets and real estate**

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

Nature of the Site	Location of the Site	Site Designation	Built-Up Area	Rights in and to the Site
Production plant	Industrial zone, Kibbutz Netiv Halamed Heh	Logistic center	3,500 m^2	Leased from a third party until June 30, 2018. As at the date of this report, the Company has exercised the option and extended the lease for three more years commencing on July 1, 2018.
Offices (in 2 adjacent buildings)	Or Yehuda Industrial Zone	Management offices, call center, service and sales	7,800 m^2	Leased from a third party until December 31, 2019
Subleased to a tenant and not in use by the Group	Henley Business Park, Guildford		1,412 m^2	Leased from a third party until May 2020

11. **R&D and intellectual property**

The Group has developed cutting-edge water purification technologies consisting of a combination of innovative developments in engineering, chemistry and microbiology, allowing for a broad variety of applications in the domestic drinking water sector. In addition, the Group continues to develop technologies for treating drinking water for household consumer goods solutions. All these developments are supported by some 29 patents as well as additional patent applications filed in numerous countries.

Following are Strauss Water's substantial patents:

Patent Name	Description	Patent Rights	Priority Date	Application Date	Countries Where Approved
Spray nozzle and portable filter, including use inside spray nozzle Patent was divided into 5 separate patents.	1. Upper manifold 2. Telescopic filter – water flows in and out at same level 3. Compact folding condenser, wall formation, cooling 4. Folding drip tray 5. UV replacement without risk of electrocution	Owned by Strauss Water	April 2, 2004	March 31, 2005	Israel, US, Europe, China, Hong Kong
Gravitational filter and liquid purification device	Method, product and process for filtering liquid flowing gravitationally from a source/reservoir above the filter into a purified liquid receptacle.	Owned by Strauss Water	August 28, 2006	August 28, 2007	Israel, US, Europe, China, Hong Kong, Canada, South Korea
Premium filter	Model of the telescope shape.	Owned by Strauss Water	April 16, 2009	April 16, 2009	Israel, US, Europe, China, India
Water filtering device	Device that filters running water from a pressurized water source containing two water treatment compartments, each comprising at least one water treatment element, between which the water flows horizontally.	Owned by Strauss Water	May 12, 2011	May 8, 2012	Israel, US, Mexico, China, Hong Kong
Beverage dispensing device with carbonation system	Beverage dispenser including a carbonation system, pouring system, pressure reducing system.	Owned by Strauss Water	September 13, 2012	September 13, 2013	Israel, US, Europe, Canada, China, Russia
Container with an identification module and a machine with a receptacle for its utilization	Metal container with RFID tag.	Owned by Strauss Water	December 13, 2011	December 13, 2011	Israel, China

12. **Human capital**

Following is information on the number of Strauss Water employees, including 153 and 215 employment agency workers, as at December 31, 2017 and December 31, 2016, respectively:

	Number of Employees as at	
	Dec. 31, 2017	**Dec. 31, 2016**
Management and administration	222	219
Sales and distribution	673	722
Procurement and logistics	10	9
Operations	75	83
Total	**980**	**1,033**

Following is information on the number of Strauss Water employees by country, as at December 31, 2017 and December 31, 2016:

	Number of Employees as at	
	Dec. 31, 2017	Dec. 31, 2016
Israel	937	993
UK	35	31
China (*)	8	9
Total (incl. employment agency workers)	**980**	**1,033**

(*) Employees in China who are not employees of the joint venture, as described in section 16 below.

13. Raw materials and suppliers

Strauss Water purchases water bars, filters, purifiers and UV lamps for use in water bars from a number of external vendors. Water bars are purchased from two vendors, ENG Electronic Co. Ltd. and Flextronics (Israel) Ltd. The water bar vendors are committed to exclusivity in production for the Group, and they manufacture the appliances in accordance with product specifications developed by the Group using production lines that serve exclusively for manufacturing the Group's products.

The Group is dependent on the suppliers of its water bars, since replacement of these suppliers will require several months' organization and will involve a substantial incremental cost to Strauss Water.

According to the terms and conditions of engagement with the water bar vendors, termination of the agreement is subject to advance notice of 6 months by the Group, and 18 months by the vendors.

In the reporting period, there was no single Strauss Water supplier from which the scope of the Group's purchases exceeded 10% of total purchases of raw and packaging materials in this segment, with the exception of purchases of filters and purifiers from a single supplier (KX Technologies). However, the Group is not dependent on KX Technologies in light of the possibility of replacing it with other vendors, at no substantial incremental cost to Strauss Water.

14. Restrictions and supervision

The Group's products are required to comply with local and international standards applying, *inter alia*, to systems for the treatment of drinking water for home use, tests of products that are in contact with drinking water, safety of household electrical appliances and others.

See also section 24 in the 2017 Periodic Report.

15. Material agreements

Joint venture agreement with Virgin Group

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

Licensing agreement: According to the licensing agreement (and the addendum thereto of 2017) between Strauss Water, VSW UK and Virgin Group (through Virgin Enterprises Ltd., hereinafter: "**VEL**"), VSW UK has the right to use the "Virgin" brand name in the territories defined in the agreement, and in consideration will pay VEL royalties at fixed percentages of its sales, as set forth in the agreement. Strauss Water has guaranteed payment of the royalties. The agreement is effective until December 31, 2024 (however, either party may inform the other of its termination on December 31, 2020 and may also annul the agreement on the occurrence of any of the causes enumerated in the agreement). On termination, VSW UK will be subject to various provisions, including the obligation to discontinue use of the name Virgin or similar names.

Shareholders' agreement: According to a shareholders' agreement of 2012 between Strauss Water, VSW UK and investment funds belonging to Virgin Group, five directors hold office in VSW UK, three

appointed by the Group and two appointed by Virgin Group, and the Group has management control of VSW UK. In addition, Strauss Water has undertaken not to compete with VSW UK in the territories where it is active. The agreement will remain in effect other than upon the occurrence of the causes for cancellation enumerated in the agreement.

16. **Material investment in an associate**

As at the date of the report (and after Strauss Water exercised its right to acquire an additional 15% in August 2017), Strauss Water holds 49% of the shares of Qingdao HSW Health Water Appliance Co. Ltd. (**"HSW"**) and the remaining 51% of the shares are held by Haier Group of China.

HSW's business focuses on the home water market in China, and it mainly offers devices based on reverse-osmosis or nanofiltration technology, as well as products based on the Maze technology purifier. The products are marketed in China under the Haier and Haier Strauss Water brands through a variety of channels such as retail chains, direct marketing and ecommerce, and service is provided by a local distributor. Sales are made to retailers and end customers and generally do not include service agreements. Various components (such as filters and purifiers) are sold as required.

As part of a series of agreements signed in May 2015 between Strauss Water and companies of Haier Group, the businesses of the joint venture (in the framework of which the parties initiated the operation in 2011[3]) were transferred to HSW. Pursuant to the agreements, Haier transferred its reverse-osmosis water purification operation (until then owned by Haier) to HSW, and Strauss Water granted the jointly owned company an exclusive license to use the Maze technology in the China territory.

The series of agreements also regulates the relationship between the parties and their role in the management of the jointly owned company, and determines that the board of directors will comprise five directors, three appointed by Haier and two by Strauss Water. The chairman of the board (who has no casting vote or veto power) is appointed by Strauss Water. The CEO and head of the finance department will be appointed by the board of directors according to Haier's recommendation, and the executive vice president will be appointed by the board of directors according to Strauss Water's recommendation. The process for adopting board resolutions will be based on an ordinary majority, save for certain resolutions that must be unanimously adopted (a change in the articles of the company, suspension of the company's operations, changes in its authorized capital, and also a merger or any change in the legal status of the company) and other resolutions that require an ordinary majority that also includes a director on behalf of Strauss Water (issue of shares by the jointly owned company, entry into additional business areas other than the company's customary business areas, etc.). Furthermore, two observers will be appointed for the company, one by the companies of Haier Group and the other by Strauss Water.

[3] The joint venture initiated operations in 2011, focusing on the Maze purification technology. Upon its establishment the joint venture was equally owned by the Group and Haier. The joint venture purchased the products from Strauss Water and received distribution and sales services as well as servicing from companies in Haier Group.

STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT
TO THE SHAREHOLDERS
AS AT SEPTEMBER 30, 2018

Unofficial Translation from Hebrew

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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"**) hereby respectfully submits the Board of Directors' Report for the third quarter of 2018 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, 2017, the Financial Statements and the Board of Directors' Report on the Company's Business Position for the year then ended, as published on March 14, 2018 (reference no. 2018-01-019932) (the "2017 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 third quarter of 2018 the Group held an 11.9% share of the domestic food and beverage market (in value terms[1]) compared to 12% at the end of 2017, 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 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.

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[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 nine months and third quarter of 2018 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 raw milk (the "target price"), cocoa, sesame, tahini, honey and olive oil rose, as did the prices of polystyrene and plastic bottles (used in packaging).

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.

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 included on the non-GAAP income statement on the date of sale of the inventory to outside parties.

2.2 Energy prices – In the first nine months and third quarter of 2018, the average prices of Brent oil were approximately 40% and 45% higher, respectively, than the average price in the corresponding periods last year.

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 for the first nine months and third quarter of 2018. In terms of the nine-month and quarterly change (based on closing prices) the Shekel appreciated against the Brazilian Real and the Russian Ruble, which negatively affected the Group's equity in the nine months and third quarter. In the first nine months and third quarter, the Russian Ruble and the Brazilian Real weakened against the US Dollar compared to the corresponding periods.

[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 nine months and third quarter of 2018 compared to the corresponding periods last year:

Currency		Average Exchange Rate in the First Nine Months		% change	Average Exchange Rate in the Third Quarter		% change
		2018	2017		2018	2017	
United States Dollar	USD	3.558	3.629	*(2.0)*	3.635	3.560	*2.1*
Euro	EUR	4.250	4.035	*5.3*	4.226	4.181	*1.1*
Ukrainian Hryvnia	UAH	0.132	0.137	*(3.7)*	0.133	0.138	*(3.4)*
Russian Ruble	RUB	0.058	0.062	*(6.7)*	0.056	0.060	*(8.0)*
Serbian Dinar	RSD	0.036	0.033	*8.8*	0.036	0.035	*2.5*
Romanian Leu	RON	0.913	0.887	*3.0*	0.909	0.913	*(0.4)*
Polish Zloty	PLN	1.000	0.946	*5.7*	0.982	0.982	*0.0*
Brazilian Real	BRL	0.995	1.144	*(13.0)*	0.923	1.125	*(18.0)*
Chinese Renminbi	CNY	0.547	0.533	*2.5*	0.534	0.534	*0.1*
Canadian Dollar	CAD	2.764	2.777	*(0.5)*	2.779	2.838	*(2.1)*
Australian Dollar	AUD	2.695	2.779	*(3.0)*	2.657	2.810	*(5.4)*
Mexican Peso	MXN	0.187	0.192	*(2.8)*	0.192	0.200	*(4.0)*
Pound Sterling	GBP	4.808	4.625	*4.0*	4.734	4.655	*1.7*

The following table presents the average exchange rates **versus the Dollar** in the first nine months and third quarter of 2018 compared to the corresponding periods last year:

Currency		Average Exchange Rate in the First Nine Months		% change	Average Exchange Rate in the Third Quarter		% change
		2018	2017		2018	2017	
New Israeli Shekel	ILS	0.281	0.276	*2.0*	0.275	0.281	*(2.1)*
Ukrainian Hryvnia	UAH	0.037	0.038	*(1.8)*	0.037	0.039	*(5.4)*
Russian Ruble	RUB	0.016	0.017	*(4.8)*	0.015	0.017	*(9.9)*
Serbian Dinar	RSD	0.010	0.009	*10.9*	0.010	0.010	*0.4*
Romanian Leu	RON	0.257	0.244	*5.0*	0.250	0.256	*(2.5)*
Polish Zloty	PLN	0.281	0.261	*7.8*	0.270	0.276	*(2.1)*
Brazilian Real	BRL	0.280	0.315	*(11.1)*	0.254	0.316	*(19.7)*
Chinese Renminbi	CNY	0.154	0.147	*4.6*	0.147	0.150	*(2.0)*
Pound Sterling	GBP	1.352	1.275	*6.1*	1.302	1.308	*(0.4)*

2.4 Regulatory developments in input prices – On April 1, 2018 the extension order shortening the work week in Israel from 43 to 42 hours with no reduction in pay entered into force. The Group has implemented the provisions of the order in its operations in Israel and is complying with its guidelines. In the Company's estimate, as at the date of this report, the extension order does not have a material impact on its business results.

In 2016 the Locker Guideline, which had 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 and has continued to rise to date (at the end of 2016 the price of milk was approximately NIS 1.86 per liter, whereas today it is NIS 2.03 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 as a result of the increase in the target price. Tnuva petitioned the High Court of Justice to direct the Minister of Finance to sign the order to raise controlled prices. As at the reporting date, the decisions of the High Court of Justice on the matter have not yet been rendered, and the issue is expected to be heard in the near future.

In parallel, negotiations took place 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. A small group of cowshed owners approached the court, claiming that the procedure in which the agreement was signed by the dairy farmers' representatives was not legal, and the court issued a temporary injunction against the performance of the agreement. As at the present date, the parties are awaiting the court's decision with respect to the controlled price issue and the approval of the agreement.

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 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%).

Since 2013 the Group has retrospectively applied IFRS 11 – Joint Arrangements. The significance of the standard is that 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 no longer stated according to the Group companies' relative holding in the entity as was the practice until the publication of the standard, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section) (hereinafter: the **"GAAP Financial Statements"**).

The reporting method does not alter the Group's profit and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. There has been no managerial change in the jointly held businesses.

The information contained in this report and its presentation were examined from Company Management's perspective in order to provide a comprehensive picture and fairly present the manner in which the Company runs its businesses, which, in the Company's opinion, is material for the purposes of this report.

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%) (hereinafter: the **"Management (Non-GAAP) Reports"** or the **"Non-GAAP Reports"**). Presentation of the data in this manner is different to the manner of their presentation in the Financial Statements of the Company.

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

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

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) for the quarter and nine months ended September 30, 2018 and 2017 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2018	**2017**	**% Chg**	**2018**	**2017**	**% Chg**
Sales	**6,428**	**6,335**	***1.5***	**2,158**	**2,210**	***(2.4)***
Organic growth excluding foreign currency effect	5.6%	7.3%		2.9%	8.3%	
Cost of sales	3,970	3,993	*(0.6)*	1,346	1,401	*(3.9)*
Gross profit – non-GAAP	**2,458**	**2,342**	***4.9***	**812**	**809**	***0.3***
% of sales	38.2%	37.0%		37.6%	36.6%	
Selling and marketing expenses	1,403	1,371	*2.3*	468	471	*(0.5)*
General and administrative expenses	373	353	*5.5*	114	122	*(7.1)*
Total expenses	**1,776**	**1,724**		**582**	**593**	
Company's share of profit of equity-accounted investees	14	13	*10.5*	5	5	*1.1*
Operating profit – non-GAAP	**696**	**631**	***10.4***	**235**	**221**	***6.1***
% of sales	10.8%	10.0%		10.9%	10.0%	
Financing expenses, net	(73)	(105)	*(30.8)*	(30)	(27)	*7.6*
Income before tax	**623**	**526**	***18.6***	**205**	**194**	***5.9***
Income tax	(180)	(133)	*36.6*	(47)	(56)	*(15.6)*
Effective tax rate	29.0%	25.2%		22.9%	28.7%	
Income for the period – non-GAAP	**443**	**393**	***12.6***	**158**	**138**	***14.6***
Attributable to: The Company's shareholders	**402**	**338**	***18.8***	**144**	**125**	***15.1***
Non-controlling interests	41	55	*(25.4)*	14	13	*9.6*
EPS (NIS)	3.50	3.04	*15.0*	1.25	1.09	*14.8*

Following are the condensed results of business operations (based on the Management (Non-GAAP) Reports) of the major business segments for the quarter and nine months ended September 30, 2018 and 2017 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2018	**2017**	**% Chg**	**2018**	**2017**	**% Chg**
Israel						
Net sales	2,481	2,363	*5.0*	837	808	*3.6*
Operating profit	268	259	*3.5*	90	88	*1.6*
Coffee						
Net sales	2,932	3,015	*(2.7)*	968	1,072	*(9.7)*
Operating profit	337	314	*7.4*	111	122	*(8.4)*
International Dips & Spreads						
Net sales	573	524	*9.4*	196	186	*5.1*
Operating profit	41	23	*82.0*	12	-	*N/A*
Water**						
Net sales	442	405	*9.2*	157	144	*9.4*
Operating profit	45	27	*65.4*	18	9	*101.3*
Other**						
Net sales	-	28	*N/A*	-	-	*N/A*
Operating profit (loss)	5	8	*(38.0)*	4	2	*56.7*
Total						
Net sales	**6,428**	**6,335**	***1,5***	**2,158**	**2,210**	***(2.4)***
Operating profit	**696**	**631**	***10.4***	**235**	**221**	***6.1***

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

*** Commencing in the first quarter of 2018, Company Management has elected to report the results of the Strauss Water segment separately. Strauss Water's results were formerly presented within the Other Operations segment.*

Following are the condensed financial accounting (GAAP) statements of income for the quarter and nine months ended September 30, 2018 and 2017 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2018	**2017**	**% Chg**	**2018**	**2017**	**% Chg**
Sales	4,205	4,095	*2.7*	1,411	1,399	*0.8*
Cost of sales excluding impact of commodity hedges	2,520	2,473	*1.9*	856	855	*0.1*
Adjustments for commodity hedges**	-	18		13	(1)	
Cost of sales	2,520	2,491	*1.2*	869	854	*1.8*
Gross profit	**1,685**	**1,604**	***5.1***	**542**	**545**	***(0.7)***
% of sales	40.1%	39.2%		38.4%	39.0%	
Selling and marketing expenses	954	935	*2.0*	314	308	*1.9*
General and administrative expenses	284	275	*3.3*	86	96	*(10.6)*
Total expenses	**1,238**	**1,210**		**400**	**404**	
Share of profit of equity-accounted investees	200	120	*65.9*	66	26	*149.5*
Operating profit before other expenses	**647**	**514**	***25.8***	**208**	**167**	***24.2***
% of sales	15.4%	12.6%		14.7%	12.0%	
Other expenses, net	-	(7)		(2)	-	
Operating profit after other expenses	**647**	**507**	***27.7***	**206**	**167**	***23.7***
Financing expenses, net	(63)	(90)	*(29.7)*	(25)	(22)	*14.2*
Income before tax	**584**	**417**	***40.2***	**181**	**145**	***25.2***
Income tax	(151)	(77)	*97.7*	(38)	(37)	*3.4*
Effective tax rate	25.9%	18.3%		20.8%	25.2%	
Income for the period	**433**	**340**	***27.2***	**143**	**108**	***32.5***
Attributable to: The Company's shareholders	**392**	**274**	***42.7***	**129**	**94**	***35.7***
Non-controlling interests	41	66	*(37.3)*	14	14	*9.8*

