

Financial Statements as at June 30, 2007

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To: The Board of Directors of Strauss-Group Ltd.

**Re: Review of the Unaudited Consolidated Interim Financial Statements
for the six and three month periods ended June 30, 2007**

At your request, we have reviewed the consolidated interim balance sheet of Strauss-Group Ltd. and its subsidiaries as at June 30, 2007, and the consolidated interim statement of income, interim statement of changes in shareholders' equity, and consolidated interim statement of cash flows for the six and three month periods then ended.

Our review was performed in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. These procedures included, inter alia: reading the aforementioned financial statements, reading the minutes of shareholders' meetings and the meetings of the Board of Directors and its committees, and making inquiries with persons responsible for financial and accounting matters.

We received reports of other auditors regarding review of the interim financial statements of subsidiaries and proportionately consolidated companies whose assets constitute 11.04% of the total consolidated assets as at June 30, 2007 and whose revenues constitute 10.30% of the total consolidated revenues for the six month period then ended, and 11.33% of the total consolidated revenues for the three month period then ended.

Since the review performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the consolidated interim financial statements.

In the course of our review, including the reading of the review reports of other auditors as stated above, nothing came to our attention which would indicate the necessity of making material modifications to the financial statements referred to above in order for them to be in conformity with IAS 34 regarding interim period financial reporting and in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

We call attention to that stated in Note 4.8 regarding a claim that was filed against the Company for the purpose of being certified as a class action.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

August 21, 2007

Consolidated Balance Sheets

	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current assets			
Cash and cash equivalents	586,599	154,739	129,096
Marketable securities and bank deposits	33,757	33,318	121,570
Trade receivables	868,501	841,908	* 806,656
Income Tax	70,678	32,008	78,531
Other receivables and debit balances	193,659	238,877	* 148,798
Inventory	646,920	554,808	553,684
Assets classified as held for sale	-	5,349	-
Total current assets	2,400,114	1,861,007	1,838,335
Investments and non-current assets			
Investment in affiliated company	-	23,089	20,458
Other investments and long-term debit balances	120,355	90,006	* 113,714
Assets designated for the payment of employee benefits	7,308	6,798	7,308
Fixed assets	1,065,348	969,328	1,029,079
Intangible assets	1,158,535	953,736	1,079,102
Deferred expenses	60,794	60,694	60,198
Investment property	19,491	19,610	19,551
Deferred tax assets	42,960	45,753	38,732
Total investments and non-current assets	2,474,791	2,169,014	2,368,142
	4,874,905	4,030,021	4,206,477

Ofra Strauss
Chairperson of the Board of
Directors

Erez Vigodman
Chief Executive Officer

Avi Ben Asayag
Chief Financial Officer

Date of approval of the interim financial statements: August 21, 2007

	June 30 2007	June 30 2006	December 31 2006
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Current liabilities			
Credit from banks	186,608	524,648	580,063
Current maturities of long-term liabilities to banks and others	93,166	127,409	121,549
Trade payables	663,377	449,839	572,235
Income Tax	67,096	70,469	45,164
Other payables and credit balances	474,357	429,053	* 440,194
Provisions	28,639	22,795	26,872
Total current liabilities	1,513,243	1,624,213	1,786,077
Non-current liabilities			
Loans and credit	1,157,526	576,411	482,698
Sale option to minority shareholders	118,650	43,861	117,274
Long-term payables and credit balances	27,579	18,134	* 22,958
Option warrants	-	48,800	-
Benefits to employees, net	21,329	21,988	21,433
Deferred taxes	128,613	123,438	120,852
Total non-current liabilities	1,453,697	832,632	765,215
Equity			
Share capital	241,630	241,404	241,515
Share premium	601,592	553,099	600,468
Treasury stock	(19,845)	(19,845)	(19,845)
Loans to purchase Company shares	-	(13,469)	-
Translation reserve	94,207	(3,887)	7,009
Reserve for available for sale securities	2,902	-	-
Retained earnings	764,939	626,805	617,917
Total equity attributable to the Company's shareholders	1,685,425	1,384,107	1,447,064
Minority interest	222,540	184,069	208,121
Total equity	1,907,965	1,573,176	1,655,185
	4,874,905	4,030,021	4,206,477

* Reclassified (see Note 1.4)

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	2007	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Sales	2,813,107	2,504,777	1,420,468	1,247,361	5,155,787
Hedge transactions	(4,301)	6,758	(13,529)	(3,305)	* 302
Other costs	1,741,026	1,563,988	873,895	779,410	* 3,210,821
Cost of sales	1,736,725	1,570,746	860,366	776,105	3,211,123
Gross profit	1,076,382	934,031	560,102	471,256	1,944,664
Selling and marketing expenses	649,849	585,270	339,394	295,457	1,212,969
General and administrative expenses	171,540	147,041	89,158	74,830	315,556
	821,389	732,311	248,552	370,287	1,528,525
Operating profit before other income (expenses)	254,993	201,720	131,550	100,969	416,139
Other income (expenses), net	(6,799)	141,439	(5,581)	141,377	153,826
Operating profit after other income (expenses)	248,194	343,159	125,969	242,346	569,965
Financing income	27,226	21,440	16,936	13,196	36,206
Financing expenses	(53,138)	(48,523)	(29,762)	(24,893)	(80,428)
Financing expenses, net	(25,912)	(27,083)	(12,826)	(11,697)	(44,222)
Income before taxes on income	222,282	316,076	113,143	230,649	525,743
Taxes on income	(63,082)	(81,691)	(26,212)	(52,537)	(143,757)
Income after taxes on income	159,200	234,385	86,931	178,112	381,986
Company's equity in income of affiliated company	-	2,038	-	825	4,377
Net income for the period	159,200	236,423	86,931	178,937	386,363
Attributable to:					
The Company's shareholders	143,134	215,881	75,558	168,203	346,922
Minority interest	16,066	20,542	11,373	10,734	39,441
Income for the period	159,200	236,423	86,931	178,937	386,363
Earnings per share of the Company's shareholders					
Basic earnings per share (in NIS)	1.37	2.07	0.72	1.61	3.34
Diluted earnings per share (in NIS)	1.37	2.06	0.72	1.60	3.32

* Reclassified

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders					Retained earnings	Total	Minority interest	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets				
	NIS thousands								
Balance as at January 1, 2007 - audited	241,515	600,468	7,009	(19,845)	-	617,917	1,447,064	208,121	1,655,185
Changes during the six-month period ended June 30, 2007 - unaudited:									
Income for the period	-	-	-	-	-	143,134	143,134	16,066	159,200
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	2,902	-	2,902	4,353	7,255
Foreign currency translation differences	-	-	87,198	-	-	-	87,198	-	87,198
Total recognized income for the period	-	-	-	-	-	-	233,234	20,419	253,653
Exercise of options by employees including tax effect	115	1,124	-	-	-	-	1,239	-	1,239
Share-based payment	-	-	-	-	-	3,888	3,888	-	3,888
Dividend paid to minority in subsidiary	-	-	-	-	-	-	-	(6,000)	(6,000)
Balance as at June 30, 2007 - unaudited	241,630	601,592	94,207	(19,845)	2,902	764,939	1,685,425	222,540	1,907,965

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity (cont'd)

