

# **STRAUSS-GROUP LTD.**

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AS AT JUNE 30, 2008

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**STRAUSS-GROUP LTD.**  
FINANCIAL STATEMENTS  
AS AT JUNE 30, 2008

**Financial Statements as at June 30, 2008**

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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, 2008**

At your request, we have reviewed the consolidated interim balance sheet of Strauss-Group Ltd. and its subsidiaries as at June 30, 2008, and the consolidated interim statements of income, interim statements of changes in shareholders' equity, and consolidated interim statements 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 15.78% of the total consolidated assets as at June 30, 2008 and whose revenues constitute 7.66% and 6.78% of the total consolidated revenues for the six and three month periods then ended, respectively.

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 5.1 regarding claims that were filed against the Company for the purpose of being certified as class actions.

Sincerely,

Somekh Chaikin  
Certified Public Accountants (Isr.)

August 26, 2008

**Consolidated Balance Sheets**

	<b>June 30 2008</b>	<b>June 30 2007</b>	<b>December 31 2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>	<b>NIS thousands</b>
<b>Current assets</b>			
Cash and cash equivalents	357,794	586,599	489,737
Marketable securities and bank deposits	60,114	33,757	59,527
Trade receivables	987,820	868,501	899,490
Income tax receivables	51,063	*45,914	* 47,883
Other receivables and debit balances	294,854	*199,305	* 207,251
Inventory	699,541	646,920	621,134
Assets classified as held for sale	2,728	-	2,820
<b>Total current assets</b>	<b>2,453,914</b>	<b>2,380,996</b>	<b>2,327,842</b>
<b>Investments and non-current assets</b>			
Other investments and long-term debit balances	92,301	*100,992	130,584
Assets designated for the payment of employee benefits	6,373	7,308	6,664
Fixed assets	1,230,265	* 1,099,358	1,218,491
Intangible assets	1,416,964	* 1,178,678	* 1,223,127
Deferred expenses	55,122	* 49,206	50,510
Investment property	18,420	19,491	18,420
Deferred tax assets	8,964	* 11,449	* 11,020
<b>Total investments and non-current assets</b>	<b>2,828,409</b>	<b>2,466,482</b>	<b>2,658,816</b>
<b>Total assets</b>	<b>5,282,323</b>	<b>4,847,478</b>	<b>4,986,658</b>

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 26, 2008

**Consolidated Balance Sheets (cont'd)**

	<b>June 30 2008</b>	<b>June 30 2007</b>	<b>December 31 2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS thousands</b>	<b>NIS thousands</b>	<b>NIS thousands</b>
<b>Current liabilities</b>			
Short-term loans and credit	720,429	279,774	319,417
Trade payables	702,586	663,377	728,483
Income tax payables	43,667	* 70,258	* 65,880
Other payables and credit balances	450,335	* 471,195	591,430
Provisions	38,666	28,639	34,982
<b>Total current liabilities</b>	<b>1,955,683</b>	<b>1,513,243</b>	<b>1,740,192</b>
<b>Non-current liabilities</b>			
Long-term loans and credit	1,120,526	1,157,526	1,089,990
Put option to minority shareholders	-	118,650	-
Long-term payables and credit balances	29,731	* 31,663	* 43,055
Employee benefits	19,763	21,329	22,146
Deferred taxes	124,607	* 97,102	* 123,482
<b>Total non-current liabilities</b>	<b>1,294,627</b>	<b>1,426,270</b>	<b>1,278,673</b>
<b>Equity</b>			
Share capital	242,112	241,630	241,660
Share premium	622,279	601,592	600,468
Treasury stock	(19,845)	(19,845)	(19,845)
Translation reserve	(40,382)	94,207	59,908
Reserve for available for sale financial assets	(1,311)	2,902	1,152
Retained earnings	1,035,032	* 770,548	882,966
<b>Total equity attributable to the Company's shareholders</b>	<b>1,837,885</b>	<b>* 1,691,034</b>	<b>1,766,309</b>
<b>Minority interest</b>	<b>194,128</b>	<b>* 216,931</b>	<b>201,484</b>
<b>Total equity</b>	<b>2,032,013</b>	<b>1,907,965</b>	<b>1,967,793</b>
<b>Total liabilities and equity</b>	<b>5,282,323</b>	<b>4,847,478</b>	<b>4,986,658</b>