** 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 are the adjustments to the Company's Management (Non-GAAP) Reports (NIS millions)*:

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

	First Nine Months 2018			First Nine Months 2017			Third Quarter 2018			Third Quarter 2017		
	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)	Equity method	Change	Proportionate consolidation method (formerly applied)
Sales	4,205	2,223	6,428	4,095	2,240	6,335	1,411	747	2,158	1,399	811	2,210
Cost of sales excluding impact of commodity hedges	2,520	1,450	3,970	2,473	1,520	3,993	856	490	1,346	855	546	1,401
Adjustments for commodity hedges	-	1	1	18	-	18	13	1	14	(1)	(1)	(2)
Cost of sales	2,520	1,451	3,971	2,491	1,520	4,011	869	491	1,360	854	545	1,399
Gross profit	**1,685**	**772**	**2,457**	**1,604**	**720**	**2,324**	**542**	**256**	**798**	**545**	**266**	**811**
% of sales	40.1%		38.2%	39.2%		36.7%	38.4%		37.0%	39.0%		36.7%
Selling and marketing expenses	954	449	1,403	935	436	1,371	314	154	468	308	163	471
General and administrative expenses	284	101	385	275	91	366	86	32	118	96	31	127
Company's share of profit of equity-accounted investees	200	(186)	14	120	(107)	13	66	(61)	5	26	(21)	5
Operating profit before other expenses	**647**	**36**	**683**	**514**	**86**	**600**	**208**	**9**	**217**	**167**	**51**	**218**
% of sales	15.4%		10.6%	12.6%		9.5%	14.7%		10.0%	12.0%		9.8%
Other income (expenses), net	-	4	4	(7)	(44)	(51)	(2)	3	1	-	(34)	(34)
Operating profit after other expenses	**647**	**40**	**687**	**507**	**42**	**549**	**206**	**12**	**218**	**167**	**17**	**184**
Financing expenses, net	(63)	(10)	(73)	(90)	(15)	(105)	(25)	(5)	(30)	(22)	(5)	(27)
Income before tax	**584**	**30**	**614**	**417**	**27**	**444**	**181**	**7**	**188**	**145**	**12**	**157**
Income tax	(151)	(30)	(181)	(77)	(27)	(104)	(38)	(7)	(45)	(37)	(12)	(49)
Effective tax rate	25.9%		29.5%	18.3%		23.4%	20.8%		24.1%	25.2%		31.3%
Income for the period	**433**	**-**	**433**	**340**	**-**	**340**	**143**	**-**	**143**	**108**	**-**	**108**
Attributable to: The Company's shareholders	**392**	**-**	**392**	**274**	**-**	**274**	**129**	**-**	**129**	**94**	**-**	**94**
Non-controlling interests	41	-	41	66	-	66	14	-	14	14	-	14

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

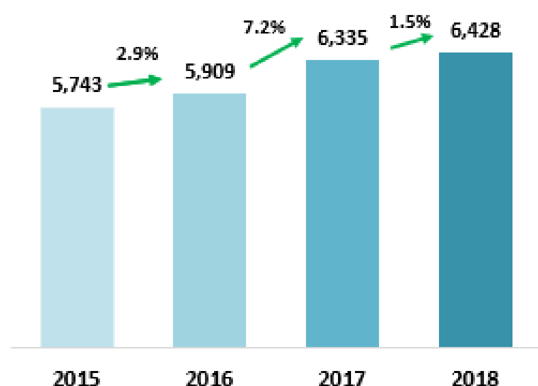
Additional adjustments to the Management (Non-GAAP) Reports (share-based payment and liability plans, valuation of hedging transactions, other expenses and taxes referring to these adjustments)*:

	First Nine Months			Third Quarter		
	2018	2017	% Chg	2018	2017	% Chg
Operating profit (according to proportionate consolidation method) after other expenses	**687**	**549**	***25.0***	**218**	**184**	***18.0***
Share-based payment	12	13		4	5	
Adjustments for commodity hedges	1	18		14	(2)	
Other income (expenses), net	(4)	51		(1)	34	
Operating profit – non-GAAP	**696**	**631**	***10.4***	**235**	**221**	***6.1***
Financing expenses, net	(73)	(105)		(30)	(27)	
Income tax	(181)	(104)		(45)	(49)	
Taxes in respect of adjustments to the above non-GAAP operating profit	1	(29)		(2)	(7)	
Income for the period – non-GAAP	**443**	**393**	***12.6***	**158**	**138**	***14.6***
Attributable to: The Company's shareholders	**402**	**338**	***18.8***	**144**	**125**	***15.1***
Non-controlling interests	41	55	*(25.4)*	14	13	*9.6*

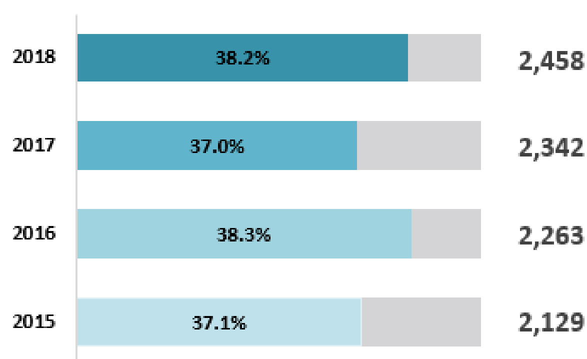
** Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.*

<u>Key financial data for the nine months ended September 30, 2018 – non-GAAP (NIS Millions)</u>:*

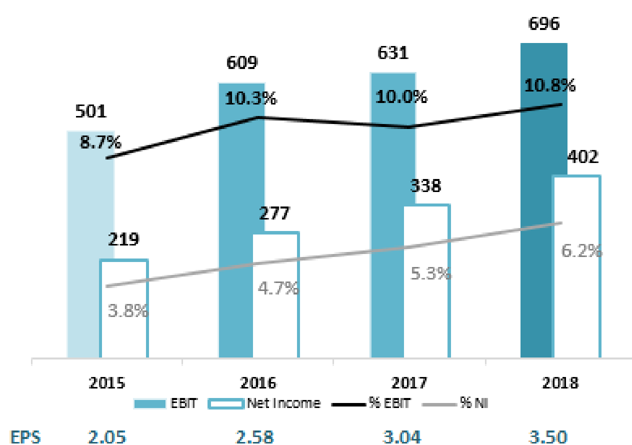
Net sales



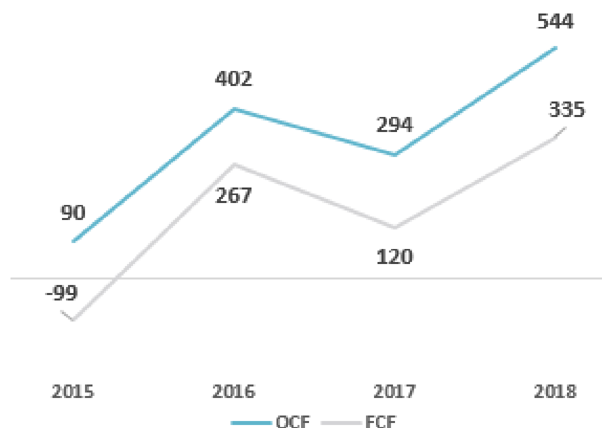
Gross profit and gross profit margin



Operating profit and operating profit margin



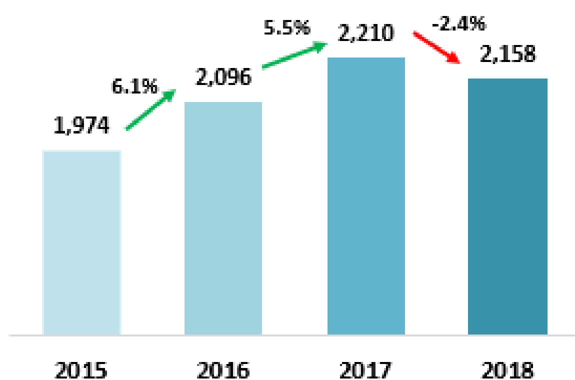
Cash flows from operating activities and free cash flow



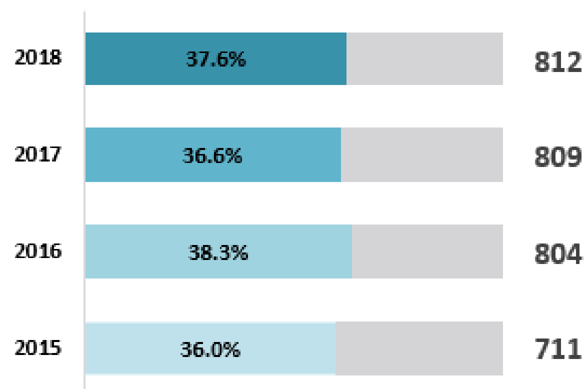
** Financial data were rounded to NIS millions. Percentages changes were calculated on the basis of the exact figures in NIS thousands.*

Key financial data for the three months ended September 30, 2018 – non-GAAP (NIS Millions):*

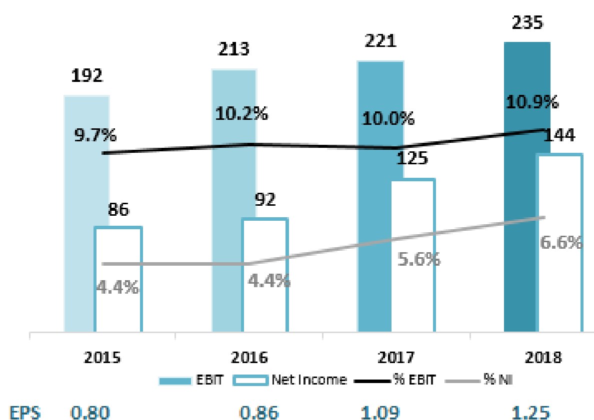
Net sales



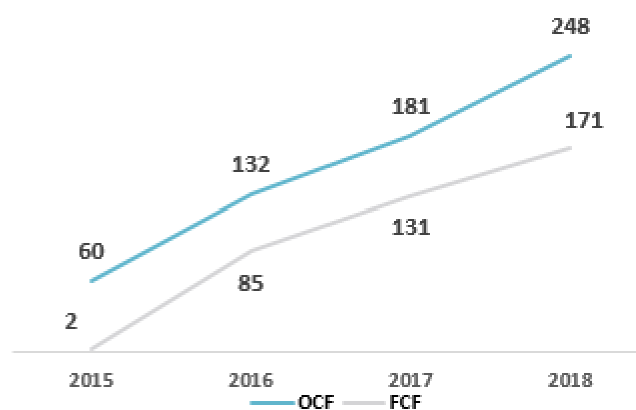
Gross profit and gross profit margin



Operating profit and operating profit margin



Cash flows from operating activities and free cash flow



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

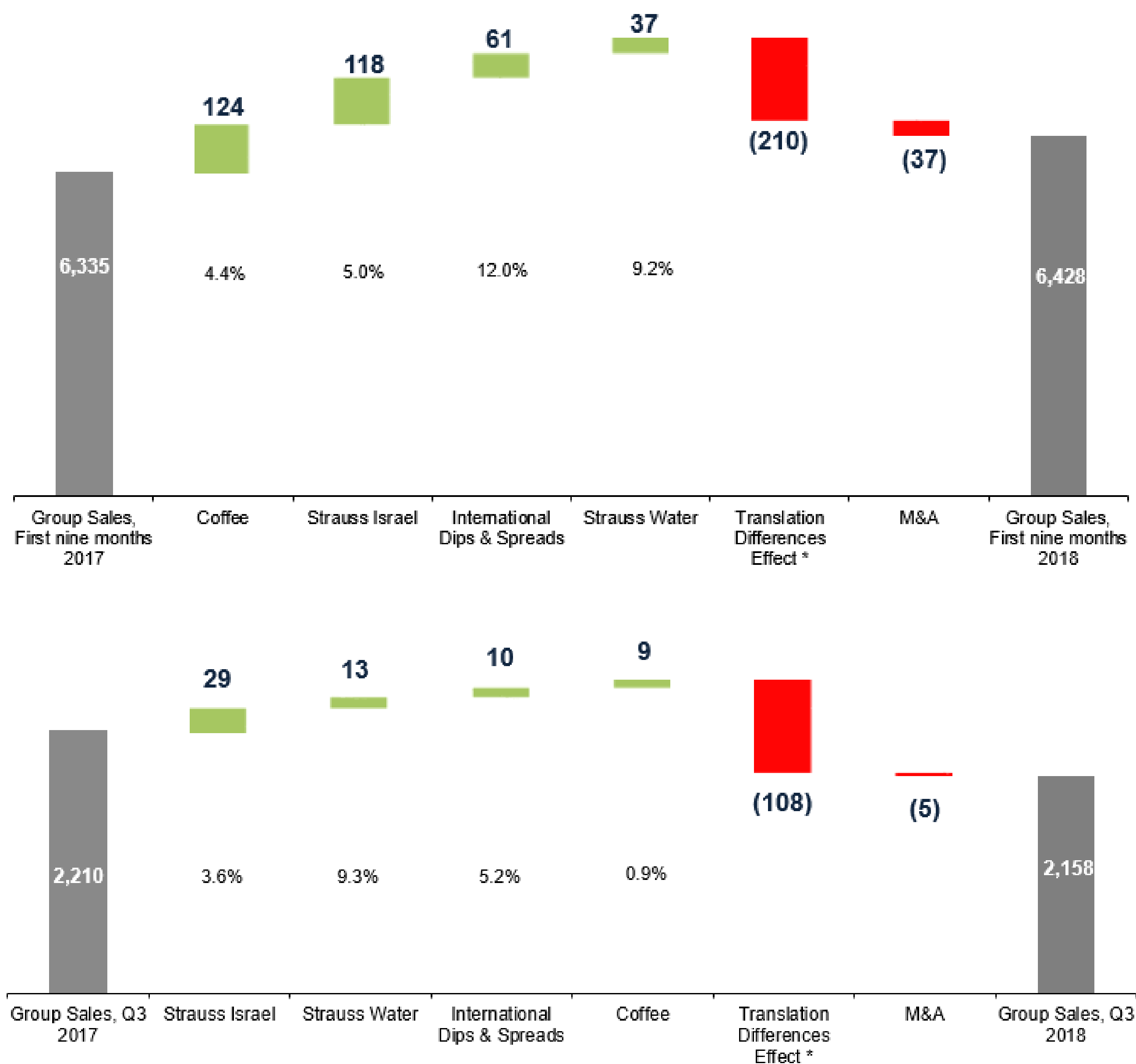
3.1 Analysis of the Business Results of the Group

3.1.1 Sales – non-GAAP

	First Nine Months		Third Quarter	
	2018	**2017**	**2018**	**2017**
Sales	6,428	6,335	2,158	2,210
Growth	1.5%	7.2%	(2.4%)	5.5%
Organic growth excluding foreign currency effect	5.6%	7.3%	2.9%	8.3%

Organic growth of the Group's sales in the first nine months and third quarter of 2018, excluding the foreign currency effect, amounted to 5.6% and 2.9%, respectively compared to the corresponding periods last year.

Following are the components of the change in sales in these periods 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 nine months of 2018 were impacted by negative translation differences amounting to approximately NIS 210 million, of which NIS 201 million are due to the erosion of the average exchange rate of the Brazilian Real against the Shekel compared to the corresponding period last year.

The Group's sales in the third quarter of the year were impacted by negative translation differences amounting to approximately NIS 108 million, of which NIS 101 million are due to the erosion of the average exchange rate 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 37 million and NIS 5 million, respectively, in the nine months and the third quarter, compared to the corresponding periods last year), primarily as a result of the sale of the Max Brenner operation and the sale of the salsa operation by Sabra.

- See section 3.2.1.1 below for further explanations on organic growth in sales by the Coffee segment.

- See section 3.2.2.1 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 3.2.4.1 below for further explanations on organic growth in sales by the Strauss Water segment.

3.1.2 Gross Profit – Non-GAAP

	First Nine Months				Third Quarter			
	2018	**2017**	**% Chg**	**% chg less translation differences effect**	**2018**	**2017**	**% Chg**	**% chg less translation differences effect**
Gross profit	2,458	2,342	*4.9*	*7.5*	812	809	0.3	*4.4*
Gross profit margin	38.2%	37.0%			37.6%	36.6%		

The Group's non-GAAP gross profit in the first nine months of 2018 was negatively impacted by translation differences into Shekels, which amounted to approximately NIS 57 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 54 million). In the third quarter the gross profit was negatively impacted by translation differences into Shekels amounting to approximately NIS 31 million, with most of the differences arising from the depreciation of the Brazilian Real against the Shekel compared to the corresponding period in 2017 (approximately NIS 29 million) (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP gross profit in the first nine months and third quarter of the year rose by approximately NIS 116 million and NIS 3 million, respectively, compared to the corresponding periods last year:

- The aggregate gross profit of the International Dips & Spreads, Strauss Water and Other Operations segments rose by approximately NIS 31 million and NIS 16 million in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The increase in gross profit in the period is mainly the result of recovery from the implications of the voluntary recall by Sabra in the fourth quarter of 2016, which impacted the results of the corresponding period last year, as well as the sale of the Max Brenner business in the second quarter of 2017.
- See section 3.2.1.2 below for further explanations on the change in gross profit in the Coffee segment.
- See section 3.2.2.2 below for further explanations on the change in gross profit in the Strauss Israel segment.