	Attributable to the Company's shareholders							Minority interest	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Loan to purchase Company shares	Retained earnings	Total		
	NIS thousands								
Balance as at January 1, 2006 - audited	241,343	552,588	(25,861)	(19,845)	(13,126)	455,611	1,190,710	179,123	1,369,833
Changes during the six-month period ended June 30, 2006 - unaudited:									
Income for the period	-	-	-	-	-	215,881	215,881	20,542	236,423
Foreign currency translation differences	-	-	21,974	-	-	-	21,974	-	21,974
Total recognized income for the period	-	-	-	-	-	-	237,856	20,542	258,398
Share-based payment	-	-	-	-	-	5,574	5,574	-	5,574
Exercise of share options net of tax effect	61	275	-	-	-	-	336	-	336
Interest accrued on loans to interested party and other employees net of tax effect	-	236	-	-	(343)	-	(107)	-	(107)
Dividend paid to the Company's shareholders	-	-	-	-	-	(50,261)	(50,261)	-	(50,261)
Dividend paid to the minority in subsidiary	-	-	-	-	-	-	-	(10,596)	(10,596)
Balance as at June 30, 2006 - unaudited	<u>241,404</u>	<u>553,099</u>	<u>(3,887)</u>	<u>(19,845)</u>	<u>(13,469)</u>	<u>626,805</u>	<u>1,384,107</u>	<u>189,069</u>	<u>1,573,176</u>

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Minority interest	Total equity
	NIS thousands								
Balance as at April 1, 2007 - unaudited	241,515	600,468	2,423	(19,845)	1,271	688,882	1,514,714	214,746	1,729,460
Changes during the three-month period ended June 30, 2007 - unaudited:									
Income for the period	-	-	-	-	-	75,558	75,558	11,373	86,931
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1,631	-	1,631	4,353	5,984
Foreign currency translation differences	-	-	91,784	-	-	-	91,784	-	91,784
Total recognized income for the period	-	-	-	-	-	-	168,973	15,726	184,699
Exercise of share options net of tax effect	115	1,124	-	-	-	-	1,239	-	1,239
Share-based payment	-	-	-	-	-	499	499	-	499
Dividend paid to the minority in subsidiary	-	-	-	-	-	-	-	(6,000)	(6,000)
Share of the minority in contingent consideration	-	-	-	-	-	-	-	(1,932)	(1,932)
Balance as at June 30, 2007 – unaudited	241,630	601,592	94,207	(19,845)	2,902	764,939	1,685,425	222,540	1,907,965

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity (cont'd)

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Loan to purchase Company shares	Retained earnings	Total	Minority interest	Total equity
					NIS thousands				
Balance as at April 1, 2006 - unaudited	241,402	552,937	32,428	(19,845)	(13,233)	454,152	1,247,841	178,335	1,426,176
Changes during the three-month period ended June 30, 2006 - unaudited:									
Income for the period	-	-	-	-	-	168,203	168,203	10,734	178,937
Foreign currency translation differences	-	-	(36,315)	-	-	-	(36,315)	-	(36,315)
Total recognized income for the period	-	-	-	-	-	-	131,888	10,734	142,622
Share-based payment	-	-	-	-	-	4,450	4,450	-	4,450
Exercise of share options net of tax effect	2	-	-	-	-	-	2	-	2
Interest accrued on loans to interested parties and other employees net of tax effect	-	162	-	-	(236)	-	(74)	-	(74)
Balance as at June 30, 2006 – unaudited	241,404	553,099	(3,887)	(19,845)	(13,469)	626,805	1,384,107	189,069	1,573,176

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity (cont'd)

	Attributable to the Company's shareholders								Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Loan to purchase Company shares	Retained earnings	Total	Minority interest	
					NIS thousands				
Balance as at January 1, 2006 - audited	241,343	552,588	(25,861)	(19,845)	(13,126)	455,611	1,190,710	179,123	1,369,833
Changes in 2006 – audited:									
Income for the period	-	-	-	-	-	346,922	346,922	39,441	386,363
Foreign currency translation differences	-	-	32,870	-	-	-	32,870	-	32,870
Total recognized income for the period	-	-	-	-	-	-	379,792	39,441	419,233
Share-based payment	-	-	-	-	-	15,436	15,436	-	15,436
Exercise of share options net of tax effect	172	2,265	-	-	-	-	2,437	-	2,437
Option warrants	-	45,380	-	-	-	-	45,380	-	45,380
Repayment of loans by employees	-	-	-	-	13,467	-	13,467	-	13,467
Interest accrued on loans to interested parties and other employees net of tax effect	-	235	-	-	(341)	-	(106)	-	(106)
Dividend paid to the Company's shareholders	-	-	-	-	-	(200,052)	(200,052)	-	(200,052)
Dividend paid to the minority in subsidiary	-	-	-	-	-	-	-	(10,443)	(10,443)
Balance as at December 31, 2006 - audited	241,515	600,468	7,009	(19,845)	-	617,917	1,447,064	208,121	1,655,185

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	2007	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows generated by operating activities					
Net income for the period	159,200	236,423	86,931	178,937	386,363
Adjustments:					
Depreciation and amortization	77,483	70,050	41,770	33,664	146,201
Amortization of intangible assets	16,013	14,802	8,646	7,346	21,315
Other expenses (income), net	525	(152,064)	3,854	(152,002)	(177,262)
Equity in income of affiliated companies	-	(2,038)	-	(825)	(4,377)
Expenses in respect of share based payment	3,888	5,574	499	4,450	15,436
Financing expenses, net	25,912	27,083	12,826	11,697	44,222
Income tax expense	63,082	81,691	26,212	52,537	143,757
Change in inventory	(72,489)	(26,861)	(41,003)	(20,492)	(21,863)
Change in trade and other receivables	(65,414)	(10,021)	77,482	106,029	7,095
Change in long-term trade receivables	(3,467)	(3,273)	(12,147)	2,569	(11,797)
Change in trade and other payables	151,936	(32,173)	93,142	(81,170)	78,640
Change in provisions and benefits to employees	(104)	1,853	51	(478)	7,939
Interest paid	(9,768)	(11,893)	(3,819)	(2,993)	(34,830)
Income tax paid	(70,167)	(83,877)	(46,028)	(60,211)	(205,884)
Net cash provided by operating activities	276,630	115,276	248,416	79,058	394,955
Cash flows generated by investing activities					
Realization (purchase) of marketable securities, net	5,461	19,532	2,389	19,826	*32,491
Proceeds from sale of fixed assets	101,123	117,826	4,264	65,178	146,290
Receipt (refund) on account of sale of real estate	-	(4,190)	-	(4,190)	(4,190)
Acquisition of minority interests (Note 4.6)	(2,561)	-	-	-	-
Investment in affiliate	-	(1,455)	-	(1,455)	(1,455)
Initial consolidation of subsidiary	-	-	-	-	436
Acquisition of subsidiary (Note 4.7)	(14,927)	-	(14,927)	-	(27,148)
Repayment of loan to affiliate	-	918	-	918	4,539
Acquisition of fixed assets	(101,944)	(79,249)	(50,230)	(31,764)	(173,340)
Investment grants received	274	1,473	274	-	1,473
Investments in intangible assets and deferred expenses	(28,727)	(19,061)	(8,576)	(10,876)	(64,770)
Repayment of long-term loans granted	5,630	13,024	1,178	1,590	22,250
Long-term loans granted	(11,567)	(24,979)	(1,106)	(15,934)	(11,186)
Payments to creditors in respect of acquisition of operation on credit	(2,508)	-	-	-	(2,151)
Repayment of capital note	-	-	-	-	(18,868)
Net cash provided by (used in) continuing investing activities	(49,746)	23,839	(66,734)	23,293	(95,629)
Net cash provided by discontinued investing activities	-	2,207	-	2,207	2,207
Net cash provided by (used in) investing activities	(49,746)	26,046	(66,734)	25,500	(93,422)