\* 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
	June 30	June 30	June 30	June 30	December 31
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Sales	3,036,046	2,813,107	1,531,968	1,420,468	5,960,947
Cost of sales					
Valuation of balance of commodities hedging transactions as at end of period	(5,890)	(4,301)	(9,099)	(13,579)	5,022
Other costs	1,920,804	1,741,026	965,742	881,755	3,720,974
Total cost of sales	1,914,914	1,736,725	956,643	868,176	3,725,996
<b>Gross profit</b>	1,121,132	1,076,382	575,325	552,292	2,234,951
Selling and marketing expenses					
Doubtful debts income – Clubmarket	-	-	-	-	(3,390)
Other selling and marketing expenses	683,794	649,849	351,827	332,673	1,380,158
Total selling and marketing expenses	683,794	649,849	351,827	332,673	1,376,768
General and administrative expenses	181,861	171,540	92,630	88,069	359,191
	865,655	821,389	444,457	420,742	1,735,959
<b>Operating profit before other income (expenses)</b>	255,477	254,993	130,868	131,550	498,992
Other income (expenses), net	19,840	(6,799)	(7,929)	(5,581)	(19,031)
<b>Operating profit</b>	275,317	248,194	122,939	125,969	479,961
Financing income	27,147	27,226	18,071	16,936	47,560
Financing expenses	(80,940)	(53,138)	(47,351)	(29,762)	(124,153)
Financing expenses, net	(53,793)	(25,912)	(29,280)	(12,826)	(76,593)
<b>Profit before income taxes</b>	221,524	222,282	93,659	113,143	403,368
Income taxes	(62,179)	(63,082)	(27,455)	(26,212)	(110,557)
<b>Profit for the period</b>	159,345	159,200	66,204	86,931	292,811
<b>Attributable to:</b>					
The Company's shareholders	139,988	143,134	55,857	75,558	247,822
Minority interest	19,357	16,066	10,347	11,373	44,989
<b>Profit for the period</b>	159,345	159,200	66,204	86,931	292,811
<b>Earnings per share of the Company's shareholders</b>					
Basic and diluted earnings per share (in NIS)	1.33	1.37	0.53	0.72	2.36

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

**Statements of Changes in Shareholders' Equity**

	Attributable to the Company's shareholders							Minority interest	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS thousands								
<b>Balance as at January 1, 2008 - audited</b>	241,660	600,468	59,908	(19,845)	1,152	882,966	1,766,309	201,484	1,967,793
<b>Changes during the six-month period ended June 30, 2008 - unaudited:</b>									
Income for the period	-	-	-	-	-	139,988	139,988	19,357	159,345
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	(2,463)	-	(2,463)	(3,694)	(6,157)
Foreign currency translation differences	-	-	(104,840)	-	-	-	(104,840)	-	(104,840)
Realization of translation reserve	-	-	4,550	-	-	-	4,550	-	4,550
Total recognized income for the period	-	-	-	-	-	-	37,235	15,663	52,898
Exercise of share options	452	21,811	-	-	-	-	22,263	-	22,263
Share-based payment	-	-	-	-	-	12,078	12,078	-	12,078
Share-based payment in subsidiary	-	-	-	-	-	-	-	931	931
Dividend paid to minority in subsidiary	-	-	-	-	-	-	-	(23,950)	(23,950)
<b>Balance as at June 30, 2008 - unaudited</b>	<b>242,112</b>	<b>622,279</b>	<b>(40,382)</b>	<b>(19,845)</b>	<b>(1,311)</b>	<b>1,035,032</b>	<b>1,837,885</b>	<b>194,128</b>	<b>2,032,013</b>

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	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS thousands								
<b>Balance as at January 1, 2007 – audited</b>	241,515	600,468	7,009	(19,845)	-	* 623,526	*1,452,673	*202,512	1,655,185
<b>Changes during the six-month period ended June 30, 2007 - unaudited:</b>									
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 share options	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)
<b>Balance as at June 30, 2007 - unaudited</b>	<u>241,630</u>	<u>601,592</u>	<u>94,207</u>	<u>(19,845)</u>	<u>2,902</u>	<u>770,548</u>	<u>1,691,034</u>	<u>216,931</u>	<u>1,907,965</u>

\* Reclassified (see Note 1.4.1)

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	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS thousands								
<b>Balance as at April 1, 2008- unaudited</b>	242,096	622,279	(3,627)	(19,845)	197	972,822	1,813,922	209,819	2,023,741
<b>Changes during the three-month period ended June 30, 2008- unaudited:</b>									
Income for the period	-	-	-	-	-	55,857	55,857	10,347	66,204
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	(1,508)	-	(1,508)	(2,261)	(3,769)
Foreign currency translation differences	-	-	(36,755)	-	-	-	(36,755)	-	(36,755)
Total recognized income for the period							17,594	8,086	25,680
Exercise of share options	16	-	-	-	-	-	16	-	16
Share-based payment	-	-	-	-	-	6,353	6,353	-	6,353
Share-based payment in subsidiary	-	-	-	-	-	-	-	173	173
Dividend paid to the minority in subsidiary	-	-	-	-	-	-	-	(23,950)	(23,950)
<b>Balance as at June 30, 2008 - unaudited</b>	<u>242,112</u>	<u>622,279</u>	<u>(40,382)</u>	<u>(19,845)</u>	<u>(1,311)</u>	<u>1,035,032</u>	<u>1,837,885</u>	<u>194,128</u>	<u>2,032,013</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							Minority interest	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS thousands								
<b>Balance as at April 1, 2007 - unaudited</b>	241,515	600,468	2,423	(19,845)	1,271	* 694,491	*1,520,323	* 209,137	1,729,460
<b>Changes during the three-month period ended June 30, 2007 - unaudited:</b>									
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	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)
<b>Balance as at June 30, 2007 – unaudited</b>	<b>241,630</b>	<b>601,592</b>	<b>94,207</b>	<b>(19,845)</b>	<b>2,902</b>	<b>770,548</b>	<b>1,691,034</b>	<b>216,931</b>	<b>1,907,965</b>