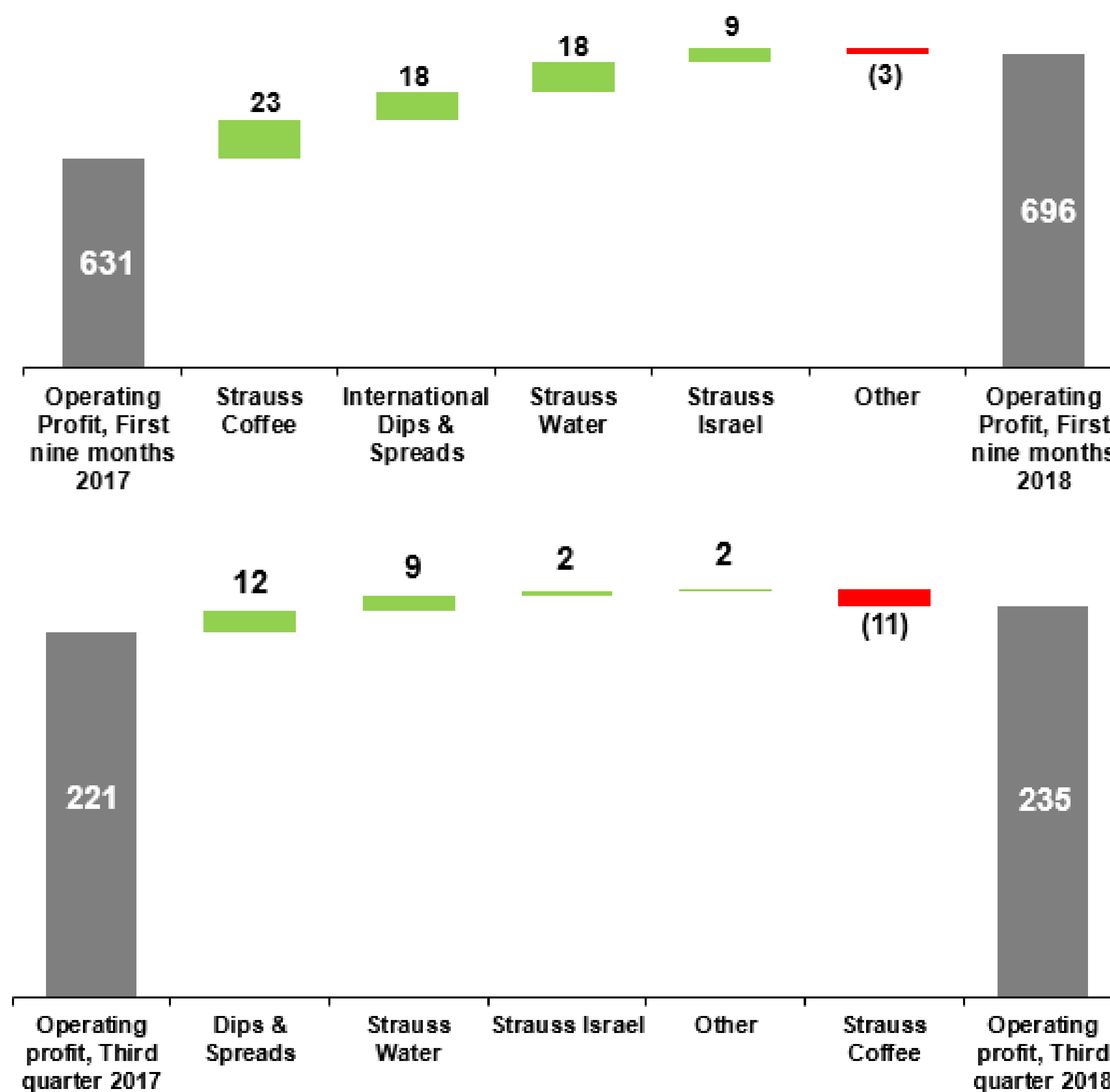
3.1.3 Operating Profit before Other Expenses – Non-GAAP

	First Nine Months				Third Quarter			
	2018	**2017**	**% Chg**	**% chg less translation differences effect**	**2018**	**2017**	**% Chg**	**% chg less translation differences effect**
Operating profit (EBIT)	696	631	*10.4*	*14.1*	235	221	*6.1*	*12.8*
Operating profit margin	10.8%	10.0%			10.9%	10.0%		

The Group's non-GAAP operating profit (EBIT) in the first nine months of 2018 increased by approximately NIS 65 million and was adversely influenced by negative translation differences into Shekels, which amounted to approximately NIS 20 million (see also the exchange rate table in section 2.3 in this report).

The Group's non-GAAP operating profit (EBIT) in the third quarter of the year rose by approximately NIS 14 million and was adversely influenced by negative translation differences into Shekels, amounting to approximately NIS 12 million (see also the exchange rate table in section 2.3 in this report).

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



The change in the Group's operating profit in the first nine months and third quarter of 2018 was the result of the following:

- A decrease of approximately NIS 3 million and an increase of NIS 2 million in the operating profit of the Other Operations segment in the nine months and third quarter of 2018, respectively, compared to the corresponding periods last year. Among other things, the drop in the first nine months is due to the Company's decision to pay a one-time bonus to lower-level employees, who are not typically included the Company's regular remuneration plan, following the Company's strong results in 2017. Additionally, further costs were included following the termination of office of the Group CEO. For further information, see Note 4.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2018. The increase in the operating profit in the third quarter is due, among other things, to a decrease in Group Headquarters' expenses compared to the corresponding period.
- See section 3.2.1.3 below for further explanations on the change in operating profit in the Coffee segment.
- See section 3.2.2.3 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 3.2.4.2 below for further explanations on the change in operating profit in the Strauss Water segment.

3.1.4 Financing Expenses, Net – Non-GAAP

Net financing expenses in the first nine months of 2018 amounted to NIS 73 million compared to expenses of NIS 105 million in the corresponding period last year.

Net financing expenses in the third quarter of 2018 amounted to NIS 30 million compared to expenses of NIS 27 million in the corresponding period last year.

The decrease in financing expenses in the nine months compared to the corresponding period is mainly the result of income recorded on foreign currency derivatives as a result of the appreciation of the US Dollar against the Shekel in the first nine months of 2018, versus expenses recorded following the depreciation of the US Dollar against the Shekel in the corresponding period last year, as well as a decrease in the debt volume and debt interest in Brazil, which were set off against an increase in gross debt due to funding the buyback of the minority interest in Strauss Coffee. For further information on the acquisition of the minority holding in the coffee company, see section 1.7 in the report on the Description of the Company's Business as at December 31, 2017.

The increase in financing expenses in the third quarter versus the corresponding period is primarily due to expenses recorded on foreign currency derivatives and expenses arising from exchange rate differences following the depreciation of the Dollar and Pound Sterling against the Shekel in the current quarter, compared to income recorded due to their appreciation in the corresponding period last year.

The net outstanding debt (according to the Non-GAAP Report) as at September 30, 2018 totaled NIS 1,974 million, compared to NIS 2,080 million on December 31, 2017. The gross outstanding debt as at September 30, 2018 was NIS 2,522 million, compared to NIS 2,778 million on December 31, 2017.

The net outstanding debt (according to the equity method) as at September 30, 2018 totaled NIS 1,789 million compared to NIS 1,897 million on December 31, 2017. The gross outstanding debt as at September 30, 2018 was NIS 2,228 million, compared to NIS 2,469 million on December 31, 2017.

3.1.5 Income Tax – Non-GAAP

In the first nine months of 2018 income tax (non-GAAP) amounted to NIS 180 million, reflecting an effective tax rate of 29.0%, whereas in the corresponding period last year income tax amounted to NIS 133 million and the effective tax rate was 25.2%.

In the third quarter of 2018 income tax (non-GAAP) amounted to NIS 47 million, reflecting an effective tax rate of 22.9%, compared to income tax of NIS 56 million and an effective tax rate of 28.7% in the corresponding period.

The increase in the effective tax rate in the first nine months is the result of the profit mix for tax purposes between the companies in the various countries as well as nonrecurring provisions for income tax in Romania and Israel (for further information, see Note 4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2018) and other countries. By contrast, there was an offsetting effect of a reduction in corporate tax rates in Israel and the US.

The decrease in the effective tax rate in the third quarter is the result of the profit mix for tax purposes between the companies in the various countries as well as a reduction in corporate tax rates in Israel and the US.

3.1.6 Income for the Period Attributable to the Company's Shareholders – Non-GAAP

	First Nine Months			Third Quarter		
	2018	**2017**	**% Chg**	**2018**	**2017**	**% Chg**
Income attributable to the Company's shareholders	402	338	*18.8*	144	125	*15.1*
% of sales	6.2%	5.3%		6.6%	5.6%	

Non-GAAP income attributable to the Company's shareholders in the first nine months and third quarter of 2018 rose by approximately NIS 64 million and NIS 19 million, respectively, compared to the corresponding periods last year, mainly as a result of growth in the operating profit, a drop in financing expenses and an increase in the contribution of the coffee business's profits following the acquisition of the non-controlling interest in Strauss Coffee; this was countered by the offsetting impact of nonrecurring tax expenses. For further information on the

acquisition of the non-controlling interest in the coffee company, see section 1.7 in the report on the Description of the Company's Business as at December 31, 2017.

3.1.7 Comprehensive Income for the Period (according to the GAAP report)

In the first nine months of 2018 the GAAP comprehensive income amounted to approximately NIS 329 million, compared to comprehensive income of NIS 242 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 105 million compared to foreign currency translation losses of NIS 83 million in the corresponding period last year.

In the third quarter of the year the GAAP comprehensive income amounted to approximately NIS 79 million, compared to comprehensive income of NIS 151 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 63 million compared to foreign currency translation gains of NIS 45 million in the corresponding period last year.

Foreign currency translation losses in the first nine months of 2018 are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 95 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of 2017.

Foreign currency translation losses in the third quarter of 2018 are primarily due to the operations of Strauss Coffee; of said losses, approximately NIS 32 million are the result of the depreciation of the Brazilian Real against the Shekel compared to the exchange rate at the end of the second quarter of 2018.

3.1.8 Liquidity, Sources of Finance and Financial Position (According to the GAAP Report)

In the first nine months of 2018

Cash flows from operating activities amounted to a positive cash flow of approximately NIS 445 million, compared to a positive cash flow of NIS 182 million in the corresponding period last year. The change is mainly due to the increase in income for the period and the change in working capital compared to the corresponding period, primarily as a result of a change in the trade payables and receivables balance, which is due, among other things, to the timing of Rosh Hashanah and the Jewish holidays compared to last year. Additionally, in the current period tax rebates were received following surplus tax advances attributed to prior years.

Cash flows from (used in) investing activities amounted to a positive cash flow of approximately NIS 51 million compared to a negative cash flow of NIS 405* million in the corresponding period last year. The change is primarily due to the realization of a deposit in the first nine months this year versus a deposit made, acquisition of an operation by the coffee company, and increased investment in an investee by the water company, in the corresponding period.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 483 million compared to a negative cash flow of NIS 81 million in the corresponding period last year. The change is primarily the result of financing activities in the corresponding period, which included capital and debt raisings, in parallel to the acquisition of non-controlling interests in the coffee and water companies.

In the third quarter of 2018

Cash flows from operating activities amounted to a positive cash flow of approximately NIS 208 million, compared to a positive cash flow of NIS 86 million in the corresponding period last year. The change is mainly due to the increase in income for the period and the change in working capital compared to the corresponding period, primarily as a result of a change in the receivables balance, which is due, among other things, to the timing of Rosh Hashanah and the Jewish holidays compared to last year. Additionally, in the current quarter tax rebates were received following surplus tax advances attributed to prior years.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 40 million compared to a negative cash flow of NIS 256* million last year. The change is primarily the result of a deposit made and increased investment in an investee in the water company in the corresponding period.

* Reclassified. For further information, see Note 1.1.1 to the Condensed Consolidated Financial Statements as at September 30, 2018.

Cash flows used in financing activities amounted to a negative cash flow of approximately NIS 63 million compared to a negative cash flow of NIS 152 million in the corresponding period last year. The change is primarily the result of a dividend distribution to shareholders in the corresponding period. Further, the corresponding period last year included debt raisings, in parallel to the acquisition of non-controlling interests in the coffee company.

On February 1, 2018 the Company effectuated a full and final redemption of its Series B debentures.

On November 1, 2018 the Company issued NIS 200 million of NIS 1 face value debentures to institutional investors as an expansion of its Series E debentures. The proceeds from the issue were NIS 201 million, net of issuance costs. For further information, see Note 9.1 to the Condensed Consolidated Interim Financial Statements as at September 30, 2018.

Following is information on average credit volumes:

	First Nine Months		Third Quarter	
	2018	2017	2018	2017
Average volume of long-term credit according to the Non-GAAP Report	2,496	2,332	2,423	2,647
Average volume of short-term credit according to the Non-GAAP Report	105	515	148	464
Average volume of long-term credit according to the equity method	2,262	2,065	2,209	2,348
Average volume of short-term credit according to the equity method	26	363	29	333

The change is primarily the result of the buyback of TPG's holding (25.1%) in Strauss Coffee. For further information, see Note 6.4 to the Consolidated Financial Statements as at December 31, 2017.

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

	First Nine Months		Third Quarter	
	2018	2017	2018	2017
Change in net working capital, equity method	2	(198)	47	(54)
Change in net working capital, Non-GAAP Report	(132)	(285)	18	(41)

The Company's cash and cash equivalents as at September 30, 2018 totaled NIS 407 million compared to NIS 390 million on December 31, 2017. In accordance with Company policy, these assets are held mainly in liquid deposits.

The Company's liquidity ratio as at September 30, 2018 is 1.24 compared to 1.28 on December 31, 2017. On September 30, 2018 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,203 million compared to NIS 2,430 million on December 31, 2017. On September 30, 2018 short-term credit (excluding current maturities) totaled NIS 25 million compared to NIS 39 million on December 31, 2017. On September 30, 2018 supplier credit totaled NIS 734 million, compared to NIS 715 million on December 31, 2017.

Total assets in the Company's Consolidated Statement of Financial Position amounted to NIS 6,194 million on September 30, 2018, compared to NIS 6,183 million on December 31, 2017.

Reportable credit – further to Note 20.6 to the Consolidated Financial Statements as at December 31, 2017 – Financial Covenants – the ratio of equity attributable to the Company's shareholders to total assets on the Company's Consolidated Statement of Financial Position as at September 30, 2018 is 31.5%, compared to 29.4% on December 31, 2017. The net financial debt-to-EBITDA ratio as at September 30, 2018 is 1.9, compared to 2.3 on December 31, 2017. The equity attributable to the shareholders of the Company on September 30, 2018 is NIS 1,953 million. As at the date of this report, the Company is in compliance with the required covenants.

For the impact of the first-time adoption of IFRS 16 – Leases on the Group's covenants, see Note 1.4 to the Condensed Consolidated Interim Financial Statements as at September 30, 2018.

On May 22, 2018 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 160 million (approximately NIS 1.39 dividend per share), which was paid on June 10, 2018. For information on the distribution, see the update to the Description of the Company's Business as at September 30, 2018.

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 March 2018 the Company announced the reaffirmation of Standard & Poor's Maalot ltd. ilAA+ rating with a revision of outlook to stable from negative.

In May 2018 the Company announced the reaffirmation of Midroog's ltd. Aa2.il rating with a revision of outlook to positive from stable.

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 Nine Months		**Third Quarter**		**Year Ended December 31**
	2018	**2017**	**2018**	**2017**	**2017**
Cash flow from operating activities (according to the Non-GAAP Report)	544	294	248	181	622
Acquisition of fixed assets and investment in intangibles (according to the Non-GAAP Report)	228	189	82	57	268
Net debt balance (according to the Non-GAAP Report) as at the reporting date	1,974	2,285	1,974	2,285	2,080
Depreciation and amortization (excluding impairment, which is included in the other expenses item):	173	173	59	62	238
Strauss Israel:					
Health & Wellness	42	41	14	14	55
Fun & Indulgence	28	25	10	8	36
Strauss Coffee:					
Israel Coffee	10	9	3	3	13
International Coffee	42	39	15	13	53
International Dips & Spreads	21	25	8	12	32
Strauss Water	15	17	5	7	28
Other	15	17	4	5	21

The Group's EBITDA (non-GAAP) totaled approximately NIS 869 million in the first nine months of the year compared to NIS 804 million in the corresponding period in 2017, an increase of 8.2%. In the third quarter the Group's (non-GAAP) EBITDA amounted to approximately NIS 294 million compared to NIS 283 million in the corresponding period, an increase of 3.6%.

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 quarter and nine months ended September 30, 2018 and 2017 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2018	**2017**	**% Chg**	**2018**	**2017**	**% Chg**
Israel Coffee						
Net sales	551	537	*2.7*	176	176	*0.7*
Operating profit	90	84	*8.0*	31	27	*14.3*
% operating profit	16.4%	15.6%		17.4%	15.3%	
International Coffee						
Net sales	2,381	2,478	*(3.9)*	792	896	*(11.7)*
Operating profit	247	230	*7.2*	80	95	*(14.9)*
% operating profit	10.3%	9.3%		10.1%	10.5%	
Total Strauss Coffee						
Net sales	**2,932**	**3,015**	***(2.7)***	**968**	**1,072**	***(9.7)***
Organic growth excluding foreign currency effect	**4.4%**	**12.8%**		**0.9%**	**14.8%**	
Gross profit	**1,040**	**981**	***6.0***	**336**	**354**	***(5.4)***
% gross profit	**35.5%**	**32.5%**		**34.6%**	**33.0%**	
Operating profit	**337**	**314**	***7.4***	**111**	**122**	***(8.4)***
% operating profit	**11.5%**	**10.4%**		**11.4%**	**11.3%**	

** 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 Sales

In the first nine months and third quarter of 2018 organic growth in the coffee business, excluding the foreign currency effect, amounted to 4.4% and 0.9%, respectively, compared to the corresponding periods last year.

Growth in coffee sales in local currency in the nine months and quarter mainly reflects volume growth in the Três Corações joint venture in Brazil[1], Ukraine, Serbia and Israel, which was offset in part by price reductions in some countries (in Brazil, sales prices were lowered following the drop in green coffee prices with an improvement in gross profit margins). For further information, see "Strauss Coffee Sales by Major Geographical Regions" in section 3.2.1.4 below.

In the first nine months and third quarter of 2018 Strauss Coffee's sales decreased by approximately NIS 83 million and NIS 104 million, respectively, compared to the corresponding periods. Translation differences into Shekels in the nine months and quarter had a negative impact on sales by the coffee company and amounted to NIS 203 million and NIS 112 million, respectively, of which the negative impact of the change in the average exchange rate of the Brazilian Real against the Shekel accounted for NIS 201 million and NIS 101 million, respectively.

For further explanations on sales by the coffee operation in the reporting period, see section 3.2.1.4 below.

3.2.1.2 Gross profit

In the first nine months and third quarter of 2018 the gross profit rose by approximately NIS 59 million and dropped by NIS 18 million, respectively, compared to the corresponding periods last year. In the first nine months, the gross profit margin rose 3% and amounted to 35.5%; in the third quarter, the gross profit margin rose 1.6% and amounted to 34.6%.

The increase in the gross profit margin in the nine months and quarter is the result of the adjustment of prices to reflect changes in raw material costs and currencies in some countries.

[(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 gross profit in the nine months and quarter was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding periods last year.

3.2.1.3 Operating profit

In the first nine months and third quarter of 2018 the operating profit of the coffee operation rose by approximately NIS 23 million and dropped by NIS 11 million, respectively, compared to the corresponding periods last year. The operating profit margin in the nine months was 11.5% (an increase of 1.1% compared to the corresponding period).

In the third quarter the operating profit amounted to 11.4% (an increase of 0.1% compared to the corresponding period).

The operating profit in the nine months and quarter was adversely impacted by the appreciation of the Shekel against the relevant currencies compared to the corresponding periods last year.

The change in Strauss Coffee's operating profit in the first nine months and third quarter reflects:

- An increase in the operating profit of the Três Corações joint venture in Brazil[1] in the first nine months as a result of an increase in quantities sold and a certain drop in the cost of green coffee. Três Corações' operating profit (before other expenses) in Brazilian Reals rose in the nine months by 17.7% (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

  A decrease in the Três Corações joint venture's operating profit in the third quarter, mainly as a result of an increase selling and marketing expenses. Três Corações' operating profit (before other expenses) in Brazilian Reals dropped in the third quarter by 6.1% (see the financial statements of Três Corações Alimentos S.A., which are attached to the Financial Statements of the Group).