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30	June 30	June 30	June 30	December 31
	2007	2007	2007	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows generated by financing activities					
Short-term bank credit, net	(404,124)	44,699	(41,519)	(6,163)	110,248
Receipt of long-term loans	14,529	-	8,049	-	15,415
Repayment of long-term loans	(144,361)	(45,654)	(32,320)	(37,126)	(162,012)
Issuance of debentures, net	768,500	-	-	-	-
Proceeds from issuance of share capital	115	-	115	-	-
Proceeds from exercise of share options	-	61	-	2	172
Issuance costs	-	-	-	-	(12,077)
Repayment of loans by employees	-	-	-	-	13,467
Dividends paid	-	(122,572)	-	-	(272,363)
Dividend paid to minority in a subsidiary	(6,000)	(10,596)	(6,000)	-	(10,443)
Net cash provided by (used in) financing activities	228,659	(134,062)	(71,675)	(43,287)	(317,593)
Increase (decrease) in cash and cash equivalents	455,543	7,260	110,007	61,271	(16,060)
Cash and cash equivalents as at the beginning of the period	129,096	148,772	474,055	96,943	148,772
Effect of exchange rate fluctuations on cash balances	1,960	(1,293)	2,537	(3,475)	(3,616)
Cash and cash equivalents as at the end of the period	586,599	154,739	586,599	154,739	129,096
Investing and financing activities not involving cash flows					
Acquisition of fixed and other assets in consideration for current liabilities	19,631				24,273
Investment grants accrued in respect of fixed assets					140
Acquisition of operation on credit					10,189

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 1 - Reporting Principles and Accounting Policy**1.1 General**

- 1.1.1 The consolidated interim financial statements as at June 30, 2007 and for the six and three month periods then ended (hereinafter - the "Interim Statements") have been prepared in accordance with generally accepted accounting principles applicable to the preparation of interim period financial statements as provided by IAS 34 regarding interim period 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, 2006 and for the year then ended together with their accompanying notes (hereinafter – the "Annual Financial Statements"), that were prepared according to IFRS and published in an immediate report, as additional information, on June 28, 2007. The accounting principles applied in preparing these Interim Statements are consistent with the principles applied in preparing the Annual Financial Statements, except for that mentioned in Item 1.2 hereunder.

- 1.1.2 On June 5, 2006 the Company published, as additional information, consolidated financial statements prepared according to IFRS as part of its preparations for publishing a prospectus overseas. The Company's date of transition to reporting according to IFRS, as defined in IFRS 1, is January 1, 2003 (hereinafter – the transition date).

On March 19, 2007 the Company published financial statements prepared according to Israeli generally accepted accounting principles for the year ended December 31, 2006. Its last financial statements according to Israeli generally accepted accounting principles were prepared for the three month period ended March 31, 2007 and were published on May 28, 2007. Financial and qualitative information regarding effects of the transition to reporting according to IFRS is provided in Note 6.

1.2 Initial implementation of accounting standards

- 1.2.1 IFRS 9, *Reassessment of Embedded Derivatives* –

The interpretation provides that the date for assessing the existence of embedded derivatives is the date on which the entity first becomes a party to the contract. A reassessment is to be made only when changes to the contract cause a significant change to the cash flows. The initial implementation of the interpretation did not have an effect on the Company's financial position and results of operations.

- 1.2.2 IFRS 10, *Interim Financial Reporting and Impairment* –

The interpretation prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. The initial implementation of the interpretation did not have an effect on the Company's financial position and results of operations.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 1 - Reporting Principles and Accounting Policy (cont'd)**1.2 Initial implementation of accounting standards (cont'd)**1.2.3 IFRIC 11 IFRS 2, *Group and Treasury Share Transactions* –

This interpretation requires classifying a share-based payment as an equity award, even if the entity is required to purchase its equity instruments from a third party, and even if the shareholder provides the required equity instruments. The interpretation shall apply to new grants in annual periods beginning after March 1, 2007 and allows early adoption. Implementation of the interpretation did not have an effect on the Group's financial position and results of operations.

1.3 New standards and interpretations not yet adopted1.3.1 IFRIC 13, *Customer Loyalty Programs* –

This interpretation addresses customer loyalty programs, in which an entity provides "award credits" to its customers as part of the sale transaction. The award credits discussed in the interpretation can be used in the future to receive products for free or at a reduced price, subject to certain conditions. In accordance with the interpretation the proceeds from the sale transaction are to be split between the "award credits" and the other components of the transaction. The proceeds allocated to the award credits shall be recognized as revenue when the award credits are redeemed. The interpretation shall apply to annual periods beginning after July 1, 2008 and earlier application is allowed. Implementation of the interpretation is not anticipated to have an effect on the Group's financial position and results of operations.

1.3.2 IFRIC 14 IAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* –

IAS 19 provides a "limit" to the measurement of assets of a defined benefit plan. This limit is defined as the sum of:

- (a) As yet unrecognized actuarial losses and past service costs; and
- (b) The present value of anticipated refunds from the plan or reductions in future contributions to the plan.

The interpretation provides rules for the calculation of the limit. The interpretation shall apply to annual periods beginning after January 1, 2008, and earlier application is allowed. The Company is examining the effects of the interpretation on its financial statements.

1.3.3 Amendment to IAS 23, *Borrowing Costs* –

The amended standard requires capitalizing borrowing costs that are directly attributable to the purchase, construction or manufacturing of qualifying assets, to the cost of such assets. The standard does not permit recognizing these borrowing costs as an immediate expense. The amended standard shall apply to annual periods beginning after January 1, 2009 and permits early adoption.

1.3.4 IFRS 8, *Operating Segments* –

The standard provides details on how an entity is to report its operating segments in the annual financial segments and refers to select data that is to be provided in respect of operating segments in the interim financial segments. Furthermore, the standard relates to disclosure requirements regarding products and services, geographical areas and principal customers.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 1 - Reporting Principles and Accounting Policy (cont'd)**1.3 New standards and interpretations not yet adopted (cont'd)**

The standard entrusts the separation of the segments in the hands of the entity, so that the segment report will be based on components that management supervises for the purpose of making operating decisions. The standard shall apply to annual periods beginning on or after January 1, 2009. Early adoption is allowed and requires the amendment of comparative data. The Company is examining the effects of the standard on its financial statements.

1.4 Reclassification

The comparative figures relating to the year ended December 31, 2006 were reclassified in these financial statements. The reclassification is due to a different presentation of the deferred gross profit deriving from installment sales of coffee machines. As from these financial statements, the Company presents the gross profit on a gross basis, meaning: deferred income as a credit balance (current or non-current) and deferred costs as a debit balance (current or non-current). As a result of the reclassification there was an increase of NIS 3,166 thousand in trade receivables; an increase of NIS 9,887 thousand in other receivables and debit balances; an increase of NIS 22,793 thousand in other investments and debit balances; an increase of NIS 12,888 thousand in other payables and credit balances; and an increase of NIS 22,958 thousand in long-term payables and credit balances. The reclassification did not have an effect on the statement of income.