\* Reclassified (see Note 1.4.1)

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	Reserve in respect of available for sale financial assets	Retained earnings	Total		
	NIS thousands								
<b>Balance as at January 1, 2007 - audited</b>	241,515	600,468	7,009	(19,845)	-	623,526	1,452,673	202,512	1,655,185
<b>Changes in 2007 – audited:</b>									
Income for the period	-	-	-	-	-	247,822	247,822	44,989	292,811
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1,152	-	1,152	1,756	2,908
Foreign currency translation differences	-	-	52,899	-	-	-	52,899	-	52,899
Total recognized income for the period							301,873	46,745	348,618
Share-based payment	-	-	-	-	-	11,618	11,618	-	11,618
Exercise of share options	145	-	-	-	-	-	145	-	145
Capital reserve from benefit to shareholder of subsidiary	-	-	-	-	-	-	-	(728)	(728)
Dividend paid to the minority in subsidiary	-	-	-	-	-	-	-	(47,045)	(47,045)
<b>Balance as at December 31, 2007 – audited</b>	<u>241,660</u>	<u>600,468</u>	<u>59,908</u>	<u>(19,845)</u>	<u>1,152</u>	<u>882,966</u>	<u>1,766,309</u>	<u>201,484</u>	<u>1,967,793</u>

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
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands		NIS thousands		NIS thousands
<b>Cash flows from operating activities</b>					
Income for the period	159,345	159,200	66,204	86,931	292,811
Adjustments:					
Depreciation	78,890	77,483	37,061	41,770	159,986
Amortization of intangible assets and deferred expenses	16,148	16,013	8,226	8,646	31,840
Impairment provision	-	-	-	-	2,650
Other expenses (income), net	(28,049)	525	620	3,854	4,332
Expenses in respect of share based payment	13,121	3,888	6,488	499	12,218
Financing expenses, net	53,793	25,912	29,280	12,826	76,593
Income tax expenses	62,179	63,082	27,455	26,212	110,557
Change in inventory	(72,267)	(72,489)	(40,494)	(41,003)	(85,047)
Change in trade and other receivables	(235,496)	*(33,903)	(112,680)	* 77,482	*(39,121)
Change in long-term trade receivables	3,452	(3,467)	6,625	(12,147)	(12,218)
Change in trade and other payables	11,544	*81,625	41,582	* 50,415	* 65,289
Change in employee benefits	(1,024)	(104)	(483)	51	1,357
Interest paid, net	(23,441)	(9,768)	(6,608)	(3,819)	(29,288)
Income tax paid, net	(36,785)	*(31,367)	(15,646)	*(3,301)	*(83,653)
<b>Net cash provided by operating activities</b>	<b>1,410</b>	<b>276,630</b>	<b>47,630</b>	<b>248,416</b>	<b>508,306</b>
<b>Cash flows from investing activities</b>					
Realization (purchase) of marketable securities, net	15,394	5,461	26,342	2,389	(17,026)
Proceeds from sale of fixed assets	4,754	101,123	722	4,264	104,865
Sale of subsidiary and transition to jointly controlled entity (see Note 4.2)	1,698	-	-	-	-
Acquisition of subsidiaries and operations (see Notes 4.7 and 4.8)	(377,945)	(14,927)	(377,945)	(14,927)	(14,927)
Acquisition of minority interests (see Note 4.6)	(2,061)	(2,561)	(2,061)	-	-
Acquisition of fixed assets	(118,462)	(101,944)	(42,808)	(50,230)	(290,704)
Investment in deposits	(1,025)	-	(784)	-	(15,025)
Investment grants received	-	274	-	274	8,304
Investments in intangible assets and deferred expenses	(15,503)	(28,727)	(3,611)	(8,576)	(53,990)
Repayment of deposits and long-term loans granted	7,696	5,630	5,041	1,178	19,160
Long-term loans granted	(12,193)	(11,567)	(2,924)	(1,106)	(16,633)
<b>Net cash used in investing activities</b>	<b>(497,647)</b>	<b>(47,238)</b>	<b>(398,028)</b>	<b>(66,734)</b>	<b>(275,976)</b>