- An increase in the operating profit in some CEE countries in the nine months and third quarter, mainly as a result of sales growth in certain geographies and an increase in gross profit following the adjustment of prices to reflect changes in raw material costs and currencies.

- In Russia, the operating profit and operating profit margin fell in the first nine months and third quarter of 2018 compared to the corresponding periods last year as a result of an increase in the cost of sales due to the depreciation of the Russian Ruble against the US Dollar, as well as in light of the challenging competitive environment.

- An increase in the operating profit of Israel Coffee in the nine months and quarter, mainly as a result of sales growth and a change in the sales mix.

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

3.2.1.4 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 quarter and nine months ended September 30, 2018 and 2017 (in NIS millions)*:

	First Nine Months				**Third Quarter**			
Geographical region	**2018**	**2017**	**% chg**	**% change in local currency****	**2018**	**2017**	**% chg**	**% change in local currency****
Israel Coffee	**551**	**537**	***2.7***	***2.7***	**176**	**176**	***0.7***	***0.7***
International Coffee								
Brazil (Três Corações joint venture) (1) (2) - 50%	1,459	1,539	*(5.2)*	*9.1*	486	565	*(13.9)*	*4.9*
Russia and Ukraine	424	457	*(7.1)*	*(1.3)*	138	160	*(14.1)*	*(7.7)*
Poland	228	222	*2.8*	*(2.7)*	72	78	*(8.1)*	*(8.0)*
Romania	163	162	*0.2*	*(2.7)*	58	56	*3.2*	*3.6*
Serbia	107	98	*8.7*	*(0.0)*	38	37	*1.1*	*(1.3)*
Total International Coffee	**2,381**	**2,478**	***(3.9)***	***4.6***	**792**	**896**	***(11.7)***	***0.9***
Total Coffee	**2,932**	**3,015**	***(2.7)***	***4.3***	**968**	**1,072**	***(9.7)***	***0.8***

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

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

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

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

3.2.1.4.1 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 nine months of 2018 the Três Corações joint venture's[1] average value market share in roast and ground (R&G) coffee amounted to approximately 27.1%, compared to 25.5% 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 GAAP report, the Group's share of the joint venture is accounted for in the equity method.

In the first nine months and third quarter of 2018 the Três Corações joint venture's[1] sales in local currency grew by approximately 9.1% and 4.9% (9% and 4.7%, respectively, before the elimination of intercompany sales between Três Corações Alimentos S.A. and Strauss Coffee), despite a challenging economic and political environment.

Most of the growth originates in R&G sales as a result of volume growth. The Três Corações joint venture's[1] sales in domestic currency reflect growth in sales of most of the products sold by the Três Corações joint venture.

Growth in the Três Corações joint venture's[1] Shekel sales in the first nine months and third quarter of 2018 was negatively influenced by the appreciation of the Shekel against the Brazilian Real (approximately NIS 201 million and NIS 101 million, respectively) compared to the corresponding periods last year.

The Três Corações joint venture's gross profit in domestic currency rose 18.7% and 6.7% in the first nine months and third quarter and amounted to approximately BRL 438 million and BRL 154 million, respectively. Três Corações' gross profit margin rose 2.4% and 0.6% in the nine months and quarter, respectively, and amounted to 29.7% and 29.2%, respectively. The increase in the gross profit margin primarily reflects a

[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).

reduction in the cost of green coffee at a rate exceeding the decrease in the Três Corações joint venture's[1] sales prices. operating profit (before other expenses) in Brazilian Reals rose 17.7% in the nine months, reflecting an increase in gross profit. operating profit (before other expenses) in Brazilian Reals fell 6.1% in the third quarter, reflecting an increase in selling and marketing 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. On the reporting date, the user base is approximately 1.2 million countrywide.

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 solution on Três Corações' operating profit in the first nine months and third quarter of the year amounted to an operating loss of approximately NIS 9.7 million and NIS 2.9 million, respectively (approximately BRL 9.8 million and BRL 3.1 million, respectively), compared to a loss of NIS 4.7 million and NIS 1.5 million, respectively (BRL 4 million and BRL 1.3 million, respectively) in the corresponding periods last year (figures reflect Strauss Coffee's share (50%)), which is mainly the result of an increase in marketing expenses compared to the corresponding periods last year.

In April 2018 Três Corações acquired the activity attributed to the retail coffee brands of the 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%).

3.2.1.4.2 Russia and Ukraine

The Company's sales in the region in local currency decreased in the first nine months and third quarter of 2018 by approximately 1.3% and 7.7%, respectively, compared to the corresponding periods last year, mainly as a result of the challenging competition. In the first nine months of the year sales quantities rose, and prices in Ukraine were raised to compensate for the rise in raw material prices following the devaluation of the Ukrainian Hryvnia against the US Dollar.

The Company's Shekel sales in the region fell by approximately NIS 33 million and NIS 22 million in the first nine months and third quarter, respectively, compared to the corresponding periods last year. The Company's sales in the nine months and quarter were negatively influenced by the appreciation of the Shekel against the Russian Ruble and Ukrainian Hryvnia (approximately NIS 27 million and NIS 11 million, respectively) compared to last year.

3.2.1.4.3 Poland

The Company's sales in Poland in local currency dropped by 2.7% and 8.0% in the first nine months and third quarter of the year, respectively, compared to the corresponding periods in 2017. The decrease in sales is mainly the result of discounts granted to customers in the second and third quarters this year, compared to the corresponding period.

The Company's Shekel sales in Poland grew by approximately NIS 6 million in the first nine months and fell by NIS 6 million in the third quarter, compared to the corresponding periods last year. The Company's sales in the nine months were positively affected by the appreciation of the Polish Zloty against the Shekel (approximately NIS 13 million) compared to the corresponding period in 2017. Third quarter sales included an immaterial foreign currency effect.

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

3.2.1.4.4 Romania

The Company's sales in Romania in local currency fell by approximately 2.7% in the first nine months and rose 3.6% in the third quarter of 2018, compared to the corresponding periods last year. The drop in sales in local currency is primarily due to growing competition, which led to a drop in quantities sold. In the third quarter, sales increased as a result volume growth, particularly in R&G products.

Shekel sales in Romania increased by approximately NIS 1 million and NIS 2 million in the first nine months and third quarter, respectively, compared to the corresponding periods in 2017. Sales in the nine months were positively influenced by the appreciation of the Romanian Leu against the Shekel (approximately NIS 5 million) compared to the corresponding period. Third quarter sales included an immaterial foreign currency effect.

3.2.1.4.5 Serbia

The Company's sales in Serbia in local currency in the first nine months remained unchanged and fell 1.3% in the third quarter of the year compared to the corresponding periods last year. Sales were influenced by a drop in sales prices as a result of a consumer trend of preferring cheaper coffee brands and the harshening competitive environment.

The Company's Shekel sales in Serbia rose by approximately NIS 9 million and NIS 1 million in the first nine months and the third quarter, respectively, compared to the corresponding periods last year. Sales in the first nine months and the third quarter were influenced by positive translation differences of the Serbian Dinar against the Shekel compared to the corresponding periods in 2017.

3.2.1.4.6 Israel

The Company's sales in Israel rose by approximately NIS 14 million in the first nine months of 2018 and remained unchanged in the third quarter compared to the corresponding periods last year. The increase in the nine months is primarily the result of growth in sales volumes, which was offset in part by the timing of Rosh Hashanah and the Jewish holidays. The increase in the operating profit in the first nine months and third quarter is the result of sales growth as mentioned, a change in the sales mix and erosion of raw material costs following gains by the Shekel against the US Dollar.

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 nine months of 2018, according to StoreNext[1] figures, held an 11.9% share of the total domestic retail food and beverage market in value terms (compared to 11.6% 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 5% in value terms, whereas according to StoreNext, in the first nine monhts of 2018 the Israeli food and beverage market rose 3.8% 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). Sales in 2017 include Max Brenner figures until the sale of the business in May 2017.

In the first nine months of the year Strauss Group's Israel sales totaled approximately NIS 3,451 million versus NIS 3,283 million last year, an increase of 5.1%.

Organic growth in the first nine months, excluding the effect of the sale of the Max Brenner business, amounted to 5.3% compared to the corresponding period in 2017.

In the third quarter of 2018 Strauss Group's Israel sales totaled approximately NIS 1,162 million compared to NIS 1,118 million last year, an increase of 3.9%.

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

Strauss Israel

Following are the condensed results of business operations based on the Management (Non-GAAP) Reports of Strauss Israel by activity segments for the quarter and nine months ended September 30, 2018 and 2017 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2018	2017	% Chg	2018	2017	% Chg
Health & Wellness segment						
Net sales	1,643	1,554	*5.7*	575	552	*4.2*
Operating profit	172	170	*1.4*	62	62	*0.5*
% operating profit	10.5%	10.9%		10.9%	11.3%	
Fun & Indulgence segment						
Net sales	838	809	*3.6*	262	256	*2.4*
Operating profit	96	89	*7.7*	28	26	*4.8*
% operating profit	11.5%	11.0%		10.3%	10.1%	
Total Strauss Israel						
Net sales	**2,481**	**2,363**	***5.0***	**837**	**808**	***3.6***
Gross profit	**958**	**932**	***2.7***	**317**	**312**	***1.3***
% gross profit	**38.6%**	**39.5%**		**37.9%**	**38.7%**	
Operating profit	**268**	**259**	***3.5***	**90**	**88**	***1.6***
% operating profit	**10.8%**	**11.0%**		**10.7%**	**10.9%**	

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

3.2.2.1 Sales

In the first nine months of 2018 Strauss Israel's sales increased by approximately 5.0% (NIS 118 million). In Health & Wellness the increase was approximately 5.7% (NIS 89 million), and in Fun & Indulgence sales growth amounted to 3.6% (NIS 29 million).

In the third quarter Strauss Israel's sales increased by approximately 3.6% (NIS 29 million). In Health & Wellness sales grew by approximately 4.2% (NIS 23 million), and in Fun & Indulgence sales growth amounted to 2.4% (NIS 6 million).

The increase in sales in the nine months and quarter reflects volume growth, which was the result, among other things, of the launch of new products in the yogurt, milk beverage and salty and sweet snack categories, as well as new distribution agreements, which were implemented after the first quarter last year. Sales growth in the nine months and third quarter was partly offset by the timing of Rosh Hashanah and the Jewish holidays.

3.2.2.2 Gross profit

In the first nine months of 2018 Strauss Israel's gross profit rose by approximately NIS 26 million with a decrease of 0.9% in the gross profit margin, compared to the corresponding period last year.

In the third quarter Strauss Israel's gross profit increased by approximately NIS 5 million with a decrease of 0.8% in the gross profit margin, compared to the corresponding period.

The gross profit margin erosion in the first nine months and third quarter of the year is the result of a change in the sales mix and an increase in the prices of key raw materials (raw milk, honey, olive oil, corrugated cardboard and polystyrene), combined with the appreciation of major currencies (Euro and Pound Sterling). Additionally, production inputs such as the minimum wage increased compared to the corresponding periods last year. These increases were offset by growth in quantities sold and continued efficiency enhancing moves applied in production and packaging processes.

3.2.2.3 Operating profit

In the first nine months of 2018 Strauss Israel's operating profit increased by approximately NIS 9 million, and the operating profit margin dropped 0.2% and amounted to 10.8% of sales.

In the third quarter of the year Strauss Israel's operating profit rose by approximately NIS 2 million and the operating profit margin dropped 0.2%, amounting to 10.7% of sales.

The growth in the operating profit mainly reflects growth in sales volumes compared to the corresponding periods last year, which was offset in part by an increase in production costs and in selling and marketing expenses (partially as a result of the increase in the minimum wage in December 2017).

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 GAAP report, the Group's share of the operations of Sabra and Obela is accounted for in the equity method.

Sabra is the largest refrigerated flavored 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 36 weeks ended September 30, 2018 was 25.7% (Number 1 in the market), compared to 24.4% in the corresponding period last year. Sabra's value market share of the hummus category in the above period was 59.9%, compared to 56.2% in the corresponding period last year.

Obela is leader of the hummus market in Australia and Mexico in terms of market share.

In the third quarter of 2017 Obela began marketing refrigerated dips and spreads products in Germany through Florentin under the Obela brand.

In Australia, significant growth of approximately 22.6% and 18.9% was recorded in domestic currency sales in the first nine months and third quarter of the year, respectively, compared to the corresponding periods; these figures include initial sales in New Zealand, which are immaterial. In Mexico, 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 Nine Months		Third Quarter	
	2018	**2017**	**2018**	**2017**
Net sales	1,030	950	351	337
Growth	8.4%	(13.2%)	4.2%	(9.2%)
Organic growth excluding foreign currency effect	11.1%	(7.9%)	4.0%	(3.1%)
Operating profit before other expenses	97	63	28	7
% operating profit	9.4%	6.6%	8.0%	2.1%

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

On September 4, 2018 Sabra, which is jointly controlled by the Company, 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.

In October 2018 Sabra paid a dividend of NIS 38 million (the Group's share) to its shareholders.

Sales by Sabra in the first nine months and third quarter of 2018 increased by approximately NIS 80 million and NIS 14 million, respectively, compared to the corresponding periods last year. In the corresponding periods in 2017 Sabra's sales were adversely impacted by the voluntary recall by the company in November 2016.

Sabra's sales were negatively influenced by translation differences of approximately NIS 15 million in the first nine months (of which NIS 8 million represent the Company's share), and positively influenced by NIS 8 million in the third quarter (of which NIS 4 million are the Company's share).

In 2017 and in the nine months of 2018 Sabra focused on regaining its market share in the US and Canada prior to the voluntary recall in the fourth quarter of 2016, on continued growth, and on maintaining its market share in its other countries of operations.

In the first nine months and third quarter of 2018 operating profit grew by NIS 34 million and NIS 21 million (of which the Company's share is NIS 17 million and NIS 11 million), respectively, compared to last year. The increase in operating profit is the result of regaining pre-recall market shares as well as depreciation and amortization of tangible and intangible assets pertaining to the impairment of the salsa business recognized in the corresponding period last year.

3.2.3.2 Obela

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

Sales by Obela in the first nine months of 2018 totaled approximately NIS 117 million, compared to NIS 98 million in the corresponding period last year (19.1% growth). Excluding the foreign currency effect, growth in the period amounted to 21.0% compared to the corresponding period.

Obela's sales in the third quarter of 2018 totaled approximately NIS 40 million, compared to NIS 35 million in the corresponding period last year (12.9% growth). Excluding the foreign currency effect, sales growth in the third quarter amounted to 18.0% compared to the corresponding period.

The operating loss in the first nine months amounted to approximately NIS 14 million, compared to NIS 17 million in the corresponding period last year. In the third quarter, the operating loss amounted to NIS 4 million compared to NIS 6 million in the corresponding period.

3.2.4 Strauss Water

Commencing in the first quarter of 2018, Company Management has elected to report the results of the Strauss Water segment, formerly presented within the Other Operations segment, separately; 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 established by Strauss Water and Haier Group of China and is active in the filtration and purification of drinking water in China.

On 28 May, 2017, Strauss Water Ltd. exercised the right reserved to it in accordance with the joint venture agreement to purchase an additional 15% of Qingdao HSW Health Water Appliance Co. Ltd. (the **"Joint Venture"** and the **"Acquisition**). On August 30, 2017 (the **"Acquisition Date"**), Strauss Water paid 150 million Yuan (approximately NIS 81 million) (hereinafter: the **"Consideration"**). On the Acquisition Date ownership of the additional shares was transferred, such that following the Acquisition the Joint Venture is 51% owned by companies of the Haier Group and 49%, by Strauss Water.

In Israel, 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 quarter and nine months ended September 30, 2018 and 2017 (in NIS millions)*:

	First Nine Months			Third Quarter		
	2018	**2017**	**% Chg**	**2018**	**2017**	**% Chg**
Net sales	442	405	*9.2*	157	144	*9.4*
Operating profit	45	27	*65.4*	18	9	*101.3*
% operating profit	10.1%	6.7%		11.5%	6.3%	

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

3.2.4.1 Sales

In the first nine months of 2018 sales by Strauss Water totaled approximately NIS 442 million compared to NIS 405 million in the corresponding period in 2017, reflecting 9.2% growth.

In the third quarter Strauss Water's sales totaled approximately NIS 157 million compared to NIS 144 million in the corresponding period, reflecting 9.4% growth.

Growth in the nine months and quarter mainly originates in the business in Israel and is primarily the result of growth in sales of new appliances and in the customer base.

Sales by the Haier Strauss Water joint venture in China, which are not included in the Non-GAAP Report, totaled NIS 408 million in the first nine months of 2018 compared to NIS 376 million in the corresponding period last year, an increase of 8.6%. Sales growth in the nine months, excluding the foreign currency effect, amounted to 6% compared to the corresponding period last year (unaudited, reflecting 100%).

Sales in the third quarter totaled NIS 142 million compared to NIS 131 million last year, an increase of 8.8%. Growth in the quarter, excluding the foreign currency effect, was 8.9% compared to the corresponding period last year (unaudited, reflecting 100%).

The third quarter was marked by an improvement in the growth trend following the continued restructuring of the sales organization to support accelerated growth, as well as the launch of a new line of advanced products.

3.2.4.2 Operating profit

In the first nine months of the year Strauss Water's operating profit increased by NIS 18 million, with the operating profit margin rising 3.4% and amounting to 10.1% of sales. Excluding the profits of the joint venture, Strauss Water’s operating profit rose by approximately NIS 14 million, and the operating profit margin rose 2.9% and amounted to 6.4%.

In the third quarter Strauss Water's operating profit increased by NIS 9 million. The operating profit margin rose by 5.2%, amounting to 11.5% of sales. Excluding the profits of the joint venture, Strauss Water’s operating profit rose by approximately NIS 8 million, and the operating profit margin rose 4.9% and amounted to 7.8%.

The increase in operating profit mainly reflects growth in the customer base and volume growth in sales versus the corresponding periods last year, as well as operational efficiency enhancement.

The net profit of the joint venture amounted to approximately NIS 38 million in the first nine months compared to NIS 39 million in the corresponding period last year, a decrease of 1.2%. Excluding the foreign currency effect, the decrease was 3.9% (unaudited, reflecting 100%).

The net profit of the joint venture amounted to approximately NIS 13 million in the third quarter compared to NIS 13 million in the corresponding period last year, an increase of 3.3%. Excluding the foreign currency effect, the increase was 4.2% (unaudited, 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.