1.5 Rates of change in the Consumer Price Index and in foreign currency exchange rates

Information on the rates of change in the Consumer Price Index (hereinafter – CPI) and the representative exchange rates of the major currencies (in relation to the shekel) in the Interim Statements:

	CPI				Brazilian Real
	in respect of	US Dollar	Euro	Polish Zloty	
	the month				
	%	%	%	%	%
January - June 2007	0.98	0.57	2.68	4.40	11.06
January - June 2006	1.55	(3.54)	3.62	(1.09)	3.65
April - June 2007	1.21	2.26	3.23	5.95	8.42
April - June 2006	0.97	(4.82)	(0.32)	(2.81)	9.37
January - December 2006	(0.09)	(8.21)	2.16	2.94	0.34

Note 2 - Seasonality

The Company's snacks sales are characterized by seasonality. The snacks sales are usually higher in the first and third quarters of the year. The seasonality in the snacks activity (which occurs only in Israel) is affected by two main factors: The first is the timing of the Jewish holidays with an emphasis on Rosh Hashanah (the Jewish New Year) and Passover, when the Company's sales increase considerably.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 2 - Seasonality (cont'd)

The second factor is the seasons of the year, with winter and fall being characterized by a higher consumption of confectionery (mainly chocolate and snacks) than in the hot seasons. Conversely, sales of cold beverages (milk, juices) are higher in the summer meaning the second and third quarters of the year.

Note 3 - Segments

Analysis according to geographical segments:

	Israel	Europe	Brazil	USA	Joint expenses and adjustments	Consolidated
	NIS thousands					
For the six months ended June 30, 2007 (unaudited)						
Sales to external parties	1,593,849	655,052	410,854	153,352	-	2,813,107
Inter-segment sales	20,342	-	-	-	(20,342)	-
Total sales	1,614,191	655,052	410,854	153,352	(20,342)	2,813,107
Operating profit before other income (expenses)	165,575	68,815	6,222	14,381	-	254,993
Other income (expenses)	(7,250)	282	(138)	307	-	(6,799)
Operating profit after other income (expenses)	158,325	69,097	6,084	14,688	-	248,194
For the six months ended June 30, 2006 (unaudited)						
Sales to external parties	1,549,931	614,298	265,410	75,138	-	2,504,777
Inter-segment sales	6,777	-	-	-	(6,777)	-
Total sales	1,556,708	614,298	265,410	75,138	(6,777)	2,504,777
Operating profit before other income (expenses)	155,134	51,828	(4,125)	(1,117)	-	201,720
Other income (expenses)	139,967	1,215	18	239	-	141,439
Operating profit after other income (expenses)	295,101	53,043	(4,107)	(878)	-	343,159

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 3 - Segments (cont'd)

Analysis according to geographical segments: (cont'd)

	Israel	Europe	Brazil	USA	Joint expenses and adjustments	Consolidated
	NIS thousands					
For the three months ended June 30, 2007 (unaudited)						
Sales to external parties	759,038	362,768	222,324	76,338	-	1,420,468
Inter-segment sales	12,496	-	-	-	(12,496)	-
Total sales	<u>771,534</u>	<u>362,768</u>	<u>222,324</u>	<u>76,338</u>	<u>(12,496)</u>	<u>1,420,468</u>
Operating profit before other income (expenses)	72,310	44,023	7,173	8,044	-	131,550
Other income (expenses)	(5,578)	1,090	(1,234)	141	-	(5,581)
Operating profit after other income (expenses)	<u>66,732</u>	<u>45,113</u>	<u>5,939</u>	<u>8,185</u>	<u>-</u>	<u>125,969</u>
For the three months ended June 30, 2006 (unaudited)						
Sales to external parties	758,292	309,471	140,364	39,234	-	1,247,361
Inter-segment sales	3,518	-	-	-	(3,518)	-
Total sales	<u>761,810</u>	<u>309,471</u>	<u>140,364</u>	<u>39,234</u>	<u>(3,518)</u>	<u>1,247,361</u>
Operating profit before other income (expenses)	67,690	33,101	8	170	-	100,969
Other income (expenses)	140,470	923	(70)	54	-	141,377
Operating profit after other income (expenses)	<u>208,160</u>	<u>34,024</u>	<u>(62)</u>	<u>224</u>	<u>-</u>	<u>242,346</u>
For the year ended December 31, 2006 (audited)						
Sales to external parties	3,090,143	1,261,042	620,146	184,456	-	5,155,787
Inter-segment sales	30,768	-	-	-	(30,768)	-
Total sales	<u>3,120,911</u>	<u>1,261,042</u>	<u>620,146</u>	<u>184,456</u>	<u>(30,768)</u>	<u>5,155,787</u>
Operating profit before other income (expenses)	291,544	107,209	10,011	7,375	-	416,139
Other income (expenses)	155,476	(846)	(671)	(133)	-	153,826
Operating profit after other income (expenses)	<u>447,020</u>	<u>106,363</u>	<u>9,340</u>	<u>7,242</u>	<u>-</u>	<u>569,965</u>

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 4 - Material Events during the Reported Period

- 4.1 On January 8, 2007 the Company signed an agreement with H2Q Water Industries Ltd. (hereinafter – H2Q), a company engaged in a venture involving water, with the assistance of scientists and Israeli research bodies. In the first stage the Company shall lend to H2Q (by means of a loan convertible into shares) an amount of up to \$ 2.75 million, and subject to meeting a principal milestone it shall convert the loan into shares and invest an additional amount of \$ 3.5 million. The investment is in consideration of an allotment of 51% of the shares of H2Q, including a “golden share” that will be allotted to the Company against execution of the investment. The golden share is in effect for a limited period of time and confers upon the holder the right to appoint the majority of H2Q’s board of directors. The Company has an option to invest in the company an additional amount of \$ 3.75 million in consideration for additional shares that will bring the Company’s holdings to 59%. The transaction was contingent upon receiving the approval of the Commissioner of Restrictive Trade Practices.

The transaction came into effect on April 18, 2007, after all the suspending conditions were fulfilled. The Company consolidates H2Q as from the second quarter. The amounts of the assets and liabilities that were recognized in the consolidated balance sheet following the consolidation of H2Q are immaterial.

- 4.2 On February 25, 2007 the Company completing raising the amount of NIS 770 million from institutional investors by means of debentures (Series B) bearing annual interest of 4.1%. Until the registration for trading the Company shall pay to the holders of the debentures interest at the rate of 4.7% p.a. The principal of the debentures shall be repaid in five equal annual payments between the years 2014 and 2018 (inclusive). The interest shall be paid every six months. The debentures (principal and interest) are linked to the CPI. On May 21, 2007 the Company listed the debentures for trading on the Tel Aviv Stock Exchange, by publishing a prospectus on May 10, 2007. As a result of the debentures being listed for trading, they bear annual interest of 4.1% as from the date they were listed for trading.

On March 13, 2007 the rating committee of Ma’alot granted a rating of (AA+) to the Series B debentures that were issued.