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
	2008	2007	2008	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
<b>Cash flows from financing activities</b>					
Short-term bank credit, net	416,600	(404,124)	362,787	(41,519)	(361,925)
Receipt of long-term loans	-	14,529	-	8,049	19,071
Repayment of long-term loans	(12,166)	(144,361)	(9,829)	(32,320)	(245,468)
Issuance of debentures, net	-	768,500	-	-	768,500
Proceeds from exercise of share options (see Note 4.3)	22,263	115	16	115	145
Exercise of put option of minority (see Note 4.1)	(28,796)	-	-	-	-
Dividend paid to minority in a subsidiary	(23,950)	(6,000)	(23,950)	(6,000)	(47,045)
Payments to creditors in respect of acquisition of operation on credit	-	(2,508)*	-	-	(2,508)
<b>Net cash provided by (used in) financing activities</b>	<b>373,951</b>	<b>226,151</b>	<b>329,024</b>	<b>(71,675)</b>	<b>130,770</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(122,286)</b>	<b>455,543</b>	<b>(21,374)</b>	<b>110,007</b>	<b>363,100</b>
Cash and cash equivalents as at beginning of period	489,737	129,096	384,651	474,055	129,096
Effect of exchange rate fluctuations on cash balances	(9,657)	1,960	(5,483)	2,537	(2,459)
<b>Cash and cash equivalents as at end of period</b>	<b>357,794</b>	<b>586,599</b>	<b>357,794</b>	<b>586,599</b>	<b>489,737</b>

\* Reclassified (see Note 1.4)

See Note 6 regarding investing and financing activities that do not involve cash flows.

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

The consolidated interim financial statements as at June 30, 2008 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 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, 2007 and for the year then ended together with their accompanying notes (hereinafter – the "Annual Statements"). The accounting principles applied in preparing these Interim Statements are consistent with the principles applied in preparing the Annual Statements, except for that mentioned in Note 1.2 hereunder. Certain comparative figures have been reclassified so that they may correspond with presentation in the current period, see Note 1.4 hereunder.

#### 1.2 Initial implementation of accounting standards and interpretations

##### 1.2.1 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 guidance for the calculation of the limit. The interpretation had no effect on the financial statements of the Company.

##### 1.2.2 CPI-linked financial assets and liabilities that are not measured at fair value –

Further to that mentioned in Note 30.5.1 of the Annual Statements, in August 2008 the Israel Accounting Standards Board published its position. There was no change in the accounting policy of the Company as a result of the position, and the value of CPI-linked financial assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase in the CPI.

#### 1.3 New standards and interpretations not yet adopted

##### 1.3.1 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 a material effect on the Group's financial position and results of operations.

## Notes to the Consolidated Interim Financial Statements

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

#### 1.3 New standards and interpretations not yet adopted (cont'd)

##### 1.3.2 IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* –

The Interpretation refers to an investment in a foreign operation and provides guidance regarding the hedging of such an investment. Inter alia, the Interpretation refers to the nature of the hedged risk and the amount of the hedged item for which a hedging relationship may be designated, where the hedging instrument is held in a group of companies and the accounting treatment of the capital reserve upon disposal of a foreign operation.

The Interpretation shall apply to annual periods beginning on or after October 1, 2008. Earlier application is permitted while providing disclosure.

##### 1.3.3 Revised IAS 1, *Presentation of Financial Statements*

The revised standard requires presenting all the changes in equity that derive from transactions that are not transactions with the owners in one of the following two formats:

- (a) A single statement of comprehensive income (a combined statement of income and other comprehensive income) or,
- (b) Two statements – a statement of income and a statement of comprehensive income.

The revised standard shall apply to annual periods beginning after January 1, 2009 and permits early adoption. The Company will implement the revised standard to annual periods beginning after January 1, 2009.

##### 1.3.4 Revised IAS 23, *Borrowing Costs* –

The revision to IAS 23 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 revised standard shall apply to annual periods beginning after January 1, 2009 and permits early adoption. The Company is examining the effects of the revision on its financial statements.

##### 1.3.5 Revised IAS 32, *Financial Instruments: Presentation* and Revised IAS 1, *Presentation of Financial Statements*

The revision to IAS 32 requires classifying as equity certain puttable financial instruments and obligations arising on liquidation, in certain circumstances. The revision to IAS 1 provides disclosure requirements regarding puttable financial instruments that were classified as equity. The revision shall apply to annual reporting periods beginning after January 1, 2009. Implementation of the standard is not anticipated to have an effect on the Company's financial position and results of operations.

## Notes to the Consolidated Interim Financial Statements

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

#### 1.3 New standards and interpretations not yet adopted (cont'd)

##### 1.3.6 Revised IFRS 2, *Share-Based Payment* –

The amendment clarifies the terms “vesting conditions” and “cancellations”, as follows:

- a. Vesting conditions are only service conditions and performance conditions. Other characteristics of a share-based payment are not vesting conditions.
- b. All cancellations, whether by the Company or by other parties, are to be treated as an acceleration of the vesting period. Therefore, an expense not yet recognized in respect of a share-based payment shall be recognized immediately. For example, if the Company cancels a share-based payment granted to an employee, even though the employee meets the vesting conditions, it should immediately recognize the expense not yet recognized with respect to the same grant.