4. VALUATIONS

In the reporting period the Company performed valuations to determine the recoverable amount of cash-generating units to which residual goodwill and indefinite-life intangibles are attributed. Following are the required data pertaining to material valuations according to section 8B(i) of the Securities Regulations (Periodic and Immediate Reports), 1970 (financial data are in NIS millions as at the valuation date) for the reporting period:

Identity of valuation subject	Timing of valuation	Value of valuation subject immediately prior to valuation	Value of valuation subject according to valuation	Identity of appraiser	Valuation model used by appraiser	Assumptions applied in performing the valuation (1)				
						Discount rate	Permanent growth rate	% terminal value	Prices serving as basis for comparison	Number of bases for comparison
Goodwill and indefinite-life intangibles attributed to the subsidiary in Russia	June 2018	328	360	Internal (2)	DCF	11%	0%	62%	N/A	N/A

1) Assumptions regarding standard deviation are irrelevant to these valuations.

2) An internal valuation was performed based on the discount rate furnished by the Valuations Department of EY Israel.

5. ASPECTS OF CORPORATE GOVERNANCE

5.1 Directors

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

On March 13, 2018 the Board of Directors appointed Prof. Joshua (Shuki) Shemer as an independent director of the Company. For further information, see the Company's Immediate Report of March 14, 2018 (reference no. 2018-01-019926).

On July 1, 2018 the Board of Directors appointed Mr. Gil Midyan as a director of the Company. For further information, see the Company's Immediate Report of July 2, 2018 (reference no. 2018-01-063154).

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

		Debentures Series D	**Debentures Series E**
A.	Nominal/par value	418	403
B.	Carrying value of debentures	426	399
C.	Carrying value of interest payable	-	3
D.	Market value	460	413

8. LIABILITY 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 September 30, 2018 and Notes 4, 5 and 6 to the Condensed Consolidated Interim Financial Statements as at September 30, 2018.

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 September, 2018.

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

November 13, 2018

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2018

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Financial Statements as at September 30, 2018

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Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Financial Position

	September 30 2018	September 30 2017	December 31 2017
	Unaudited		Audited
	NIS Millions		
Current assets			
Cash and cash equivalents	407	*400	390
Securities and deposits	32	*198	182
Trade receivables	1,031	1,038	955
Income tax receivables	12	43	34
Other receivables and debit balances	98	110	92
Inventory	554	593	543
Assets held for sale	13	22	22
Total current assets	2,147	2,404	2,218
Investments and non-current assets			
Investment in equity-accounted investees	1,282	1,252	1,200
Other investments and long-term debt balances	81	83	82
Fixed assets	1,714	1,694	1,710
Intangible assets	939	945	944
Investment property	11	12	11
Deferred tax assets	20	15	18
Total investments and non-current assets	4,047	4,001	3,965
Total assets	6,194	6,405	6,183

* Reclassified (see Note 1.1.1)

Ofra Strauss	Giora Bardea	Shahar Florence
Chairperson of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the interim financial statements: November 13, 2018

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

	September 30 2018	September 30 2017	December 31 2017
	Unaudited		Audited
	NIS Millions		
Current liabilities			
Current maturities of debentures	28	206	206
Short-term credit and current maturities of long-term loans and other liabilities	242	228	104
Trade payables	734	726	715
Income tax payables	52	29	33
Other payables and credit balances	642	684	639
Provisions	34	31	32
Total current liabilities	1,732	1,904	1,729
Non-current liabilities			
Debentures	797	826	826
Long-term loans and other liabilities	1,161	1,371	1,333
Long-term payables and credit balances	113	69	76
Employee benefits, net	48	57	46
Deferred tax liabilities	255	226	218
Total non-current liabilities	2,374	2,549	2,499
Equity and reserves			
Share capital	252	251	252
Share premium	1,051	1,051	1,051
Reserves	(1,726)	(1,583)	(1,621)
Retained earnings	2,376	2,067	2,135
Total equity attributable to the Company's shareholders	1,953	1,786	1,817
Non-controlling interests	135	166	138
Total equity	2,088	1,952	1,955
Total liabilities and equity	6,194	6,405	6,183

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Income

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	December 31 2017
	Unaudited				Audited
	NIS Millions				
Sales	4,205	4,095	1,411	1,399	5,480
Cost of sales	2,520	2,491	869	854	3,354
Gross profit	1,685	1,604	542	545	2,126
Selling and marketing expenses	954	935	314	308	1,259
General and administrative expenses	284	275	86	96	388
	1,238	1,210	400	404	1,647
Share of profit of equity-accounted investees (For 2017 figures, including non-recurring amortization of assets at an amount of NIS 38 million)	200	120	66	26	162
Operating profit before other income (expenses)	647	514	208	167	641
Other income	5	25	1	2	27
Other expenses	(5)	(32)	(3)	(2)	(36)
Other income (expenses), net	-	(7)	(2)	-	(9)
Operating profit	647	507	206	167	632
Financing income	16	3	3	7	6
Financing expenses	(79)	(93)	(28)	(29)	(123)
Financing expenses, net	(63)	(90)	(25)	(22)	(117)
Profit before income tax	584	417	181	145	515
Income tax	(151)	(77)	(38)	(37)	(99)
Profit for the period	433	340	143	108	416
Attributable to:					
The Company's shareholders	392	274	129	94	342
Non-controlling interests	41	66	14	14	74
Profit for the period	433	340	143	108	416
Earnings per share					
Basic earnings per share (in NIS)	3.41	2.47	1.12	0.82	3.05
Diluted earnings per share (in NIS)	3.58	2.45	1.11	0.82	3.04

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	December 31 2017
	Unaudited				Audited
	NIS Millions				
Profit for the period	433	340	143	108	416
Other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods, net:					
Foreign currency translation differences	(16)	(14)	(21)	18	(13)
Changes in fair value of available-for-sale financial assets, net	-	3	-	-	3
Reclassification of capital reserve in respect of available-for-sale securities to profit or loss	-	(21)	-	-	(21)
Reclassification of translation reserve in respect of sale of an operation to profit or loss	-	7	-	7	7
Other comprehensive income (loss) from equity-accounted investees	(89)	(69)	(42)	27	(108)
Total other comprehensive income (loss) items that will be reclassified to profit or loss in subsequent periods, net	(105)	(94)	(63)	45	(132)
Other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net					
Changes in employee benefits, net	1	(4)	(1)	(2)	-
Total other comprehensive income (loss) items that will not be reclassified to profit or loss in subsequent periods, net	1	(4)	(1)	(2)	-
Comprehensive income for the period	329	242	79	151	284
Attributable to:					
The Company's shareholders	288	197	65	138	231
Non-controlling interests	41	45	14	13	53
Comprehensive income for the period	329	242	79	151	284

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								
Nine-month period ended September 30, 2018 - unaudited									
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
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	392	392	41	433
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	(16)	-	(16)	-	(16)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(89)	-	(89)	-	(89)
Change in employee benefits, net	-	-	-	-	-	1	1	-	1
Other comprehensive income (loss) for the period, net of tax	-	-	-	-	(105)	1	(104)	-	(104)
Total comprehensive income (loss) for the period	-	-	-	-	(105)	393	288	41	329
Share-based payment	-	-	-	-	-	12	12	-	12
Dividend	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(44)	(44)
Balance as at September 30, 2018 - unaudited	252	1,051	(20)	(392)	(1,314)	2,376	1,953	135	2,088

*See Note 1.2 with regard to the first-time adoption of IFRS 9 – Financial Instruments

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

Strauss Group Ltd.

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

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Nine-month period ended September 30, 2017 - unaudited:										
Balance as at January 1, 2017 - audited	244	622	(20)	(81)	(881)	7	1,944	1,835	708	2,543
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	274	274	66	340
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(7)	-	-	(7)	(7)	(14)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(66)	-	-	(66)	(3)	(69)
Reclassification of translation reserve in respect of sale of an operation to profit or loss	-	-	-	-	7	-	-	7	-	7
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Reclassification of capital reserve in respect of available-for-sale securities to profit or loss	-	-	-	-	-	(8)	-	(8)	(13)	(21)
Change in employee benefits, net	-	-	-	-	-	-	(4)	(4)	-	(4)
Other comprehensive loss for the period, net of tax	-	-	-	-	(66)	(7)	(4)	(77)	(21)	(98)
Total comprehensive income (loss) for the period, net	-	-	-	-	(66)	(7)	270	197	45	242
Issue of share capital, net of issuance costs	7	429	-	-	-	-	-	436	-	436
Share-based payment	-	-	-	-	-	-	13	13	-	13
Transaction with non-controlling interests	-	-	-	(311)	(224)	-	-	(535)	(554)	(1,089)
Derecognition of non-controlling interests following loss of control of a subsidiary	-	-	-	-	-	-	-	-	(1)	(1)
Dividend	-	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(32)	(32)
Balance as at September 30, 2017 - unaudited	251	1,051	(20)	(392)	(1,171)	-	2,067	1,786	166	1,952

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

	Attributable to the 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								
Three-month period ended September 30, 2018 - unaudited:									
Balance as at July 1, 2018 - unaudited	252	1,051	(20)	(392)	(1,251)	2,244	1,884	141	2,025
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	129	129	14	143
Components of other comprehensive loss:									
Foreign currency translation differences	-	-	-	-	(21)	-	(21)	-	(21)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(42)	-	(42)	-	(42)
Change in employee benefits, net	-	-	-	-	-	(1)	(1)	-	(1)
Other comprehensive loss for the period, net of tax	-	-	-	-	(63)	(1)	(64)	-	(64)
Total comprehensive income (loss) for the period	-	-	-	-	(63)	128	65	14	79
Share-based payment	-	-	-	-	-	4	4	-	4
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	(20)	(20)
Balance as at September 30, 2018 - unaudited	252	1,051	(20)	(392)	(1,314)	2,376	1,953	135	2,088

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

	Attributable to the 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								
Three-month period ended September 30, 2017 - unaudited:									
Balance as at July 1, 2017 - unaudited	251	1,051	(20)	(389)	(1,217)	2,130	1,806	153	1,959
Total comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	94	94	14	108
Components of other comprehensive income (loss):									
Foreign currency translation differences	-	-	-	-	19	-	19	(1)	18
Other comprehensive income from equity-accounted investees	-	-	-	-	27	-	27	-	27
Change in employee benefits, net	-	-	-	-	-	(2)	(2)	-	(2)
Other comprehensive income (loss) for the period, net of tax	-	-	-	-	46	(2)	44	(1)	43
Total comprehensive income for the period	-	-	-	-	46	92	138	13	151
Share-based payment	-	-	-	-	-	5	5	-	5
Transaction with non-controlling interests	-	-	-	(3)	-	-	(3)	-	(3)
Dividend	-	-	-	-	-	(160)	(160)	-	(160)
Balance as at September 30, 2017 - unaudited	251	1,051	(20)	(392)	(1,171)	2,067	1,786	166	1,952

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

Strauss Group Ltd.

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

	Attributable to the Company's shareholders									
	Share capital	Share premium	Treasury shares	Reserve from transactions with non-controlling interests	Translation reserve	Reserve in respect of available-for-sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
	NIS millions									
Balance as at January 1, 2017 - audited	244	622	(20)	(81)	(881)	76	1,944	1,835	708	2,543
Changes in 2017 - audited:										
Total comprehensive income (loss) for the year										
Income for the year	-	-	-	-	-	-	342	342	74	416
Components of other comprehensive income (loss):										
Foreign currency translation differences	-	-	-	-	(6)	-	-	(6)	(7)	(13)
Other comprehensive loss from equity-accounted investees	-	-	-	-	(105)	-	-	(105)	(3)	(108)
Reclassification of translation reserve in respect of sale of an operation to profit or loss	-	-	-	-	7	-	-	7	-	7
Changes in fair value of available-for-sale financial assets, net	-	-	-	-	-	1	-	1	2	3
Reclassification of capital reserve in respect of available-for-sale securities to profit or loss	-	-	-	-	-	(8)	-	(8)	(13)	(21)
Other comprehensive loss for the year, net of tax	-	-	-	-	(104)	(7)	-	(111)	(21)	(132)
Total comprehensive income (loss) for the year	-	-	-	-	(104)	(7)	342	231	53	284
Issue of share capital, net of issuance costs	7	429	-	-	-	-	-	436	-	436
Exercise of options granted to employees	1	-	-	-	-	-	-	1	-	1
Transaction with non-controlling interests	-	-	-	(311)	(224)	-	-	(535)	(554)	(1,089)
Share-based payment	-	-	-	-	-	-	9	9	-	9
Derecognition of non-controlling interests following loss of control of a subsidiary	-	-	-	-	-	-	-	-	(1)	(1)
Dividend	-	-	-	-	-	-	(160)	(160)	-	(160)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	-	-	(68)	(68)
Balance as at December 31, 2017 - audited	252	1,051	(20)	(392)	(1,209)	-	2,135	1,817	138	1,955

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

Unofficial Translation from Hebrew

Strauss Group Ltd.

Condensed Consolidated Interim Statements of Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	December 31 2017
	Unaudited				Audited
	NIS millions				
Cash flows from operating activities					
Profit for the period	433	340	143	108	416
Adjustments:					
Depreciation	107	105	36	35	139
Amortization of intangible assets and deferred expenses	26	26	8	9	42
Impairment (reversal of impairment) of fixed assets and intangible assets	(1)	9	-	1	10
Other income, net	(2)	(14)	-	-	(14)
Expenses in respect of share-based payment	12	13	4	5	17
Financing expenses, net	63	90	25	22	117
Income tax expenses	151	77	38	37	99
Share of profit of equity-accounted investees	(200)	(120)	(66)	(26)	(162)
Change in inventory	(23)	(54)	10	7	(7)
Change in trade and other receivables	(85)	(179)	(15)	(115)	(81)
Change in long-term trade receivables	(1)	2	1	3	(1)
Change in trade and other payables	107	29	49	50	(7)
Change in employee benefits	4	4	2	1	(2)
Interest paid	(91)	(75)	(39)	(28)	(102)
Interest received	4	2	3	-	4
Income tax received (paid), net	(59)	(73)	9	(23)	(100)
Net cash flows from operating activities	445	182	208	86	368
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	150	*(144)	-	*(150)	(127)
Proceeds from sale of fixed assets, intangible assets and investment property	17	14	3	6	16
Investment in fixed assets and investment property	(114)	(97)	(40)	(27)	(141)
Investment in intangible assets	(30)	(32)	(9)	(10)	(43)
Proceeds from sale of operations, net cash sold	-	12	-	6	12
Acquisition of operations, net cash acquired	(1)	(119)	-	-	(119)
Realization of available-for-sale asset	-	31	-	-	31
Repayment of loans granted	13	24	6	9	32
Loans granted	(14)	(13)	(2)	-	(17)
Dividends from investee companies	37	18	2	-	70
Investment in investee companies	(7)	(99)	-	(90)	(100)
Net cash flows from (used in) investing activities	51	(405)	(40)	(256)	(386)

* Reclassified (see Note 1.1.1)

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

Strauss Group Ltd.

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

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	December 31 2017
	Unaudited				Audited
	NIS millions				
Cash flows from financing activities					
Proceeds from issue of share capital, net of issuance costs	-	436	-	-	436
Acquisition of non-controlling interests in a subsidiary	(36)	(1,093)	(5)	(387)	(1,094)
Short-term bank credit, net	(14)	95	(23)	(188)	24
Proceeds from issue of debentures, net of issuance costs (1)	-	399	-	399	399
Receipt of long-term loans (1)	-	539	-	205	536
Repayment of long-term loans and debentures	(232)	(280)	(15)	(21)	(371)
Proceeds from exercise of share options	-	-	-	-	1
Dividends	(160)	(160)		(160)	(160)
Dividend to non-controlling interests in subsidiaries	(34)	(17)	(20)	-	(68)
Redemption of share options of a subsidiary	(7)	-	-	-	-
Net cash flows used in financing activities	(483)	(81)	(63)	(152)	(297)
Increase (decrease) in cash and cash equivalents	**13**	***(304)**	**105**	***(322)**	**315**
Cash and cash equivalents as at beginning of period	390	711	303	716	711
Effect of exchange rate fluctuations on cash balances	4	(7)	(1)	6	(6)
Cash and cash equivalents as at end of period	407	*400	407	*400	390

* Reclassified (see Note 1.1.1).

(1) Previously presented in one line.

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 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 and purification products. The condensed consolidated interim financial statements as at September 30, 2018 and for the nine-month and three-month periods then ended (hereinafter - the “Interim Statements”) comprise the Interim Statements of the Company and its subsidiaries and the Group’s rights in joint arrangements.

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

As at September 30, 2018 a deposit of NIS 150 million with more than three months to maturity was reclassified from cash and cash equivalents to securities and deposits. Reclassification had no impact on the Company’s equity and income statement.

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, 2017 and for the year then ended together with their accompanying notes (hereinafter: the “Annual Financial Statements”). Except as provided in sections 1.2 and 1.3 below, the significant accounting policies applied in preparing these Interim Statements are consistent with those applied in the Annual Financial Statements.

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

1.1.4 These Interim Statements were approved by the Board of Directors of the Company on November 13, 2018.

to an examination by the Group, adoption of the standard does not have a material impact on its financial statements.

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

1.2 First-time adoption of IFRS 9 (2014), *Financial Instruments*

Since the first quarter of 2018, the Group has applied IFRS 9 (2014), *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*.

The Group has elected to apply the standard commencing on January 1, 2018 without restating comparative figures, with the required adjustments to opening retained earnings and other components of equity on January 1, 2018 (the date of first-time adoption of the standard). Further Following are the principal changes to accounting policy following the adoption of IFRS 9 commencing on January 1, 2018:

1.2.1 Financial assets – classification and subsequent measurement

At initial recognition, financial assets are classified to one of the following measurement categories: amortized cost; fair value through other comprehensive income (FVTOCI) – investments in debt instruments; FVTOCI – investments in equity instruments; or fair value through profit or loss (FVTPL).

Financial assets are reclassified in subsequent periods if, and only if, there is a change in the Group's business model for managing financial assets, and in such case the relevant debt instruments will be reclassified from the start of the first reporting period following the change.

A financial asset that is a debt instrument is measured at amortized cost if it satisfies the following two cumulative conditions and is not designated for measurement at fair value through profit or loss:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the undischarged principal.

A financial asset that is a debt instrument is measured at fair value through other comprehensive income if it satisfies the following two cumulative conditions and is not designated for measurement at fair value through profit or loss:

- It is held within a business model whose objective is accomplished by collecting contractual cash flows as well as by selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the undischarged principal.

All financial assets that are not classified for measurement at amortized cost or FVTOCI as described above are measured at fair value through profit or loss.

The Group has short-term and long-term trade and other receivables and deposits that are held within a business model whose objective is to collect contractual cash flows. Contractual cash flows in respect of these financial assets are SPPI, which represent compensation for the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.

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

1.2 First-time adoption of IFRS 9 (2014), *Financial Instruments* (cont'd)

1.2.1 Financial assets – classification and subsequent measurement (cont'd)

Assessment of the business model

The Group assesses the objective of the business model within which the financial assets are held, and considers factors that include the manner of reporting the performance of the financial assets to key people in management, risks impacting the business model, the frequency and timing of sales of financial assets in prior periods, etc.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for the purpose of assessing the business model, in conformity with the Group's continued recognition of those financial assets.