- 4.3 On May 10, 2007 the Company published a prospectus for listing for trading on the Tel Aviv Stock Exchange the debentures mentioned in Item 4.2 above and a shelf prospectus. The shelf prospectus enables the Company for two years from the date it was published to offer securities to the public in a tender, by means of shelf prospectus offering statements. The securities and their terms are described in Chapter 2 of the shelf prospectus.

The issuance expenses in respect of the shelf prospectus and the listing of the debentures (Series A) for trading amounted to NIS 3.3 million.

- 4.4 In accordance with the remuneration plans for senior executives that are described in Note 22.1 of the annual financial statements, on January 9, 2007 the Company’s Board of Directors approved granting an additional 69,106 options to senior executives of the Company.

The fair value of the benefit included in this grant is NIS 1 million and it will be recognized as an expense between January 2007 and March 2011. The principal assumptions that were used to determine the fair value are as follows: annual deviation rate – 30%; risk-free interest rate – 3.4%; share price – NIS 44; exercise price – NIS 37; and life of the option – 5-6.5 years.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 4 - Material Events during the Reported Period (cont'd)

- 4.5 On January 16, 2007 a merger between Ganir Ltd. and Gan Shmuel Foods Ltd. (hereinafter – Gan Shmuel) was completed.

In the framework of the merger, all the shareholders of Ganir transferred all their shares in Ganir (100% of the issued and paid-in share capital of Ganir) so that Ganir shall become a wholly owned and fully controlled subsidiary of Gan Shmuel. In consideration, Gan Shmuel allotted shares in Gan Shmuel to the shareholders of Ganir, which immediately after their allotment will constitute a third (1/3) of the issued and paid-in share capital of Gan Shmuel (not including dormant shares of Gan Shmuel).

After the allotment, Yotvata, a subsidiary, holds 6.67% of the issued and paid-in share capital of Gan Shmuel (not including the dormant shares) and it presents its investment as an available for sale financial asset.

The agreement between the shareholders of Ganir provides, inter alia, that Yotvata has an option until May 14, 2007 to purchase from Gat and Beit-Nir additional shares of Gan Shmuel from the allotted shares at the rate of 4.33% of the issued share capital of Gan Shmuel (not including the dormant shares) after the issuance. This option has expired without being exercised.

The Company, by means of Strauss Dairies Ltd., is the exclusive distributor of Ganir products according to an agreement. In accordance with a new agreement between the parties, the Company is the exclusive distributor of Ganir products for a period of 10 years as from April 26, 2006, on the condition that its holding in Gan Shmuel does not fall below 5%.

- 4.6 On November 6, 2006 the Company's Board of Directors approved the agreement for purchasing control over Elite Coffee To Go Marketing (1997) Ltd. ("Elite Coffee"), by means of exercising an option to purchase an additional 24% of the shares of Elite Coffee, following which the Company will reach a 50% holding in the shares of Elite Coffee and have a casting right in the Board of Directors.

The approval of the Commissioner of Restrictive Trade Practices to the transaction was received in December 2006. In accordance with IAS 27 on consolidated and stand-alone financial statements, the Company consolidates Elite Coffee as from December 2006 due to the existence of an option to purchase control that can be exercised immediately.

In consideration for exercise of the option the Company will invest \$ 0.8 million in Elite Coffee. On March 11, 2007, the transaction was completed and the consideration was paid. An additional consideration may be paid the future, and it is contingent upon obtaining financial objectives as defined in the agreement regarding the exercise of the option. As a result of the acquisition, the Company recognized goodwill in the amount of NIS 4.2 million in the reported period. The goodwill in respect of the Company's investment in Elite Coffee amounts to NIS 8.6 million.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 4 - Material Events during the Reported Period (cont'd)

- 4.7 On April 27, 2007 Strauss Dairies Ltd. ("Strauss Dairies"), an 80% investee company of Strauss Group Ltd., signed an agreement to purchase full ownership over Aviv Netivot Dairies Ltd. ("Aviv Dairies"). Aviv Dairies manufactures dairy products for the orthodox sector, and for some years manufactures such products for Strauss Dairies as a subcontractor.

Until the acquisition Aviv Dairies was 100% held by private investors, and The Uri Horazo Yotvata Dairies Ltd. ("Yotvata Dairies") had an option to purchase 50% of the shares of Aviv Dairies ("the option").

Strauss Dairies paid a total of NIS 29 million to the holders of the various rights in Aviv Dairies. An amount of NIS 14 million shall be paid to Yotvata Dairies (a 50% investee company of Strauss Dairies) for cancellation of the option and for the marketing rights to the orthodox sector, and an amount of NIS 8 million shall be paid to the private investors. Strauss Dairies also paid NIS 7 million to Kibbutz Yotvata in respect of new business understandings between the parties regarding, inter alia, transfer of the ownership over Aviv Dairies.

Execution of the transaction was contingent upon, inter alia, the approval of the Commissioner of Restrictive Trade Practices and the Investments Center. The transaction was completed on May 24, 2007 after all the preconditions were fulfilled.

Strauss Dairies is acting to allocate the purchase cost to the purchased identified assets and assumed identified liabilities as required in IFRS 3 regarding business combinations.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 4 - Material Events during the Reported Period (cont'd)

4.7 (cont'd)

The amounts that were recognized on the date of acquisition without fair value adjustments are as follows:

	Aviv Dairies		
	Pre-acquisition carrying amounts	Acquisition adjustments	Recognized values on acquisition
	NIS thousands		
Cash	73	-	73
Trade and other receivables	3,885	-	3,885
Inventory	2,975	-	2,975
Current maturities of long-term loan	288	-	288
Long-term loan	501	-	501
Fixed assets	7,663	-	7,663
Short-term credit	(1,288)	-	(1,288)
Trade and other payables	(11,987)	-	(11,987)
Long-term loans	(1,297)	-	(1,297)
Employee benefits	(114)	-	(114)
Deferred taxes	(319)	-	(319)
Identified assets and liabilities, net	<u>380</u>	<u>-</u>	<u>380</u>
Goodwill	<u>-</u>	<u>22,420</u>	<u>22,420</u>
Option for the acquisition of 50%	<u>7,800</u>	<u>(7,800)</u>	<u>-</u>
Cash acquired			73
Consideration paid in cash			(15,000)
Cash acquired, net			<u>(14,927)</u>

If Aviv Dairies had been consolidated already on January 1, 2007, the revenues in the consolidated statement of income would have amounted to NIS 2,815,490 thousand for the six month period ended June 30, 2007 (an increase of NIS 2,383 thousand) . The effect on the income for the period would have been immaterial.

- 4.8 Further to that mentioned in Note 23.1.1.6 of the annual financial statements regarding the request of two plaintiffs to certify a class action in the amount of NIS 12.3 billion, on April 16, 2007 the Chief Rabbinate submitted its reply to the request to certify a class action, in which it denies the allegations of the Company that it had received permits to use gelatin from non-kosher sources.

The local rabbinate, which is also a defendant in the claim, has not yet submitted its reply to the request, and requested an extension of the date for submitting its reply. The plaintiffs do not agree to the request of the local rabbinate and have requested to receive a verdict in the absence of a defense on its part. No decision has as yet been made on the request of the plaintiffs and no hearing has as yet been scheduled on the claim.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 4 - Material Events during the Reported Period (cont'd)

- 4.9 As regards developments in class actions and other contingent liabilities in the reported period, see the following notes of the annual financial statements: 23.1.1.2, 23.1.1.3, 23.1.1.6, 23.1.1.10, 23.1.2.7, 23.1.2.10.
- 4.10 On June 23, 2007 the Company's Board of Directors approved a change in the operating model and organizational structure of the Group, in the headquarters of the Group and in its operations in Israel.