The revised standard shall apply to annual periods beginning after January 1, 2009 and permits early adoption. Implementation of the Standard is not anticipated to have an effect on the Company's financial position and results of operations

##### 1.3.7 Revised IFRS 3, *Business Combinations*, and Revised IAS 27, *Consolidated and Separate Financial Statements* –

The principal revisions are as follows:

- a. Transaction costs – Costs related to an acquisition, such as: legal consultation and due diligence, shall be recognized as an expense and not be included in the cost of a business combination.
- b. Contingent consideration – To be recognized on the date of acquisition according to its fair value.
- c. Goodwill and non-controlling interest (formerly – minority interest) – The revision permits an entity to recognize 100% of the goodwill of the acquired entity and not just the acquiring entity's portion of the goodwill. This will result in a parallel increase in the non-controlling interest.
- d. Step acquisition – On the date control is obtained following a step acquisition, the portion of the acquiring entity in the assets and liabilities of the acquired entity, including goodwill, is to be remeasured and recorded against income or loss.
- e. Partial disposal of an investment in a subsidiary while control is retained – A partial disposal is to be accounted for as an equity transaction with owners, and gain or loss is not recognized.
- f. Partial disposal of an investment in a subsidiary that results in loss of control – The operating effect of a partial disposal shall include also remeasurement of the remaining rights in the investee company.
- g. Acquiring additional rights in a subsidiary – The acquisition of additional rights in a subsidiary shall be accounted for as an equity transaction with the owners and no additional goodwill is recognized.
- h. Attribution of income to the holders of non-controlling interests – The comprehensive income is allocated to the holders of the non-controlling interests, even if this results in the participation of these holders in the deficit of a subsidiary.

The revised standards shall apply to annual reporting periods beginning after July 1, 2009; early implementation is permitted only with respect to annual reporting periods beginning after June 30, 2007. The Company will implement the revised standards as from the required dates.

## Notes to the Consolidated Interim Financial Statements

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

#### 1.3 New standards and interpretations not yet adopted (cont'd)

##### 1.3.8 IFRIC 15, *Agreements for the Construction of Real Estate* –

The Interpretation provides guidance for examining whether transactions for the construction of real estate are subject to IAS 18, *Revenue*, by which revenue from the construction of real estate is recognized at the same time and according to the same method as revenue from the sale of a product or the rendering of a service, or are subject to IAS 11, *Construction Contracts*, by which revenue is recognized in accordance with the stage of completion of the real estate.

The Interpretation is to be applied for annual periods beginning on or after January 1, 2009, on a retrospective basis. Earlier application is permitted while providing disclosure. Implementation of the interpretation is not anticipated to have an effect on the Group's financial position and results of operations, since the Group does not engage in the construction of real estate assets.

1.3.9 In the framework of the *Improvements to IFRSs* project, in May 2008 the IASB published and approved 35 amendments to various IFRS on a wide range of accounting issues. The amendments are divided into two parts: (1) Amendments that result in accounting changes for presentation, recognition or measurement purposes and (2) Terminology or editorial amendments that are expected to have either no or only minimal effects on accounting. Most of the amendments shall apply to periods beginning on or after January 1, 2009 and permit early adoption, subject to the specific conditions of each amendment and subject to the transitional provisions relating to a first-time adopter of IFRS.

##### 1.3.10 Revised IAS 27, *Consolidated and Separate Financial Statements*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards* (hereinafter – the Standards) –

In accordance with the revised standards, a company that elects the cost method for measuring its investments in subsidiaries, jointly controlled companies and affiliated companies, in the separate financial statements (stand-alone financial statements) is permitted to measure these investments on the date of transition to IFRS at their fair value in accordance with IAS 39 or at their carrying value according to previous GAAP. Furthermore, a dividend received from subsidiaries, jointly controlled companies and affiliated companies shall be recognized as income in the separate financial statements of the holding company. It was further provided that under certain circumstances the receipt of a dividend indicates impairment of the investment in the investee company.

The new standards shall apply to annual periods beginning on or after January 1, 2009. Earlier application is permitted, each standard separately, while providing disclosure. The changes attributable to IAS 27 shall be applied prospectively.

Implementation of the revised Standards has no effect on the Group's financial position and results of operations, since the Company already implemented IFRS in its separate financial statements for December 31, 2007 before the revision of the Standards.

#### 1.4 Reclassification

1.4.1 The amount of NIS 5.6 million was reclassified as at January 1, 2007, April 1, 2007 and June 30, 2007, following which the minority interest decreased and the retained earnings increased, without any change in the Company's equity. The reclassification is the result of amending attribution of the equity of a subsidiary between its shareholders.

## Notes to the Consolidated Interim Financial Statements

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

#### 1.4 Reclassification (cont'd)

1.4.2 Current taxes receivable and current taxes payable were reclassified. As a result of the reclassification, as at June 30, 2007 there was an increase in current taxes payable and a corresponding decrease in other payables and credit balances by the amount of NIS 3,162 thousand. In addition, there was a decrease in current taxes receivable and a corresponding increase in other receivables and debit balances in the amount of NIS 24,764 thousand.

As a result of the reclassification, as at December 31, 2007 there was a decrease in current taxes receivable and a corresponding increase in other receivables and debit balances by the amount of NIS 29,287 thousand; furthermore, there was an increase in current taxes receivable and a corresponding increase in current taxes payable by the amount of NIS 6,035 thousand.