Assessment if cash flows are solely payments of principal and interest

When assessing whether cash flows are SPPI, "principal" is the fair value of the financial asset at initial recognition, and "interest" comprises compensation for the time value of money and credit risk attributed to the undischarged principal within a certain time period, and for other lending risks and administrative costs.

When assessing if contractual cash flows meet the SPPI criterion, the Group examines the contractual terms of the instrument and if the financial asset includes a contractual term that is likely to change the timing or amount of contractual cash flows such that it will not satisfy that term.

1.2.2 Insubstantial modification of the terms of a financial liability

In the case of a modification of the terms (or the exchange of debt instruments) that is not substantial, the new cash flows are discounted at the original effective interest rate, and the difference between the present value of the financial instrument with the new terms and the present value of the original financial liability is recognized in profit or loss.

1.2.3 Impairment of investments in debt instruments

The Group recognizes a loss allowance for expected credit losses (ECL) pertaining to financial assets measured at amortized cost. The Group measures the loss allowance for ECL at an amount equal to full lifetime ECL, with the exception of allowances measured at an amount equal to the 12-month ECL in respect of the following instruments: debt instruments defined as having a low credit risk on the reporting date, and debt instruments on which the credit risk has not increased significantly since initial recognition.

For trade and other receivables classified as current assets (that do not include a significant financing component), the Groups examines the ECL (or their elimination) throughout the life of the instrument.

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

1.2 First-time adoption of IFRS 9 (2014), *Financial Instruments* (cont'd)

1.2.3 **Impairment of investments in debt instruments (cont'd)**

When assessing if the credit risk of a financial asset has increased significantly since initial recognition and the estimation of ECL, the Group considers relevant reasonable and supportable information that is available without undue cost or effort. Such information includes quantitative and qualitative information and an analysis based on the Group's past experience and on the reported credit assessment and includes forward-looking information.

Measurement of expected credit losses

ECL is the probability weighted estimate of credit losses. The impairment loss is calculated as the difference between the carrying value of the financial asset and the present value of estimated cash flows expected to be received by the Company, discounted at the original effective interest rate of the financial asset, if relevant, and is accounted for in the statement of income within selling and marketing expenses.

A loss allowance for ECL pertaining to a financial asset measured at amortized cost is presented as a reduction from the gross carrying amount of the financial asset.

See the condensed consolidated interim statements of changes in shareholders' equity for the impact of the adoption of the standard on the date of first-time adoption.

1.2.4 **Derivative financial instruments including hedge accounting**

The Group holds derivative financial instruments mainly to economically hedge against commodity price risk and against index and foreign exchange risk arising from its operating, financing and investing activities. The derivative financial instruments mainly comprise forward contracts and options on currencies, index and interest as well as commodity forwards and options. These derivatives, which are not considered accounting hedges, are initially recognized and measured at fair value at each cutoff date, with changes in fair value recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred. **Gains and losses from commodity forwards are accounted for under the cost of sales, whereas other gains and losses are accounted for under financing expenses (income**).

A jointly controlled entity of the Group has chosen to apply the fair value hedge model in IFRS 9.

1.3 First-time adoption of IFRS 15, *Revenue from Contracts with Customers*

The Group adopted IFRS 15 for the first time commencing on January 1, 2018. IFRS 15 replaces the current guidance for the recognition of revenue. The Group has chosen to apply the standard in the aggregate effect method, adjusting retained earning balances as at January 1, 2018 without restatement of prior period information, only for contracts that are not completed on the transition date.

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

1.3 First-time adoption of IFRS 15, *Revenue from Contracts with Customers* (cont'd)

The standard presents a new model for the recognition of revenue from contracts with customers, which consists of five steps:

1. Identify the contract with the customer.
2. Identify separate performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to separate performance obligations.
5. Recognize revenue when the entity satisfies a performance obligation.

Further to an examination by the Group, adoption of the standard does not have a material impact on its financial statements.

Following are the main changes in accounting policy subsequent to the adoption of the standard commencing on January 1, 2018:

1.3.1 Identify the contract

The Group accounts for a contract with a customer only when all of the following conditions are met:

a. The contract has been approved by the parties to the contract (written or verbal contract or in accordance with other business practices) and they are committed to fulfilling their obligations;

b. The Group is able to identify each party's rights in relation to the goods or services to be transferred;

c. The Group is able to identify the payment terms for the goods or services to be transferred;

d. The contract has commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and

e. It is probable that the Group will collect the consideration to which it is entitled in exchange for the goods or services to be transferred to the customer.

To comply with paragraph 'e' above, the Group examines, *inter alia*, the credit rating of every new customer and the collateral in place.

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

1.3 First-time adoption of IFRS 15, *Revenue from Contracts with Customers* (cont'd)

1.3.2 Identify the separate performance obligations in the contract

On the contract inception date the Group assesses the goods or services promised in the contract with the customer and identifies each promise to transfer to the customer one of the following as a performance obligation:

(a) A good or service (or a bundle of goods or services) that is distinct; or

(b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies a good or service promised to the customer as distinct if the customer can benefit from the good or service on its own or in conjunction with other readily available resources and if the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. In assessing whether a promise to transfer goods or services to a customer is separately identifiable, the Group considers whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into a combined deliverable for the receipt of which the customer entered into the contract.

When identifying the performance obligations in the contract, the Group also takes the following aspect into account:

<u>Warranty</u>

To assess whether a warranty represents a separate service to the customer and is therefore a distinct performance obligation, the Group examines the following factors among others: whether the customer has the option to purchase the warranty separately, whether the warranty is required by law, the length of coverage under the warranty period, and the nature of the services that the Group promises to perform. In contracts with its customers, the Group provides warranty services as required by law or in line with industry practices. Warranty services are provided only to assure the quality of the work and compliance with the technical specifications that were agreed upon by the parties, and they do not constitute a service in addition to the assurance. Therefore, the Group does not recognize a warranty as a separate performance obligation, but accounts for warranties in accordance with the guidance in IAS 37 and recognizes a provision for the warranty according to the estimated cost of the services in question.

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

1.3 First-time adoption of IFRS 15, *Revenue from Contracts with Customers* (cont'd)

1.3.3 Determine the transaction price

The transaction price is the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. When determining the transaction price, the Group takes the effects of all of the following into account:

Variable consideration

The transaction price includes amounts that are likely to vary as a result of discounts, rebates, refunds, credits, incentives, bonuses and claims, as well as contract modifications in which respect the consideration has not yet been agreed upon by the parties. When measuring the transaction price, the Group includes the amount of all or part of the variable consideration only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future. At the end of each reporting period, if necessary, the Group adjusts the estimated amount of the variable consideration that was included in the transaction price.

Existence of a significant financing component

To measure the transaction price, the Group adjusts the amount of the consideration for the time value of money in cases where the timing of payments provides a significant financing benefit to the customer or to the Group. When the contract contains a significant financing component (in cases where the Company is paid the consideration more than 12 months after the revenue recognition date), the Group recognizes the amount of the consideration using the discount rate that would have been reflected in a separate financing transaction between the Group and the customer on the contract inception date. The financing component is recognized as financing expenses using the effective interest rate method.

When the interval between the receipt of the consideration and the transfer of the goods or services to the customer is one year or less, the Group applies the practical expedient in the standard and does not separate a significant financing component.

Consideration payable to the customer

In certain cases, the Group pays or expects to pay a consideration to its customers (for example, a commission for arranging its products in-store), as well as credits or other items such as coupons and vouchers. These amounts are accounted for as a reduction of the transaction price, unless they are related to a distinct good or service received by the Group from the customer, in which case the consideration paid to the customer is accounted for as a separate transaction in the same manner as other purchases from suppliers.

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

1.3 First-time adoption of IFRS 15, *Revenue from Contracts with Customers* (cont'd)

1.3.4 Recognize revenue when the performance obligation is satisfied

The Group recognizes revenue when the performance obligation is satisfied and control is transferred. In recognizing revenue from the sale of goods, the Group takes the following considerations into account when deciding if control of the asset has been transferred at a point in time: the Group has a present right to payment for the asset; the customer has legal title to the asset; the Group has transferred physical possession of the asset; the customer has the significant risks and rewards related to the ownership of the asset; and the customer has confirmed acceptance of the asset.

For revenue from the provision of services, the customer simultaneously receives and consumes the benefits from the services as the Company performs, and therefore, revenue in respect of this performance obligation is recognized over time, concurrently with the provision of the services.

1.3.5 Sale with a right of return

For contracts granting the customer the right to return goods purchased, revenue is recognized at an amount in which respect it is highly probable that a significant revenue reversal will not occur. Therefore, revenue that is recognized is adjusted for expected returns, which are estimated on the basis of historical information and past experience. In cases where returned goods are exchanged for new goods, i.e. there is no cash refund, a liability for returns is recognized with a corresponding adjustment to the income item, and an asset is recognized in respect of the right to accept the returns with a corresponding adjustment to the cost of sales.

1.3.6 Customer acquisition costs

The incremental costs of obtaining a contract with a customer are capitalized as an asset only when the Company expects to recover those costs. **Accordingly, direct sales commissions paid to sales agents are capitalized as an asset in respect of obtaining a contract and are amortized on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates. The Group has also chosen to apply the practical expedient in the standard and recognizes the incremental costs of obtaining a contract as an expense when incurred when the amortization period of the asset is one year or less**.

Costs to obtain a contract that are incurred regardless of whether the contract was obtained are recognized as an expense when incurred, unless these costs are chargeable to the customer.

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

1.3 First-time adoption of IFRS 15, *Revenue from Contracts with Customers* (cont'd)

1.3.7 Principal versus agent considerations

When another party is involved in providing goods or services to a customer, the Group determines which party is the principal supplier in the transaction. The Group is the principal when it acquires control of the goods or services before they are transferred to the customer. Indicators that the Group controls the goods or services prior to their transfer include, inter alia, the following: the Group is primarily responsible for fulfilling the contract; the Group has an inventory risk before the goods are transferred to the customer; and the Group has discretion in determining the prices.

When the Group is the principal in the transaction, revenue is recognized at the gross amount of the consideration.

New standards and interpretations not yet adopted

1.4 IFRS 16, *Leases*

Further to Note 3.22.4 to the Annual Financial Statements, the standard will be applied to annual reporting periods beginning on January 1, 2019 in the aggregate effect method, adjusting retained earning balances as at January 1, 2019. The Group intends to choose the transition option of recognizing a lease liability measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on the date of first-time adoption, and simultaneously a right-of-use asset at the carrying amount had the standard been applied from the beginning of the lease term, but discounted using the identical rate applying to the liability.

Expected effects

- For leases in which the Group is the lessee, which were classified as operating leases prior to first-time adoption, except for cases where the Group has chosen to apply the expedients in the standard as described below, the Group is required, upon first-time adoption, to recognize a right-of-use asset and a lease liability for all leases where the Group has the right to control the use of identified assets for a specified period of time. According to an estimate made by the Group, as at the date of the report, these changes are expected to lead to an increase of approximately NIS 224 million in outstanding right-of-use assets, an increase of approximately NIS 17 million in receivables and debit balances, and an increase of approximately NIS 268 million in the outstanding lease liability as at the date of initial application. The difference between total assets recognized and total liabilities recognized, net of tax effects, will be classified to retained earnings.
  Accordingly, depreciation and amortization expenses will be recognized in respect of right-of-use assets, and the need for recognizing impairment in respect of right-of-use assets will be tested according to the guidelines in IAS 36. In addition, financing expenses relating to the lease liability will be recognized.

- Further, the nominal discount rate used to measure the lease liability is mainly within a range of 1.35% to 4.94%. This range is influenced by differences in the lease period, differences in the various asset groups, changes in the discount rates in the Group companies, etc.

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

1.4 IFRS 16, *Leases* (cont'd)

- Following adoption of the standard, the Group anticipates immaterial changes in relevant financial ratios: equity to total balance sheet and net debt to EBITDA. The changes in said ratios have no impact the Group's covenants, as described in Note 20.6 to the Annual Financial Statements.

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

- Explicit recognition exemption of a right-of-use asset and lease liability for short-term leases of up to one year, and an explicit recognition exemption 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.

- Explicit recognition exemption of a right-of-use asset and lease liability for leases pertaining to low value assets.

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

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 clear seasonality trend in the water business; however, revenues are generally higher in the third quarter of the year as a result of heightened use of the Company's products.

Note 3 - Operating Segments

Segment information and reconciliation to the consolidated financial statements:

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	December 31 2017
	Unaudited				Audited
	NIS Millions				
Revenues					
Sales to external customers:					
Health & Wellness	1,643	1,554	575	552	2,068
Fun & Indulgence	838	809	262	256	1,063
Total Israel	2,481	2,363	837	808	3,131
Israel Coffee	551	537	176	176	704
International Coffee	2,381	2,478	792	896	3,396
Total Coffee	2,932	3,015	968	1,072	4,100
International Dips and Spreads	573	524	196	186	692
Water (*)	442	405	157	144	541
Other (*)	-	28	-	-	28
Sales to other segments:					
Health & Wellness	5	6	2	2	7
Fun & Indulgence	8	9	3	4	11
Total Israel	13	15	5	6	18
Israel Coffee	1	1	-	-	2
International Coffee	2	1	1	-	2
Total Coffee	3	2	1	-	4
Total segment revenues	6,444	6,352	2,164	2,216	8,514
Elimination of inter-segment sales	(16)	(17)	(6)	(6)	(22)
Total segment revenues excluding inter-segment sales	6,428	6,335	2,158	2,210	8,492
Adjustment to the equity method	(2,223)	(2,240)	(747)	(811)	(3,012)
Total consolidated revenues	4,205	4,095	1,411	1,399	5,480

(*) Commencing in the first quarter of 2018, Company Management has elected to report the results of the Strauss Water segment, formerly presented within the “Other Operations” segment, separately. Comparative figures have been restated.

Note 3 - Operating Segments (cont'd)

	For the nine months ended		For the three months ended		For the year ended
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017	December 31 2017
	Unaudited				Audited
	NIS Millions				
Profit					
Health & Wellness	172	170	62	62	222
Fun & Indulgence	96	89	28	26	106
Total Israel	268	259	90	88	328
Israel Coffee	90	84	31	27	104
International Coffee	247	230	80	95	289
Total Coffee	337	314	111	122	393
International Dips and Spreads	41	23	12	-	19
Water (*)	45	27	18	9	36
Other (*)	5	8	4	2	4
Total segment profit	696	631	235	221	780
Unallocated income (expenses):					
Adjustments for commodity hedges (**)	(1)	(18)	(14)	2	(31)
Other expenses, net	4	(51)	1	(34)	(52)
Share-based payment	(12)	(13)	(4)	(5)	(17)
Total segment operating profit	687	549	218	184	680
Adjustment to the equity method	(40)	(42)	(12)	(17)	(48)
Total operating profit in the consolidated financial statements	647	507	206	167	632
Financing expenses, net	(63)	(90)	(25)	(22)	(117)
Profit before income tax	584	417	181	145	515

(*) Commencing in the first quarter of 2018, Company Management has elected to report the results of the Strauss Water segment, formerly presented within the "Other Operations" segment, separately. Comparative figures have been restated.

(**) 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 Further to Note 35.7 to the Annual Financial Statements, in May 2018 the subsidiary Strauss Romania (hereinafter: the "Subsidiary") was issued with tax assessments amounting to approximately NIS 15.2 million (hereinafter: the "Assessments"). In accordance with an accepted litigation proceeding in Romania, the Subsidiary paid NIS 11 million for the Assessments. In the reporting period the Subsidiary was granted an exemption by the local tax authorities from the payment of fines and part of the interest that had been imposed on it.

The Subsidiary disputes the position of the tax authority and is of the view, *inter alia*, in reliance on its professional consultants, that it has strong counterarguments, and accordingly, it intends to appeal the Assessments.

Furthermore, the Subsidiary was informed that in parallel to the issue of the assessments, the Romanian tax authority sent findings to the Romanian attorney general for review as to whether these findings amount to a criminal offense. The Company was informed by the Subsidiary's legal counsel that referral for review by the attorney general is a standard procedure adopted by the Romanian tax authority in order to create a procedural advantage in its favor.

4.2 On May 22, 2018 the Board of Directors of the Company approved a dividend distribution to shareholders at an amount of NIS 160 million (approximately NIS 1.39 per share), which was paid on June 10, 2018.

4.3 Further to Note 35.7 to the Annual Financial Statements with regard to assessments issued to the Company and subsidiaries, on May 31, 2018 the Company and the subsidiaries signed a tax assessment agreement constituting consent to all disputed issues pertaining to the 2011-2014 tax years, with the exception of entitlement to benefits by virtue of the Law for the Encouragement of Capital Investments. Said entitlement to benefits under the Law for the Encouragement of Capital Investments remains in dispute; however, the Company and the subsidiaries have recorded the tax expenses and have also paid the entire tax obligation in accordance with the Tax Authority's position and therefore, to the extent that the Company's position is not accepted, no material impact on the financial statements is expected. The assessment agreement had no material impact on the Group's tax expenses.

An assessment audit for the years 2015-2017 has been initiated for some of the companies in the Group operating outside of Israel. In the opinion of Group Management, at this preliminary stage and given the information in the Group's possession, an adequate provision has been made.

4.4 On July 9, 2018 the Board of Directors passed a resolution pertaining to the termination of the office of Mr. Gadi Lesin as Strauss Group CEO for medical reasons. On September 5, 2018 the Board of Directors of the Group appointed Mr. Giora Bardea as CEO of Strauss Group.

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

4.5 On September 4, 2018 Sabra Dipping Company, which is jointly controlled by the Company, 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.

Note 5 - Share-Based Payment

5.1 Grants during the period

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

Grant date	Number of options and entitled employees	Fair value	Share price	Exercise price	Expected life	Expected annualized volatility	Discount rate
		NIS millions	NIS	NIS	Years	%	%
May 3, 2018 (1)	1,173,326 to 15 managers	12.5	73.50	74.98	3.96-4.96	19.06-19.49	(0.32) – (0.54)

(1) The exercise price per option is linked to the CPI published on April 15, 2018. Entitlement to exercise the options will vest in two equal tranches, on May 3 of the years 2020 and 2021. The benefit arising from the grant will be accounted for as an expense on the financial statements over the abovementioned vesting periods.

5.2 Exercise of options during the period

In the reporting period 1,207,366 option warrants granted to employees were exercised into 385,503 shares in consideration for their nominal value.
The number of shares (in thousands) of NIS 1 nominal value as at September 30, 2018 is 115,113.

Note 6 - Contingent Liabilities

6.1 For information on claims and contingent liabilities pending as at December 31, 2017 against the Company and its investees, see Note 24.1.1 to the Annual Financial Statements.

6.2 On April 30, 2018 a monetary claim was filed with the Tel Aviv – Jaffa District Court, together with a motion for its certification as a class action, against the subsidiary Strauss Water Ltd., pertaining to an alleged malfunction in appliances manufactured by Strauss Water. The amount sought in the action is approximately NIS 97 million. Based on the assessment of its legal counsel, at the present stage Company Management is of the view that the claim is not expected to be accepted.