The principal objective of the organizational change is to match the operating model and structure of the Group to its rate of growth and development, to its strategic plans, and to enable it to develop into one international company that operates according to leading international standards. Furthermore, the operating model and the new structure are supposed to lead to leverage of the Group's competitive abilities and to focus it on understanding the customer and leading consumer trends, improve the cost structure, improve profitability and divert resources towards continuation of international expansion, develop a new organizational culture that encourages sharing, organizational flexibility and professionalism, improve Group-wide organizational processes, and improve expertise and professionalism in areas such as marketing and supply chains (including manufacturing), while achieving operating excellence.

The principal organizational changes are as follows:

The Group's headquarters will receive certain new authorities and responsibilities with regards to management and support of the business companies in various professional areas. The headquarters will be responsible for and manage the activities of the Group with respect to the areas of marketing, operations and supply chain, the business strategy, business development, mergers and acquisitions, development of future technologies, human resources, finance and corporate communications. In this framework the Group's headquarters will be responsible for preparing the operating strategy in various areas, will integrate new Group-wide processes, will improve expertise and professionalism in those areas on the basis of leading global methodologies, and will provide professional services to the business companies in the various areas.

The new structure of the operations in Israel is based on the matrixial model and in its framework the existing business units were organized in four divisions: the health and life quality division, the pleasure and enjoyment division, the Israel coffee division (which is a part of Strauss Coffee, the international coffee company of the Group) and the salted products division. Each division will be responsible for the growth and profitability and shall manage the profit and loss in its areas of responsibility. The division will focus on increasing demand in its area of business, by strengthening and building up brands and by coordinating all the services provided to the division by the Group's headquarters and main units in Israel.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 4 - Material Events during the Reported Period (cont'd)

4.10 (cont'd)

In addition, a number of central units were established and strengthened in Israel and the changes include, inter alia, combining all the Group's plants under a central operating division that will serve all the divisions, concentrating new processes and areas of authority under the planning department of the supply chain division, and concentrating the areas of human resources and finance under central units that will provide services to the divisions and central units in Israel.

The Group is preparing to make the change in a gradual manner, with the transition to the new structure of divisions and concentration of the central units in Israel coming into effect at the beginning of September 2007.

In the second quarter the Company recorded a restructuring provision in the amount of NIS 5.6 million, in accordance with IAS 37 regarding provisions, contingent liabilities and contingent assets. The restructuring expenses were included in other expenses.

Note 5 - Subsequent Events

5.1 On July 31, 2007 the minority shareholders of A.N.P. Fresh Vegetables Ltd. ("A.N.P."), who hold 49% of the shares of A.N.P., announced the exercise of a put option to sell all their holdings in A.N.P. to Strauss Salads Trade Ltd. ("Strauss Salads"). Due to the existence of the put option, the Group recognized a commitment to purchase the minority's rights already upon the granting of the option (see Note 3.3.7 of the annual financial statements). Strauss Salads, a company wholly owned by the Company, holds 51% of the shares of A.N.P. and after exercise of the option it shall hold 100% of the shares of A.N.P.

In consideration for the shares of A.N.P. (49%) the Company is expected to pay to the minority shareholders the total amount of NIS 29 million, subject to any adjustments that may be required.

Note 6 - Financial and Qualitative Information According to IFRS**A. General**

As mentioned in Note 1.1.2, the Group initially adopted IFRS in its financial statements for the year ended December 31, 2005. These financial statements were published in an immediate report, as additional information, on June 5, 2006. According to IFRS 1, the Company's date of transition to reporting according to IFRS is January 1, 2003.

Presented below are the Company's consolidated balance sheet as at June 30, 2006 and its consolidated statement of income for the six and three month periods then ended, and its shareholders' equity, as at June 30, 2006, prepared according to IFRS. Also presented are the adjustments required for the transition from reporting according to Israeli GAAP to reporting according to IFRS as at June 30, 2006 and for the six and three month periods then ended.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)**A. General**

For an explanation regarding the transition from reporting according to Israeli GAAP to reporting according to IFRS for the year ended December 31, 2006, see Note 39 of the annual financial statements prepared according to IFRS that were published in an immediate report, as additional information, on June 28, 2007.

B. Consolidated balance sheet as at June 30, 2006

	<u>Annotation</u>	<u>According to Israeli GAAP</u>	<u>Adjustments NIS thousands</u>	<u>According to IFRS</u>
Current assets				
Cash and cash equivalents		154,739	-	154,739
Marketable securities and deposits		33,318	-	33,318
Trade receivables		* 841,908	-	841,908
Income Tax	12	-	32,008	32,008
Other receivables and debit balances	11, 12	* 303,071	(64,194)	238,877
Inventory		554,808	-	554,808
Assets held for sale	8	-	5,349	5,349
Total current assets		<u>1,887,844</u>	<u>(26,837)</u>	<u>1,861,007</u>
Non-current assets				
Investment in affiliated company	4	** 21,915	1,174	23,089
Other investments and long-term debit balances	14	* 86,520	3,486	90,006
Assets designated for the payment of employee benefits	2	-	6,798	6,798
Deferred tax assets	10	-	45,753	45,753
Fixed assets	8, 9, 13	*** 1,001,133	(31,805)	969,328
Investment property		*** 19,610	-	19,610
Other assets and deferred expenses	4, 9, 13	*** 897,100	117,330	1,014,430
Total non-current assets		<u>2,026,278</u>	<u>142,736</u>	<u>2,169,014</u>
		<u>3,914,122</u>	<u>115,899</u>	<u>4,030,021</u>

* Reclassified (see Note 1.4)

** Reclassified

*** Reclassified following the implementation of Standard 16 of the Israel Accounting Standards Board regarding investment property.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)

B. Consolidated balance sheet as at June 30, 2006 (cont'd)

	Annotation	According to Israeli GAAP	Adjustments NIS thousands	According to IFRS
Current liabilities				
Credit from banks and current maturities of debentures and long-term bank loans		** 652,057	-	652,057
Trade payables	12	** 454,609	(4,770)	449,839
Income Tax	12	-	70,469	70,469
Other payables and credit balances	11, 12	* 492,202	(63,149)	429,053
Provisions	12	-	22,795	22,795
Total current liabilities		<u>1,598,868</u>	<u>25,345</u>	<u>1,624,213</u>
Non-current liabilities				
Loans and credit		**576,411	-	576,411
Put options to minority shareholders	13	-	43,861	43,861
Long-term payables and credit balances		*18,134	-	18,134
Benefits to employees	2, 12	24,103	(2,115)	21,988
Deferred taxes	10, 14	** 111,013	12,425	123,438
Option warrants	5	-	48,800	48,800
		<u>729,661</u>	<u>102,971</u>	<u>832,632</u>
Minority interest	3	198,761	(198,761)	-
Equity				
Share capital		241,404	-	241,404
Share premium	5	588,741	(35,642)	553,099
Treasury stock		(19,845)	-	(19,845)
Loans to purchase Company shares		(13,469)	-	(13,469)
Translation reserve	4, 11	4,514	(8,401)	(3,887)
Retained earnings	15	585,487	41,318	626,805
Total equity attributable to the Company's shareholders		<u>1,386,832</u>	<u>(2,725)</u>	<u>1,384,107</u>
Total equity attributable to the minority shareholders	3, 13	-	189,069	189,069
Total equity		<u>1,386,832</u>	<u>186,344</u>	<u>1,573,176</u>
Total liabilities and equity		<u>3,914,122</u>	<u>115,899</u>	<u>4,030,021</u>