1.4.3 Reclassification of leasehold improvements on land leased from the Israel Lands Administration. As a result of the reclassification as at June 30, 2007 there was an increase in fixed assets and a corresponding decrease in deferred expenses in the amount of NIS 30,951 thousand.

1.4.4 On December 21, 2006 the Company purchased through the subsidiary, Blue and White Foods LLC ("B&W LLC"), which is owned 51% by the Company, the dips and spreads business of Carousel Foods of America Inc. ("Carousel"). As a result of completing the purchase price allocation in 2007, the Company restated the comparative data as at June 30, 2007, in order to retroactively reflect the fair value adjustments of the assets that were acquired, as follows: fixed assets increased by the amount of NIS 7,905 thousand with a corresponding decrease in intangible assets. See also Note 5.2 of the Annual Statements.

1.4.5 In the reported period the Company adjusted the purchase price allocation of the Serbian subsidiary Strauss Adriatic Doo (formerly: Doncafe Group Doo) as a result of which it restated the comparative data as at June 30, 2007 and December 31, 2007 in order to retroactively reflect the fair value adjustments of the assets that were acquired and the liabilities that were assumed. As a result of amending the purchase price allocation, the intangible assets increased by the amount of NIS 4,085 thousand and NIS 4,046 thousand, as at June 30, 2007 and December 31, 2007, respectively, with a corresponding increase in long-term other payables and credit balances. The intangible assets reflect a brand with an indefinite useful life and goodwill.

1.4.6 Reclassification of deferred tax assets and deferred tax liabilities. As a result of the reclassification as at December 31, 2007, the deferred tax assets decreased by the amount of NIS 42,997 thousand with a corresponding decrease in deferred tax liabilities. As a result of the reclassification as at June 30, 2007, the deferred tax assets decreased by the amount of NIS 31,511 thousand with a corresponding decrease in deferred tax liabilities.

1.4.7 Additional reclassifications as at June 30, 2007 resulted in a decrease in other receivables and debit balances in the amount of NIS 19,118 thousand; a decrease in fixed assets in the amount of NIS 4,845 thousand; an increase in intangible assets in the amount of NIS 23,963 thousand; a decrease in other investments and receivables in the amount of NIS 19,363 thousand and a corresponding increase in deferred expenses.

The reclassifications did not have an effect on the reported profit.

## Notes to the Consolidated Interim Financial Statements

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

#### 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
	in respect of	US Dollar	Euro	Polish Zloty	Real
	the month				
	%	%	%	%	%
January – June 2008	2.85	(12.84)	(6.61)	0.14	(2.79)
January – June 2007	0.27	0.57	2.68	4.40	11.06
April – June 2008	2.44	(5.66)	(5.91)	(1.12)	3.64
April – June 2007	0.71	2.26	3.23	5.95	8.42
January – December 2007	2.79	(8.97)	1.71	8.43	9.96

### Note 2 - Seasonality

The Group's snacks sales in Israel 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 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. 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.

The foreign coffee sales are characterized by seasonality. Coffee sales are usually higher in the fourth quarter of the year and low in the first quarter of the year. The seasonality is mainly affected by the timing of the Christian holidays and the end of the calendar year in the fourth quarter of the year, a time characterized by higher purchases of coffee products. Conversely, in the first quarter of the year purchases are relatively low, mainly due to the continued consumption of the coffee products that were purchased in the previous quarter.

## Notes to the Consolidated Interim Financial Statements

### Note 3 - Segments

#### Details according to operating segments and reconciliation between the segment data and the consolidated data –

	For the six months ended		For the three months ended		For the year ended
	June 30 2008	June 30 2007	June 30 2008	June 30 2007	December 31 2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands				
<b>Revenues</b>					
Sales to external customers:					
Israel	1,320,148	1,302,121	640,310	633,653	2,673,093
Coffee	1,547,872	1,334,265	818,234	701,006	2,897,449
Other	168,026	176,721	73,424	85,809	390,405
Inter- Segment sales:					
Israel	9,935	13,082	3,326	7,347	30,832
Coffee	3,478	2,632	1,259	1,256	6,645
Other	243	97	112	35	368
Total revenues of segments	<u>3,049,702</u>	<u>2,828,918</u>	<u>1,536,665</u>	<u>1,429,106</u>	<u>5,998,792</u>
Elimination of inter-segment sales	<u>(13,656)</u>	<u>(15,811)</u>	<u>(4,697)</u>	<u>(8,638)</u>	<u>(37,845)</u>
Total consolidated revenues	<u><u>3,036,046</u></u>	<u><u>2,813,107</u></u>	<u><u>1,531,968</u></u>	<u><u>1,420,468</u></u>	<u><u>5,960,947</u></u>
<b>Profit</b>					
Israel	132,320	123,157	61,531	58,559	259,686
Coffee	136,855	123,466	72,531	56,379	231,337
Other	(4,209)	7,957	(5,805)	3,532	21,219
Total profit of the segments	<u>264,966</u>	<u>254,580</u>	<u>128,257</u>	<u>118,470</u>	<u>512,242</u>
Unallocated income (expenses):					
Valuation of commodities hedging transactions as at the end of the period	5,890	4,301	9,099	13,579	(5,022)
Bad debt income in respect of Clubmarket	-	-	-	-	3,390
Other income (expenses)	19,840	(6,799)	(7,929)	(5,581)	(19,031)
Share based payment	(13,121)	(3,888)	(6,488)	(499)	(11,618)
Inventory impairment	(2,258)	-	-	-	-
Total operating profit	<u>275,317</u>	<u>248,194</u>	<u>122,939</u>	<u>125,969</u>	<u>479,961</u>
Financing expenses, net	<u>(53,793)</u>	<u>(25,912)</u>	<u>(29,280)</u>	<u>(12,826)</u>	<u>(76,593)</u>
Profit before taxes on income	<u><u>221,524</u></u>	<u><u>222,282</u></u>	<u><u>93,659</u></u>	<u><u>113,143</u></u>	<u><u>403,368</u></u>