6.3 In May 2018 a monetary claim was filed with the court in New York with respect to a settlement agreement between the parties pertaining to a debt owed by the claimant. The claim amount is approximately 10 million dollars. On September 12, 2018 the court rejected the claim, and subsequently, on October 24, 2018, the claimant filed an appeal. Based on the assessment of its legal counsel, at the present stage Company Management is of the view that the appeal is not expected to be accepted.

Note 6 - Contingent Liabilities (cont'd)

The Company did not recognize a provision for pending claims as at September 30, 2018, 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:

(a) Concise information on the financial position:

	Sabra Dipping Company			**Três Corações Alimentos S.A.**		
	September 30		**December 31**	**September 30**		**December 31**
	2018	**2017**	**2017**	**2018**	**2017**	**2017**
	Unaudited		**Audited**	**Unaudited**		**Audited**
	NIS Millions					
Current assets	336	282	269	1,120	1,142	1,073
Of which:						
Cash and cash equivalents	124	56	67	52	86	118
Non-current assets	556	563	551	678	664	647
Total assets	892	845	820	1,798	1,806	1,720
Current liabilities	157	333	318	736	705	675
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	36	203	168	261	273	234
Non-current liabilities	118	4	7	151	203	189
Of which:						
Financial liabilities excluding trade payables, other payables and provisions	109	-	-	123	169	158
Total liabilities	275	337	325	887	908	864

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

7.1 Concise information on material equity-accounted investees:

(b) Concise information on operating results:

	Sabra Dipping Company					**Três Corações Alimentos S.A.**				
	For the nine months ended September 30		**For the three months ended September 30**		**For the year ended December 31**	**For the nine months ended September 30**		**For the three months ended September 30**		**For the year ended December 31**
	2018	**2017**	**2018**	**2017**	**2017**	**2018**	**2017**	**2018**	**2017**	**2017**
	Unaudited				**Audited**	**Unaudited**				**Audited**
	NIS Millions									
Income	1,030	950	351	337	1,244	2,920	3,084	973	1,134	4,179
Profit (loss) for the period	72	(16)	24	(34)	(19)	237	213	78	92	285
Other comprehensive income (loss)	24	(51)	(4)	5	(61)	(139)	(49)	(47)	32	(89)
Total comprehensive income (loss)	96	(67)	20	(29)	(80)	98	164	31	124	196
Of which:										
Depreciation and amortization	35	109	13	87	122	29	30	10	10	39
Interest income	-	-	-	-	-	11	11	4	5	13
Interest expenses	4	6	1	2	7	17	34	6	11	41
Income tax (expenses) (1)	(28)	15	(10)	29	15	(44)	(42)	(9)	(20)	(42)

(1) Tax in respect of Sabra Dipping Company LLC, 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 the condensed consolidated interim financial statements of Três Corações Alimentos S.A, a joint venture in Brazil (50% ownership) accounted for in the equity method, to these condensed consolidated interim financial statements.
The investee's presentation currency is the Brazilian Real.

7.3 Following are the average exchange rates and changes in the Real to Shekel exchange rates in the reporting period:

	Shekel-Real Exchange Rate		
	Average exchange rate for the period	**Closing exchange rate for the period**	**% change**
For the nine-month period ending on:			
September 30, 2018	0.99	0.91	(13.3)
September 30, 2017	1.14	1.10	(6.3)
For the three-month period ending on:			
September 30, 2018	0.92	0.91	(4.5)
September 30, 2017	1.13	1.10	4.2
For the year ending December 31, 2018	1.13	1.05	(11.3)

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 value of the Company's debentures, based on the prices of the Tel Aviv Stock Exchange:

	September 30, 2018		September 30, 2017		December 31, 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	Unaudited				Audited	
	NIS Millions					
Series B Debentures	-	-	179	181	181	182
Series D Debentures	426	460	465	508	460	508
Series E Debentures	402	413	402	422	399	423

Note 8 - Financial Instruments (cont'd)

8.2 Fair value hierarchy of financial instruments measured at fair value

The table below presents an analysis of the financial instruments measured at fair value using an evaluation method. The different levels are defined as follows:

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

	September 30, 2018		September 30, 2017		December 31, 2017	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	Unaudited				Audited	
	NIS Millions					
Financial assets (liabilities)						
Marketable securities	31	-	48	-	31	-
Trade receivables- derivatives	3	9	7	5	3	3
Trade payables- derivatives	(24)	(1)	(15)	(11)	(23)	(3)
	10	8	40	(6)	11	-

As at September 30, 2018 and 2017 and December 31, 2017, 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 November 1, 2018 the Company issued NIS 200 million of NIS 1 face value debentures to institutional investors as an expansion of its Series E debentures. The proceeds from the issue were approximately NIS 201 million, net of issuance costs.

The terms and conditions of the debentures are as follows:

	Series E expansion
Type of interest	Fixed
Annual interest rate	2.61%
Effective interest rate on listing date, taking issuance costs into account	2.75%
Nominal value on issuance date	NIS 200 million
Linkage conditions	Principal and interest are not linked to any index
Payment dates of principal	Eight yearly payments on June 30 of each year from 2020 to 2027. First four payments 5% each and four additional payments 20% each.
Payment dates of interest	Half-yearly interest on December 31 and June 30, from December 31, 2018 until June 30, 2027
Collateral or liens	None
Name of rating company	Midroog, Maalot
Rating on issuance date	ilAA+; Aa2il

The financial covenants determined for the Series E expansion are identical to those of the Series E debentures. For further information, see Note 20.6 to the Annual Financial Statements.

9.2 In October 2018 Sabra (a jointly-controlled entity) paid a dividend of NIS 38 million (the Group's share) to its shareholders.

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

STRAUSS GROUP LTD.

SEPARATE FINANCIAL INFORMATION AS AT SEPTEMBER 30, 2018

Unofficial Translation from Hebrew

Strauss Group Ltd.

Separate Financial Information As At September 30, 2018

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Strauss Group Ltd.

Condensed Interim Information on the Financial Position

	September 30 2018	September 30 2017	December 31 2017
	Unaudited	Unaudited	Audited
		NIS Millions	
Current assets			
Cash and cash equivalents	170	*110	89
Securities and deposits	-	*166	150
Trade receivables	197	195	192
Income tax receivables	-	28	5
Other receivables and debit balances	38	28	22
Investee receivables	377	121	207
Inventory	115	115	137
Assets held for sale	13	22	22
Total current assets	910	785	824
Investments and non-current assets			
Investments in investees	1,772	1,576	1,609
Other investments and long-term debit balances	657	1,062	892
Fixed assets	928	930	932
Investment property	3	4	4
Intangible assets	46	49	52
Total investments and non-current assets	3,406	3,621	3,489
Total assets	4,316	4,406	4,313

* Reclassified (see Note 1.1.5)

Ofra Strauss Chairperson of the Board of Directors	Giora Bardea Chief Executive Officer	Shahar Florence Chief Financial Officer

Date of approval of the separate financial information: November 13, 2018

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

Strauss Group Ltd.

Condensed Interim Information on the Financial Position (cont'd)

	September 30 2018	September 30 2017	December 31 2017
	Unaudited	Unaudited	Audited
		NIS Millions	
Current liabilities			
Current maturities of debentures	28	206	206
Short-term credit and current maturities of long-term loans and other long term liabilities	171	15	15
Trade payables	190	193	199
Other payables and credit balances	221	215	219
Investee payables	168	241	119
Income tax payables	10	-	-
Provisions	1	1	2
Total current liabilities	789	871	760
Non-current liabilities			
Debentures	797	826	826
Long-term loans and other long term liabilities	619	784	782
Long-term payables and credit balances	21	20	7
Employee benefits, net	21	25	22
Deferred tax liabilities	116	94	99
Total non-current liabilities	1,574	1,749	1,736
Total equity attributable to the Company's shareholders	1,953	1,786	1,817
Total liabilities and equity	4,316	4,406	4,313

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

Strauss Group Ltd.

Condensed Interim Information on Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2018	September 30 2017	September 30 2018	September 30 2017	December 31 2017
	Unaudited				Audited
	NIS Millions				
Sales	785	773	248	246	1,011
Cost of sales	491	479	161	152	625
Gross profit	294	294	87	94	386
Selling and marketing expenses	182	186	60	58	251
General and administrative expenses	52	48	12	18	71
	234	234	72	76	322
Operating profit before other income (expenses)	60	60	15	18	64
Other income	4	1	-	1	3
Other expenses	(2)	(7)	-	(1)	(8)
Other income (expenses), net	2	(6)	-	-	(5)
Operating profit (loss)	62	54	15	18	59
Financing income	38	18	8	13	26
Financing expenses	(59)	(76)	(20)	(21)	(98)
Financing expenses, net	(21)	(58)	(12)	(8)	(72)
Profit (loss) before taxes on income	41	(4)	3	10	(13)
Taxes on income	(31)	(17)	(6)	(12)	(34)
Profit (loss) after taxes on income	10	(21)	(3)	(2)	(47)
Income from investees	382	295	132	96	389
Income for the period attributable to the shareholders of the Company	392	274	129	94	342

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

Strauss Group Ltd.

Condensed Interim Information on Comprehensive Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2018	September 30 2017	September 30 2018	September 30 2017	December 31 2017
	Unaudited				Audited
	NIS Millions				
Income for the period attributable to the shareholders of the Company	392	274	129	94	342
Other comprehensive income (loss) items that will be transferred to profit or loss in subsequent periods:					
Other comprehensive income (loss) from investees	(105)	(73)	(63)	46	(111)
Total other comprehensive income (loss) items that will be transferred to profit or loss, net of tax	(105)	(73)	(63)	46	(111)
Other comprehensive income (loss) items that will not be transferred to profit or loss in subsequent periods:					
Changes in employee benefits, net	1	(4)	(1)	(2)	-
Total other comprehensive income (loss) items that will not be transferred to profit or loss in subsequent periods, net	1	(4)	(1)	(2)	-
Comprehensive income for the period attributable to the shareholders of the Company	288	197	65	138	231

Unofficial Translation from Hebrew

Strauss Group Ltd.

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

Condensed Interim Information on Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30 2018	September 30 2017	September 30 2018	September 30 2017	December 31 2017
	Unaudited				Audited
	NIS Millions				
Cash flows from operating activities					
Income for the period attributable to the shareholders of the company	392	274	129	94	342
Adjustments:					
Depreciation	39	40	13	13	53
Amortization of intangible assets	13	11	4	4	15
Other income, net	(3)	(2)	-	-	(2)
Expenses in respect of share-based payment	9	11	3	4	14
Income from investees	(382)	(295)	(132)	(96)	(389)
Financing expenses, net	21	58	12	8	72
Income tax expense	31	17	6	12	34
Change in inventory	21	-	9	-	(22)
Change in trade and other receivables	(17)	(20)	(17)	(20)	(10)
Change in investee receivables	(30)	38	(47)	-	68
Change in trade and other payables	12	(18)	31	13	(15)
Change in investee payables	49	81	9	39	(41)
Change in employee benefits	1	1	-	-	2
Interest paid	(64)	(56)	(32)	(20)	(74)
Interest received	6	1	3	1	8
Income tax paid, net	16	(7)	22	-	(9)
Net cash flows from operating activities	114	134	13	52	46
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	150	* (144)	-	* (151)	(127)
Proceeds from sale of fixed and other assets	14	13	1	5	13
Acquisition of fixed assets	(40)	(36)	(15)	(8)	(45)
Investment in intangible assets	(8)	(6)	(3)	(2)	(14)
Repayment long-term loans	7	6	4	4	9
Loans granted	(10)	(7)	(2)	-	(10)
Dividends from investees	117	2	80	-	164
Cash received in respect of investing activities with investees	122	41	112	2	114
Cash paid in respect of investing activities with investees	(6)	(493)	-	(462)	(660)
Proceeds from sale of operations	-	8	-	-	8
Net cash flows from (used in) investing activities	346	* (616)	177	* (612)	(548)
Cash flows from financing activities					
Repayment of debentures and long-term loans	(219)	(209)	(7)	(7)	(211)
Dividends paid	(160)	(160)	-	(160)	(160)
Short-term bank credit, net	-	-	(29)	-	-
Proceeds from issuance of debentures, net of issuance costs	-	399	-	399	399
Proceeds from issue of share capital, net of issuance costs	-	436	-	-	436
Proceeds from exercise of share options	-	-	-	-	1
Net cash flows from (used in) financing activities	(379)	466	(36)	232	465
Net increase (decrease) in cash and cash equivalents	81	* (16)	154	* (328)	(37)
Cash and cash equivalents as at beginning of period	89	126	16	438	126
Cash and cash equivalents as at end of period	170	*110	170	* 110	89

* Reclassified (see Note 1.1.5)

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

Note 1 - Reporting Principles and Accounting Policies

1.1 General

1.1.1 The Company's business comprises the activity of the Group Headquarters the Group's salad activity 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, 2017, and in conjunction with the condensed interim consolidated financial statements as at September 30, 2018 (hereinafter: the "Interim Consolidated Financial Statements").

Except for stated at Note 1 to the Condensed Consolidated Interim Financial Statements as at September 30, 2018, the accounting policy applied in this Condensed Interim Separate Financial Information is in accordance with the accounting policy rules described in the Separate Financial Information as at December 31, 2017.

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, 2017.

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.

1.1.5 As at September 30, 2018 a deposit of NIS 150 million with more than three months to maturity was reclassified from cash and cash equivalents to securities and deposits. Reclassification had no impact on the Company’s equity and income statement.

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, as well as by increased consumption of confectionery products as Passover approaches. There is no clear trend of seasonality in the area of salads in Israel.

Note 3 - Material Events during the Reported Period

3.1 Further to Note 4.3 to the Separate Financial Information of the Company as at December 31, 2017, in the reporting period the subsidiary Strauss Water Ltd. prepaid NIS 20 million par value of capital notes. The difference between the par value paid and the fair value of the capital notes on the payment date, a sum of approximately NIS 4 million, was classified under the “investment in investees” item. Additionally, an immaterial amount in respect of the difference between the fair value of the capital notes and their carrying value was classified to profit or loss.

Note 3 - Material Events during the Reported Period (cont'd)

3.2 Further to Note 4.4 to the Separate Financial Information of the Company as at December 31, 2017, in the reporting period the Company and the subsidiary Strauss Coffee signed off on an immaterial change in the terms of a loan granted by the Company to the subsidiary, such that the balance of the loan is expected to be repaid in full within the coming year. In parallel, the subsidiary prepaid principal at an amount of approximately NIS 100 million and accrued interest at an amount of approximately NIS 4 million. The impact of the change in the terms of the loan and the prepayment on the Company's income statements was negligible.

For information on material events during the reported period see Notes 4 to the Condensed Consolidated Interim Financial Statements.

Note 4 - Share-Based Payment

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

Note 5 - Contingent liabilities

For information on Contingent liabilities see Notes 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 measured at fair value, 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, see Note 8.2 to the Condensed Consolidated Interim Financial Statements.

Note 7 - Post-Statement of Financial Position Date Events

For 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. Shahar Florence, EVP & CFO;
3. Mike Avner, EVP, CLO, Company Secretary;
4. Nurit Tal Shamir, SVP HR;

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

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

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

In the Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure, which was attached to the Periodic Report for the period ended June 30, 2018 (hereinafter: the "Latest Quarterly Report on Internal Control"), the Board of Directors and Management evaluated internal control in the Corporation.

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

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

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

Managers' Statement

Statement of the Chief Executive Officer

I, Giora Bardea, warrant that:

(1) I have reviewed the quarterly report of Strauss Group Ltd. (hereinafter: the "Corporation") for the third quarter of 2018 (hereinafter: the "Reports").

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

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

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

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

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

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

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

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

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at June 30, 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.

November 13, 2018

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Giora Bardea, Chief Executive Officer

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

Managers' Statement

Statement of the Most Senior Financial Officer

I, Shahar Florence, warrant that:

(1) I have reviewed the Interim Financial Statements and the other financial information included in the interim reports of Strauss Group Ltd. (hereinafter: the "Corporation") for the third quarter of 2018 (hereinafter: the "Reports" or the "Interim Reports").

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

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

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

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

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

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

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

b. Have determined controls and procedures or confirmed the determination and existence of controls and procedures under my supervision, which are designed to provide reasonable assurance of the reliability of financial reporting and preparation

of the Financial Statements according to the provisions of the law, including in accordance with GAAP.

c. Was not informed of any event or matter occurring in the period between the date of the latest report (the Periodic Report as at June 30, 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.

November 13, 2018

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Shahar Florence, EVP & CFO

STRAUSS GROUP LTD.

INCLUSION OF THE FINANCIAL STATEMENTS OF AN INVESTEE PURSUANT TO REGULATION 44 OF THE SECURITIES REGULATIONS, 1970

Três Corações Alimentos S.A.

Condensed consolidated interim financial statements as of and for the three and nine months periods ended 30 September 2018 and 2017 and independent auditors' limited review report on condensed consolidated interim financial statements

KPDS 242766

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KPMG Auditores Independentes
Rua Desembargador Leite Albuquerque, 635
Sala 501 e 502 - Aldeota
60150-150 - Fortaleza/CE - Brasil
Telefone +55 (85) 3307-5100, Fax +55 (85) 3307-5101
www.kpmg.com.br

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

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

Introduction
We have reviewed the accompanying 30 September 2018 condensed consolidated interim financial statements of Três Corações Alimentos S.A. ("the Company"), which comprise:

- the condensed consolidated statement of financial position as at 30 September 2018;
- the condensed consolidated statement of income and other comprehensive income for the three and nine months periods ended 30 September 2018;
- the condensed consolidated statement of changes in equity for the three and nine months periods ended 30 September 2018;
- the condensed consolidated statement of cash flows for the three and nine months periods ended 30 September 2018 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.

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2018 condensed consolidated interim financial statements are not prepared in all material respects in accordance with IAS 34, 'Interim Financial Reporting'.

Fortaleza, 05 November 2018

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

João Alberto da Silva Neto
Accountant CRC RS-048980/O-0 T-CE

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Três Corações Alimentos S.A.