* Reclassified (see Note 1.4)

** Reclassified

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)

C. Consolidated statements of income for the six and three month periods ended June 30, 2006

	Annotation	For the six month period ended June 30, 2006			For the three month period ended June 30, 2006		
		According to Israeli GAAP	Adjustments	According to IFRS	According to Israeli GAAP	Adjustments	According to IFRS
		NIS thousands					
Sales		2,504,777	-	2,504,777	1,247,361	-	1,247,361
Cost of sales	9, 11	1,563,664	7,082	1,570,746	779,292	(3,187)	776,105
Gross profit		<u>941,113</u>	<u>7,082</u>	<u>934,031</u>	<u>468,089</u>	<u>(3,187)</u>	<u>471,256</u>
Selling and marketing expenses		585,270	-	585,270	295,457	-	295,457
General and administrative expenses	7, 9	143,911	3,130	147,041	71,427	3,403	74,830
		<u>729,181</u>	<u>3,130</u>	<u>732,311</u>	<u>366,884</u>	<u>3,403</u>	<u>370,287</u>
Operating profit before other income		211,932	(10,212)	201,720	101,205	(236)	100,969
Other income, net		141,439	-	141,439	141,377	-	141,377
Operating profit after other income		<u>353,371</u>	<u>(10,212)</u>	<u>343,159</u>	<u>242,582</u>	<u>(236)</u>	<u>242,346</u>
Financing income (expenses), net	5, 13	(16,597)	(10,486)	(27,083)	(7,650)	(4,047)	(11,697)
Income before taxes on income		<u>336,774</u>	<u>(20,698)</u>	<u>316,076</u>	<u>234,932</u>	<u>(4,283)</u>	<u>230,649</u>
Taxes on income	11	(83,095)	1,404	(81,691)	(52,685)	148	(52,537)
Income after taxes on income		<u>253,679</u>	<u>(19,294)</u>	<u>234,385</u>	<u>182,247</u>	<u>(4,135)</u>	<u>178,112</u>
Company's equity in income of affiliated company		2,038	-	2,038	825	-	825
Share of the minority in income of subsidiaries		(23,218)	23,218	-	(12,994)	12,994	-
Income for the period		<u>232,499</u>	<u>3,924</u>	<u>236,423</u>	<u>170,078</u>	<u>8,859</u>	<u>178,937</u>
Attributable to:							
The Company's shareholders		(1) 232,499	(16,617)	215,881	170,078	(1,875)	168,203
Minority interest	13	(1) 23,218	(2,676)	20,542	12,994	(2,260)	10,734
		<u>255,717</u>	<u>(19,293)</u>	<u>236,423</u>	<u>183,072</u>	<u>(4,135)</u>	<u>178,937</u>
Basic earnings per share for the Company's shareholders		<u>2.23</u>	<u>(0.16)</u>	<u>2.07</u>	<u>1.63</u>	<u>(0.02)</u>	<u>1.61</u>
Diluted earnings per share for the Company's shareholders		<u>2.21</u>	<u>(0.15)</u>	<u>2.06</u>	<u>1.62</u>	<u>(0.02)</u>	<u>1.60</u>

(1) Presented for comparison purposes only.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)**D. The principal differences between IFRS and Israeli GAAP**

All that stated below regarding the operating effects is in respect of the six and three month periods ended June 30, 2006.

1. Adjustment to inflation

In accordance with Israeli GAAP, until January 1, 2004 a hyperinflationary environment was defined as an environment having a cumulative rate of inflation of more than 20% over a period of three years. In accordance with IFRS, a hyperinflationary environment is defined as an environment in which, inter alia, the cumulative rate of inflation is more than 100% over a period of three years.

2. Benefits to employees

In accordance with Israeli GAAP, the liability for employee severance benefits was recognized on the basis of the full amount of the liability, assuming that all the employees will be dismissed on balance sheet date at terms entitling them to receive full severance pay without taking into account a capitalization rate, salary raises and future employee turnover.

On the date of transition the net liability in respect of employee severance benefits was measured in accordance with IAS 19 as a liability in respect of a defined benefit plan.

The effect on the balance sheet as at June 30, 2006 is a net decrease in liabilities for employee benefits in the amount of NIS 2,115 thousand, a decrease in deferred tax assets in the amount of NIS 4,086 thousand; the classification of assets designated for the payment of employee benefits as assets in the amount of NIS 6,798 thousand; and an increase in retained earnings in the amount of NIS 4,014 thousand.

3. Minority interest

In accordance with Israeli GAAP the minority interest is classified in the balance sheet separately from the shareholders' equity, whereas in accordance with IFRS the minority interest is classified in the balance sheet as a component of equity. See also Item 13 hereunder.

4. Goodwill

In accordance with Israeli GAAP, until January 1, 2006 goodwill that was created in a business combination as well as intangible assets are amortized over their estimated useful lives, but over no more than 20 years. As from January 1, 2006 goodwill is not systematically amortized but is examined at least once a year for impairment in value, similarly to IFRS. Furthermore, until January 2006 there were no specific rules regarding allocation of the cost of an investee company.

In accordance with the provisions of IFRS 1, the Group has chosen to implement IFRS 3 for all the business combinations that took place as from January 1, 2003 (the date of transition to IFRS). Furthermore, as from January 1, 2003, in accordance with IFRS, goodwill is not systematically amortized but is examined at least once a year for impairment in value. Also intangible assets having an unlimited useful life are not systematically amortized. Therefore, as from January 1, 2003, the Group no longer systematically amortizes goodwill.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)**D. The principal differences between IFRS and Israeli GAAP (cont'd)**

As a result of this, the balance of goodwill and retained earnings increased by the amount of NIS 35, 316 thousand as at June 30, 2006.

5. Option warrants

In accordance with Israeli GAAP, options issued to investors that have an exercise price that is linked to the Consumer Price Index are classified as shareholders' equity. In accordance with IFRS, options of this kind are classified as financial liabilities and subsequently measured at fair value.

As mentioned in Note 25.2 of the annual financial statements, on July 3, 2006 the terms of the options were changed so that following the change the options became an equity instrument instead of a financial liability and there is no difference between IFRS and Israeli GAAP.

As a result of this, there was a decrease in the premium in the amount of NIS 42,731 thousand and an increase in options in the amount of NIS 48,800 thousand. The effect on the statement of income for the six and three month periods ended June 30, 2006 is an increase in financing expenses in the amount of NIS 8,810 thousand and NIS 3,540 thousand, respectively. The total effect on retained earnings is NIS 6,069 thousand as at June 30, 2006.

6. Translation differences

In accordance with Israeli GAAP, until December 31, 2003 the financial statements of a foreign operation were translated into the reporting currency of the Company according to year-end exchange rates; the translation applying to items of both the balance sheet and the statement of income. The adjustments in respect of translation differences were classified as adjustments deriving from the translation of financial statements of autonomous investees. As from January 1, 2004, income and expense items were translated according to the exchange rates in effect on the dates of the transactions, or an average exchange rate for the period, providing that it is approximates the actual rate.