During the reported period there has been a major change in the other segment assets, see Note 4.2 for details. In addition, there has been a major change in the assets of the coffee segment, for details see Notes 4.7 and 4.8.

## Notes to the Consolidated Interim Financial Statements

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### Note 4 - Material Events during the Reported Period

- 4.1** On July 31, 2007 the minority shareholders of Strauss Fresh Vegetables Ltd. (hereinafter: "Strauss Vegetables"), who held 49% of the shares of Strauss Vegetables, announced the exercise of a put option to sell all their holdings in Strauss Vegetables to Strauss Salads Trade Ltd. ("Strauss Salads"). Due to the existence of the put option, the Group recognized a liability to purchase the minority's rights already upon the granting of the option (see Note 3.3.7 of the Annual Statements).

The transaction was completed on January 5, 2008. Strauss Salads, a company wholly owned by the Company, held 51% of the shares of Strauss Vegetables and after exercise of the option it holds 100% of the shares of Strauss Vegetables.

In consideration for the shares of Strauss Vegetables (49%) Strauss Salads paid to the minority shareholders the total amount of NIS 28,796 thousand.

- 4.2** In December 2007 Frito-Lay Dip Company Inc. (hereinafter: "the buyer"), a subsidiary of the American food concern Pepsico, entered into an agreement for the acquisition of 1% of the "participation rights" of SE USA Inc. (hereinafter: "Strauss USA") and 49% of the "participation rights" of Blue & White Foods Products Corp. (hereinafter: "B&W Products", and together with Strauss USA: "the sellers") in Sabra Dipping Company, LLC ("Sabra").

The transaction was completed on March 28, 2008, after which the Company (through Strauss USA) and Pepsico (through the buyer) each hold 50% of the "participation rights" in Sabra. In consideration for the sale of 1%, Strauss received the amount of \$ 900 thousand. Therefore, as from March 28, 2008 Sabra is a jointly controlled entity of the Company and Pepsico.

Following the completion of the transaction, the put option Strauss USA had granted to B&W Products for the sale of its rights in the sold operation expired (see Note 3.3.7 of the Annual Statements). Nevertheless, a put option still exists with respect to the rest of B&W LLC's operations. As at balance sheet date the value of the option is insignificant.

Soon before completion of the transaction, Blue & White Foods, LLC (hereinafter: "B&W LLC"), which is owned by the sellers at the rate of 51% by Strauss USA and 49% by B&W Products, sold to Sabra all the rights and assets it uses in the development, manufacture, distribution, marketing and/or sale of most of its products, in consideration for receiving all the "participation rights" in Sabra and these participation rights were distributed as a dividend at the rate of 49% to B&W Products and 51% to Strauss USA.

**Notes to the Consolidated Interim Financial Statements**

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

**4.2 (cont'd)**

The following amounts were recognized as a result of the transaction:

	Strauss USA		
	Carrying amount before the transaction	Sale	Carrying amount after the transaction
	NIS thousands	NIS thousands	NIS thousands
Trade and other receivables	44,199	(4,455)	39,744
Inventory	24,406	(8,410)	15,996
Fixed assets	42,572	(20,455)	22,117
Intangible assets	108,459	(25,135)	83,324
Trade and other payables	(19,073)	7,336	(11,737)
Long-term loans	(3,525)	1,743	(1,791)
Put option in respect of minority interests	(156,687)	156,687	-
Net identifiable assets and liabilities	<u>40,351</u>	<u>107,302</u>	<u>147,653</u>
Goodwill	96,389	(77,165)	19,224
Translation reserve	<u>11,010</u>	<u>(4,550)</u>	<u>6,460</u>
Cash sold			-
Consideration received in cash (1)			<u>1,698</u>
Cash received, net			<u><u>1,698</u></u>
Capital gain recognized			<u><u>27,285</u></u>

- (1) Proceeds in the amount of \$ 900 thousand net of transaction costs in the amount of \$ 422 thousand.