Consolidated Interim Statements of Financial Position as of 30 September 2018 and 31 December 2017

(In thousand of Brazilian Reais)

Assets	**30 September 2018**	**31 December 2017**
Current		
Cash and cash equivalents	57.338	113.110
Deposits	4.705	3.508
Trade receivables	558.331	472.296
Inventories	538.627	372.189
Recoverable taxes	43.179	32.635
Income tax receivable	6.396	13.268
Other current assets	27.238	19.238
	1.235.814	1.026.244
Non-current		
Judicial deposits	8.322	8.655
Loans to related parties	21.866	21.479
Other non-current assets	25.091	6.198
Deferred tax assets	11.894	11.017
Investments	6.017	4.236
Fixed assets	374.135	284.204
Intangible assets	300.574	282.857
	747.899	618.646
	1.983.713	1.644.890

Liabilities	**30 September 2018**	**31 December 2017**
Current		
Short term loans	288.181	224.233
Trade payables	268.039	233.675
Income tax payables	625	27
Employees and other payroll related liabilities	64.321	50.162
Proposed dividends	45.704	45.704
Interest on equity payable	88.615	47.915
Payable taxes	26.374	23.976
Other current liabilities	30.626	19.856
	812.485	645.548
Non-current		
Long term loans	135.848	151.525
Other non-current liabilities	5.112	4.043
Deferred tax liabilities	8.260	6.816
Provision for legal proceedings	17.226	18.166
	166.446	180.550
Equity		
Share capital	274.546	273.442
Translation reserve	(102.403)	(91.917)
Retained earnings	832.639	637.267
	1.004.782	818.792
	1.983.713	1.644.890

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Income

Nine and three months periods ended 30 September 2018 and 2017

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2018	**2017**	**2018**	**2017**
Revenue	2.949.387	2.706.796	1.054.610	1.007.509
Cost of sales	(2.072.907)	(1.968.126)	(747.032)	(719.280)
Gross profit	876.480	738.670	307.578	288.229
Selling and marketing expenses	(492.619)	(405.039)	(177.203)	(150.557)
General and administrative expenses	(91.501)	(83.689)	(31.535)	(30.903)
Equity method	1.781	(114)	1.429	60
Other income (expenses), net	368	497	151	524
Operating profit	294.509	250.325	100.420	107.353
Finance income	10.923	9.443	3.821	3.921
Finance expenses	(21.628)	(32.427)	(9.654)	(11.316)
Profit before income tax	283.804	227.341	94.587	99.958
Income tax expenses	(43.937)	(37.828)	(10.147)	(18.093)
Profit for the period	239.867	189.513	84.440	81.865

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Comprehensive Income

Nine and three months periods ended 30 September 2018 and 2017

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2018	**2017**	**2018**	**2017**
Profit for the period	239.867	189.513	84.440	81.865
Foreign currency translation differences	(10.486)	4.696	(6.896)	1.265
Comprehensive income for the period	229.381	194.209	77.544	83.130

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 30 September 2018 and 2017

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Accumulated profit**	**Total**
Balance as of 30 June, 2017	273.442	47.520	214.517	302.322	(95.797)	-	742.004
Profit for the period	-	-	-	-	-	81.865	81.865
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	1.265	-	1.265
Total other comprehensive gain:	-	-	-	-	1.265	81.865	83.130
Internal equity changes							
State VAT and Federal tax incentives	-	-	13.565	-	-	(13.565)	-
Profit destination:							
Legal reserve	-	4.093	-	-	-	(4.093)	-
Interest on equity credited	-	-	-	-	-	(12.000)	(12.000)
Reserve for profit to be distributed	-	-	-	52.207	-	(52.207)	-
	-	4.093	13.565	52.207	-	(81.865)	(12.000)
Balance as of 30 September, 2017	273.442	51.613	228.082	354.529	(94.532)	-	813.134
Balance as of 30 June, 2018	273.442	54.688	274.430	435.185	(95.507)	-	942.238
Profit for the period	-	-	-	-	-	84.440	84.440
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	(6.896)	-	(6.896)
Total other comprehensive gain:	-	-	-	-	(6.896)	84.440	77.544
Internal equity changes							
Capitalization of tax incentives	1.104	-	(1.104)	-	-	-	-
State VAT and Federal tax incentives	-	-	21.429	-	-	(21.429)	-
Profit destination:							
Legal reserve	-	221	-	-	-	(221)	-
Interest on equity credited	-	-	-	-	-	(15.000)	(15.000)
Reserve for profit to be distributed	-	-	-	47.790	-	(47.790)	-
	1.104	221	20.325	47.790	-	(84.440)	(15.000)
Balance as of 30 September, 2018	274.546	54.909	294.755	482.975	(102.403)	-	1.004.782

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

Três Corações Alimentos S.A.

Consolidated Statements of Changes in Equity

Nine months periods ended 30 September 2018 and 2017

(In thousand of Brazilian Reais)

		Retained earnings					
	Share capital	**Legal reserve**	**Tax incentives**	**Profit to distribute**	**Translation adjustments**	**Accumulated profit**	**Total**
Balance as of 31 December, 2016	272.370	42.209	194.522	243.064	(99.228)	-	652.937
Dividends distributed relative to 2016	-	-	-	(12)	-	-	(12)
Profit for the period	-	-	-	-	-	189.513	189.513
Other comprehensive gain:							
Foreign currency translation differences	-	-	-	-	4.696	-	4.696
Total other comprehensive gain:	-	-	-	-	4.696	189.513	194.209
Internal equity changes							
Capitalization of tax incentives	1.072	-	(1.072)	-	-	-	-
State VAT and Federal tax incentives	-	-	34.632	-	-	(34.632)	-
Profit destination:							
Legal reserve	-	9.404	-	-	-	(9.404)	-
Interest on equity credited	-	-	-	-	-	(34.000)	(34.000)
Reserve for profit to be distributed	-	-	-	111.477	-	(111.477)	-
	1.072	9.404	33.560	111.477	-	(189.513)	(34.000)
Balance as of 30 September, 2017	273.442	51.613	228.082	354.529	(94.532)	-	813.134
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	-	-	-	-	-	239.867	239.867
Other comprehensive loss:							
Foreign currency translation differences	-	-	-	-	(10.486)	-	(10.486)
Total other comprehensive loss:	-	-	-	609	(10.486)	239.867	229.990
Internal equity changes							
Capitalization of tax incentives	1.104	-	(1.104)	-	-	-	-
State VAT and Federal tax incentives	-	-	47.679	-	-	(47.679)	-
Profit destination:							
Legal reserve	-	221	-	-	-	(221)	-
Interest on equity credited	-	-	-	-	-	(44.000)	(44.000)
Reserve for profit to be distributed	-	-	-	147.967	-	(147.967)	-
	-	221	47.679	147.967	-	(239.867)	(44.000)
Balance as of 30 September, 2018	274.546	54.909	294.755	482.975	(102.403)	-	1.004.782

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

Três Corações Alimentos S.A.

Consolidated Interim Statements of Cash Flows

Nine and three months periods ended 30 September 2018 and 2017

(In thousand of Brazilian Reais)

	Nine months period ended 30 September		Three months period ended 30 September	
	2018	**2017**	**2018**	**2017**
Cash flows from operating activities				
Profit for the period	239.867	189.513	84.440	81.865
Adjustments for:				
Depreciation and amortization	29.275	26.225	10.845	8.926
Gains in tax lawsuits	(5.535)	-	-	-
Provision for legal proceedings	(940)	(649)	(144)	(102)
Other income, net	(368)	(497)	(151)	(524)
Equity method	(1.781)	114	(1.429)	(60)
Financing expenses, net	10.705	22.984	5.833	7.395
Income tax expenses	43.937	37.828	10.147	18.093
Interest received (paid), net	(5.841)	(27.995)	7.283	(9.273)
Income tax paid	(28.917)	(14.547)	(22.079)	(12.594)
	280.402	232.976	94.745	93.726
Change in:				
Trade receivables	(79.514)	(101.529)	5.506	(7.396)
Inventories	(175.484)	(22.249)	(98.332)	(38.464)
Recoverable and payable taxes, net	(28.232)	(7.231)	(18.290)	5.722
Judicial deposits	333	(1.085)	(60)	(663)
Trade payables	34.364	24.192	(2.973)	22.596
Employees and other payroll related liabilities	14.159	20.075	3.441	10.976
Other current and non-current assets and liabilities, net	270	(570)	2.125	(3.115)
Net cash flows provided by (used in) operating activities	46.298	144.579	(13.838)	83.382
Cash flows from investing activities				
Change in deposits	(823)	(511)	2.101	(136)
Payment for acquisition of operations	(16.325)	(24.872)	-	(4.628)
Proceeds from sales of fixed assets	2.797	1.354	1.232	703
Acquisition of fixed assets	(94.563)	(45.238)	(36.177)	(21.043)
Investments in intangible assets	(7.608)	(8.043)	(3.286)	(1.796)
Long-term loans to related parties	731	(11.424)	-	(2.000)
Net cash flows used in investing activities	(115.791)	(88.734)	(36.130)	(28.900)
Cash flows from financing activities				
Proceeds from loans	382.460	444.670	92.863	92.983
Repayment of loans	(368.739)	(474.608)	(185.578)	(220.220)
Dividend paid	-	(34.548)	-	-
Net cash flows provided by (used in) financing activities	13.721	(64.486)	(92.715)	(127.237)
Net decrease in cash and cash equivalents	(55.772)	(8.641)	(142.683)	(72.755)
Net decrease in cash and cash equivalents				
Cash and cash equivalents as of beginning of period	113.110	86.524	200.021	150.638
Cash and cash equivalents as of end of period	57.338	77.883	57.338	77.883
	(55.772)	(8.641)	(142.683)	(72.755)

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. and its controlled entities are an industrial and commercial group of companies, which operates 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.

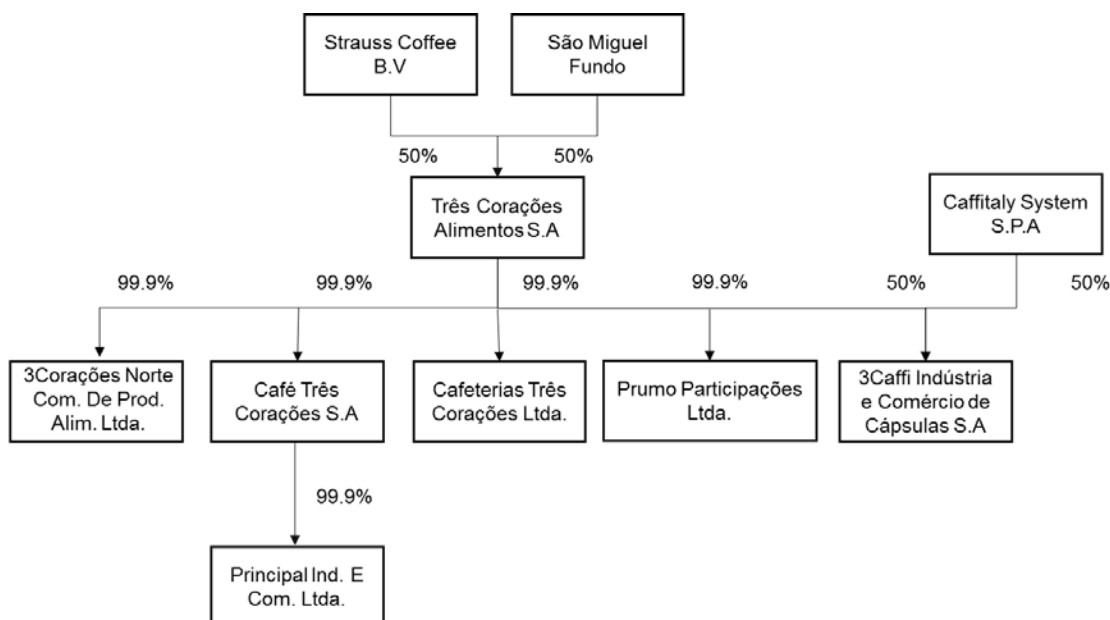
The Company controls the entities Cafeterias Três Corações Ltda., Prumo Participações Ltda. (Note 5.4), 3Corações Norte Comércio de Produtos Alimentícios Ltda. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as "the Group". 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"). 3Caffi is not consolidated in this report, since the Group 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, 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, and the recently acquired brands Manaus, Tapajós and Betânia. The Apollo brand is being used as a result of a Licence 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 this report, 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 30 September 2018, 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 2017 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 05 November 2018.

3 Initial application of new accounting standards

Further to what is mentioned in Note 4. to the Annual Financial Statements, the Company has adopted the new standards effective 01 January 2018 without correction of comparative figures, for both IFRS 9 (2014) - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers.

The table below summarizes the impact on the Company´s condensed consolidated interim financial statements as of 30 September 2018, which is considered not material, to the opening balances of profit to be distributed, net of tax effect:

	Profit to be distributed		
	Impact from adoption of new standards	Tax effect	Total impact net of taxes
Impact from adoption of IFRS 9	627	(139)	488
Impact from adoption of IFRS 15	184	(63)	121
Total impact on 1 January 2018	**811**	**(202)**	**609**

The effects of IFRS 9 and 15 are still not material as of 30 September 2018.

4 Significant accounting policies

The accounting principles applied by the Company in preparing these condensed consolidated interim financial statements are consistent with the principles applied by the Company in preparing its audited Annual Financial Statements as of 31 December 2017 and have been applied consistently to all entities of the Group, except for item 4.1 below, applied starting 1 January 2018.

4.1 Hedge Accounting

Management has decided to change its accounting policy related to hedge operations. Until 31 December 2017, all gains or losses were charged directly to the income statement, even in cases where the assets protected by the hedge operation were not yet sold.

Most of the currency hedge operations is currently related to importation of multibeverage single portion machines.

The multibeverage single portion machines business is increasing in importance as a share of the Group's business. Management understands that, due to this increase, the previously adopted policy would no longer reflect properly the actual results of the business.

Therefore, Management has decided to apply the IFRS 9 - Financial Instruments hedge accounting. According to the IFRS 9 hedge accounting, the Group may accumulate hedge gains or losses in inventories until the final sale or disposal of the related asset, at which time those gains or losses are allocated to cost of sales.

According to the IFRS 9, section Transition for Hedge Accounting, the above change is applicable prospectively.

5 Material events during the reported period

5.1 Favorable results of tax lawsuits

In February 2018, the Group prevailed in tax lawsuits as explained below:

SUFRAMA Administrative Service Fee

SUFRAMA is a federal agency that regulates certain commercial, industrial and agricultural activities in part of the northern region of Brazil.

Up until April of 2017, all goods sent to the Group´s Manaus distribution center were charged a SUFRAMA Administrative Service fee.

The Group obtained a court decision determining illegality of this fee, in the total amount of R$ 1,936.

Since this amount cannot be offset against other federal taxes, the Group requested in February 2018 a restitution of the amount through issuance of legal credit instruments denominated “precatorios”, whose average payment terms are currently between two and three years.

Federal VAT on Manaus Free Zone

The Company used to pay federal VAT taxes (PIS and COFINS) over goods sold from Manaus distribution center, destined to clients located inside the Manaus Tax Free Zone. As of 15 February 2018, the Group obtained a court decision against taxation of sales in the Manaus Tax Free Zone.

The judge authorized the reimbursement of the amount paid by the Group, together with SELIC interest up to February 2018, in the total amount of R$ 2,812.

5.2 Manaus plant building

The Group finished the new roasted and ground coffee plant in the city of Manaus, State of Amazonas, and started production in July 2018.

The estimated budget for this project in 2018 was R$ 17,500. Until the third quarter of 2018 the Group spent R$ 17,617 with the purchase of the land, construction of the buildings and acquisition of machines and equipment.

5.3 Acquisition of Manaus Coffee Company

As of 03 April 2018, the Company obtained control over the entity Tapajós Indústria de Café Ltda. through the acquisition of 100% of its shares from third parties, changing the corporate name of the company to 3Corações Norte Comércio de Produtos Alimentícios Ltda. ("3Corações Norte").

The entity purchased owns the brands Manaus, Tapajós, Betânia, amongst others, and its purchase will allow the Group to increase its market share, mainly of roasted and ground coffee in the North of Brazil.

Consideration transferred

The acquisition value was R$ 22,138, including tax credits in the amount of R$ 5,130, with discount of 19.34%, equivalent to R$ 992, payable as follows:

- R$ 15,429 paid on 03 April 2018, considered as acquisition date;
- R$ 4,138, related to the net amount of the tax credit, to be paid monthly, in accordance with tax compensation, during 10 months after the acquisition date. After this period, any eventual remaining amount not yet compensated will be paid to the sellers in a lump sum;
- R$ 1,571, to be paid with interest when the sellers comply with all contractual requirements;
- R$ 500 to be paid with interest in April 2020; and
- R$ 500 to be paid with interest in April 2023.

The interest payable in this case is based upon 100% of the Interbank CDI rate.

Transferred assets and incurred liabilities

There were no liabilities transferred in the business combination and in the opinion of the Group's legal advisers, there were also no contingent liabilities. All identifiable assets transferred, based on Management´s best judgment and estimates, are listed below:

	R$
Current Assets:	
Tax credit	5,130
Fixed assets:	
Machines and equipment	1,936
Intangible:	
Brands	484
Client portfolio	1,506
Net identifiable assets	**9,056**

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

Goodwill

	R$
Acquisition cost:	
Transferred resources, paid or to be paid	22,138
Net identifiable assets	(9,056)
Goodwill	**13,082**

5.4 Prumo Participações Ltda.

As of 11 August 2018 the Company created the entity Prumo Participações Ltda. ("Prumo"), with the purpose to invest in other entities, mainly related to specialty coffees. Prumo will act also as a mentor to the investees, in order to facilitate their development using the market expertise of the Group.

Prumo has a subscribed share capital, to be paid in until 11 August 2023, in the amount of R$ 8,700. As of 30 September 2018, there was no paid in capital.

6 Net debt

	30 September 2018	31 December 2017
	(Unaudited)	(Audited)
Short term loans	288,181	224,233
Long term loans	135,848	151,525
Cash and cash equivalents	(57,338)	(113,110)
Net debt	366,691	262,648

Net debt increased during the period, maily due to new loan operations, leading to an increase in loan balances in the amount of R$ 48,271 and decrease in cash and cash equivalents in the amount of R$ 55,772.

Cash and cash equivalents comprise cash balances and deposits that can be withdrawn immediately, During the third quarter of 2018, Management decided to increase its green coffee coverage, leading to a decrease in cash and cash equivalents. The main reason for this increase in coverage is because green coffee prices reached their lowest levels of 2018, as a result of a record crop in Brazil.

As presented in the statements of cash flows, inventories increased in the amount of R$ 175,484 in the nine months period ended 30 September 2018, which is the main reason for the increase in net debt.

7 Contingent liabilities

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

8 Financial instruments

8.1 Fair value of financial instruments

The carrying amounts of the 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:

	30 September2018		31 December2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Audited)	
Financial liabilities				
Short term loans	288,181	253,813	224,233	194,847
Long term loans	135,848	112,777	151,525	122,546

The fair value is based on the contractual cash flow, discounted to 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.

9 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;

As of 31 December 2017, the Group had future open positions classified as Level 2 in the amount of R$ 29, with due date of March 2018. As of 30 September 2018, there are no financial instruments classified at Level 2.

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 are not based on observable market data (that is, unobservable inputs). As of 30 September 2018 and 31 December 2017, the Group had no financial instruments classified at Level 3.

10 Revenue

	R$	
	30 September 2018	30 September 2017
Gross revenue:		
Products - domestic	3,416,643	3,044,079
Products - foreign	186,020	153,568
Services	189	209
Other	370	97
Taxes on sales	(273,203)	(231,495)
Deductions	(380,632)	(259,662)
	2,949,387	2,706,796

* * *

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.