In accordance with IFRS, the income and expense items are to be translated according to the exchange rates in effect on the dates of the transactions, or according to average exchange rates, similar to the Israeli GAAP that came into effect on January 1, 2004. The Company also recorded translation differences in respect of the liability deriving from the writing of a sale option to minority shareholders (see item 14(1) below).

The Company has chosen to implement the exception provided in IFRS 1, by which the cumulative translation differences are included in retained earnings in respect of all the foreign operations as from the date of the transition to IFRS.

As a result of this, the overall effect is a decrease of NIS 5,693 thousand in retained earnings as at June 30, 2006.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)**D. The principal differences between IFRS and Israeli GAAP (cont'd)****7. Share-based payments**

In accordance with Israeli GAAP, until January 1, 2006 no expenses were recognized in respect of share-based payments. After January 1, 2006, principles similar to those prescribed in IFRS 2 were implemented.

In accordance with IFRS, the Group records expenses in respect of share-based payments existing as at January 1, 2005, other than share-based payments granted before November 7, 2002, and with respect to share-based payments that were granted after November 7, 2002 and have fully vested before January 1, 2005. The Group granted share-based payments that are settled by equity instruments in the years 2003, 2004 and 2005.

The effect on the statement of income for the six and three month periods ended June 30, 2006 is an increase in general and administrative expenses in the amount of NIS 3,310 thousand and NIS 3,559 thousand, respectively.

8. Assets held for sale

In accordance with Israeli GAAP, these assets were presented under fixed assets, whereas in accordance with IFRS these assets are presented separately in the balance sheet, at the lower of their carrying value or fair value net of selling costs (depreciation in respect of these assets is also not included).

The Group has adopted the provisions of IFRS 5 as from January 1, 2005 in respect of assets classified as held for sale and discontinued operations.

As a result of this, fixed assets in the amount of NIS 5,349 thousand were presented as assets held for sale.

9. Deferred expenses in respect of operating lease

In accordance with Israeli GAAP, prepaid expenses in respect of an operating lease on lands of the Israel Lands Administration are classified as a financing lease of land under fixed assets and are not amortized.

In accordance with IFRS, prepayments to the Israel Lands Administration do not meet the requirements for being classified as a financing lease. Therefore, these payments were reclassified as deferred expenses under non-current assets.

As a result of this, there was a decrease in fixed assets in the amount of NIS 28,426 thousand against an increase in other assets and deferred expenses in respect of operating lease in the amount of NIS 26,362 thousand and a decrease in retained earnings in the amount of NIS 1,990 thousand.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)**D. The principal differences between IFRS and Israeli GAAP (cont'd)****10. Deferred taxes**

In accordance with Israeli GAAP, deferred tax assets and liabilities are classified as current or non-current assets, in accordance with the classification of the items in respect of which they were created.

In accordance with IFRS, deferred tax assets and liabilities are classified as non-current items, even if it is anticipated that they will be realized in the short term. Therefore, upon the transition to IFRS, deferred taxes in the amount of NIS 35,115 thousand were classified as short-term as at June 30, 2006.

The transition to IFRS led to an increase in deferred tax liabilities as presented below:

	<u>Annotation</u>	<u>June 30 2006</u>
Derivatives	11	672
Call options	14	871
Classification of deferred taxes from short term to long term		11,440
Other		(558)
		<u>12,425</u>
Increase in deferred tax liabilities		<u>12,425</u>

11. Derivatives

In accordance with the provisions of IFRS 1, the Group has chosen to implement IAS 32 and IAS 39 retroactively from January 1, 2005. In accordance with Israeli GAAP, certain derivatives are treated as hedge transactions, whereas in accordance with IFRS these derivatives are recorded at fair value, since the criteria of IAS 39 for hedge accounting have not been met.

As a result of this, there was an increase in other receivables in the amount of NIS 12,053 thousand, other payables increased by NIS 7,792 thousand, the deferred tax liability increased by NIS 672 thousand and the translation reserve increased by NIS 125 thousand.

The effect on the statement of income for the six and three month periods ended June 30, 2006 is an increase in cost of sales of NIS 6,932 thousand and a decrease of NIS 3,253 thousand, respectively, and a decrease in taxes on income of NIS 1,366 thousand and NIS 508 thousand, respectively.

12. Classifications according to IFRS

The following items were classified:

- a. Provisions in respect of legal or constructive obligations were presented separately in the balance sheet and not under trade payables, other payables and credit balances and liabilities for employee severance benefits.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)**D. The principal differences between IFRS and Israeli GAAP (cont'd)**

- b. Income tax receivable/payable were presented separately in the balance sheet and not under other receivables and debit balances/other payables and credit balances.

13. Put options

In accordance with Israeli GAAP, under certain circumstances, put options that were issued by the Group to the minority shareholders are not reflected in the financial statements.

In accordance with IFRS, when the minority shareholders hold put options, their share in the net assets of the subsidiary will be reclassified from the minority interest as financial liabilities in the consolidated balance sheet. This financial liability has to be measured according to the present value of the option's exercise price. The revaluation of the financial liability in respect of the time component is reflected in the financing expenses and the Company includes in its income the full amount of the subsidiary's income (does not allocate to the minority its share in the income of the subsidiary, other than when a dividend is distributed to the minority, in which case the dividend is recorded as financing expenses).

As a result of this, there was an increase of NIS 53,550 thousand in other assets; an increase of NIS 5,040 thousand in fixed assets; an increase of NIS 26,474 thousand in payables; an increase of NIS 43,861 thousand in the liability in respect of the put option of the minority; a decrease of NIS 19,441 thousand in the minority interest and an increase of NIS 1,468 thousand in the translation reserve.

The effect on the statement of income for the six months ended June 30, 2006 is a decrease of NIS 2,676 thousand in the income for the period that is attributable to the minority interest and an increase of NIS 1,563 thousand in financing expenses.

In accordance with IFRS, mutual options, meaning when the minority has a put option and the Company has a call option, which are not settled by equity instruments, are treated according to the put option and the call option is ignored.

14. Call options

In accordance with Israeli GAAP, under certain circumstances, investments in call options on an investment in an other company are not reflected as a separate financial asset.

In accordance with IFRS, when the Group holds call options, the holding is recorded on the balance sheet at fair value; changes in fair value are recognized in the statement of income.

As a result of this there was an increase in other investments and long-term receivables in the amount of NIS 3,486 thousand, an increase in deferred tax liabilities in the amount of NIS 871 thousand and an increase in retained earnings in the amount of NIS 2,615 thousand.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 - Financial and Qualitative Information According to IFRS (cont'd)**D. The principal differences between IFRS and Israeli GAAP (cont'd)****15. Cumulative effect of the adjustments on the retained earnings as at June 30, 2006:**

	<u>Annotation</u>	<u>June 30 2006 NIS thousands</u>
Translation differences	6	(5,693)
Goodwill calculation	4	35,316
Derivatives	11	1,927
Operating leases	9	(1,990)
Benefits to employees	2	4,014
Options	5	(6,069)
Deferred taxes	10	7,113
Fair value of call options	14	2,615
Other adjustments		4,085
Total adjustments to retained earnings		<u>41,318</u>
Attributed to:		
The Company's shareholders		40,199
Minority interest		1,119
		<u>41,318</u>