A loss in the amount of NIS 2,258 thousand from impairment of inventory was recognized following the transaction, see Note 3; the loss was recognized under the cost of sales.

The sellers, the Company and Mr. Yehuda Pearl (hereinafter: Pearl) (the controlling shareholder of B&W Products) and B&W LLC (jointly and severally) on the one hand, and the buyer on the other hand, undertook to indemnify each other in respect of damages incurred by them as a result of a breach of the representations and commitments specified in the acquisition agreement. In addition, the sellers, the Company, Pearl and B&W LLC undertook to indemnify the buyer in respect of damages incurred by it as a result of the operation of Sabra prior to the completion of the transaction. The indemnity was limited to the periods indicated in the agreement, according to the type of the claim, and was limited so that in certain cases described in the agreement it would apply over a minimum amount provided and in no case shall exceed the amount of the consideration in the agreement.

It was also provided that as from the date of completing the transaction, the sellers, jointly and severally, shall indemnify the buyer and Sabra in respect of any tax liability of Sabra that was created before the completion date.

## Notes to the Consolidated Interim Financial Statements

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

#### 4.2 (cont'd)

Furthermore, an agreement was signed between Strauss USA and the Company (“the Strauss Group”), B&W Products and Pearl (“the Pearl Group”) and B&W LLC, by which the parties will be responsible for their indemnity obligations in the acquisition agreement and in the agreement for the transfer of the operation according to their relative holdings in B&W LLC (meaning 51% the Strauss Group and 49% the Pearl Group), and will indemnify each other, if necessary, if one of the parties pays more than its aforementioned holding rate. Nonetheless, if the indemnity obligation arises as a result of one of the parties breaching its representations and commitments regarding its holdings in B&W LLC or in Sabra or as a result of the non-fulfillment of its liabilities according to the various agreements, the same group shall be responsible for 100% of the said amount. Furthermore, it was provided that the Pearl Group would be solely responsible for any indemnity liability that arises in connection with a certain third party claim mentioned in the agreement. On the date of signing the mutual indemnity agreement Strauss USA returned to B&W Products the amount of \$ 0.5 million that was held by it in order to cover possible allegations regarding the said claim.

**4.3** During the reported period, 417,201 option warrants (Series 1) were exercised into 417,201 shares of the Company of a par value of NIS 1 for the price of NIS 22,228 thousand. In addition, 77,041 share options that were granted to employees were exercised into 35,284 shares in consideration for their par value.

**4.4** On March 30, 2008 the Company granted 1,306,215 share options to 7 senior executives of the Group in accordance with the options plan for senior employees of the Group that is described in Note 25.1 of the Annual Statements. The options vest in three equal portions commencing at the end of two, three and four years from the grant date. The employees are entitled to exercise their options during a further period of 3 years from the vesting date. The exercise price of each option is equal to the average closing price on the stock exchange of the Company’s shares in the 30 days between March 4, 2008 and April 2, 2008 (inclusive). The exercise price is linked to the known CPI. The fair value of the grant is estimated to be NIS 17,259 thousand on the basis of the Black-Scholes model. The parameters that were used in the calculation of the fair value are as follows: share price of NIS 51.16, expected volatility of 27% p.a., exercise price of NIS 51.88, expected life of the option of 3.85-5.39 years and risk-free interest rate of 2.59%-2.70%.

**4.5** On February 26, 2008 the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) – 2008 (hereinafter: the Amendment). In accordance with the Amendment, the effective period of the Adjustments Law will cease at the end of the 2007 tax year and as from the 2008 tax year the provisions of the law shall no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

In accordance with the Amendment, as from the 2008 tax year income for tax purposes will no longer be adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses will no longer be linked to the CPI, so that these amounts will be adjusted until the end of the 2007 tax year after which they will cease to be linked to the CPI.

**Notes to the Consolidated Interim Financial Statements**

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

- 4.6** On April 1, 2008 the Company signed an agreement to purchase 28% of the shares of Elite Coffee To Go Ltd. (hereinafter: Elite Coffee) from the minority shareholders of Elite Coffee, and thus became the owner of 100% of the shares of Elite Coffee. The Company paid the amount of NIS 4.9 million to the minority shareholders in respect of their shares in Elite Coffee. The amount of NIS 2,061 thousand was paid in cash to the minority shareholders and the balance was mainly used to repay loans that were taken by the minority shareholders.

Following the acquisition, the Company recorded goodwill in the amount of NIS 4.9 million; total goodwill in respect of the Company's investment in Elite Coffee amounts to NIS 12.3 million.

- 4.7** In the framework of continuing its strategic expansion in evolving markets, on April 10, 2008 Strauss Coffee BV (hereinafter: SCBV), a Dutch company wholly owned by the Group, signed an agreement with Cosant Enterprises Ltd. regarding the purchase of its business operation. The operation that was acquired includes instant coffee and roasted and ground coffee brands, the main ones being "Chornaya Karta" and "Kaffa" that are mostly sold in the countries of the Commonwealth of Independent States, as well as regarding the purchase of fixed assets and inventory. The acquired operation will be fully merged into the existing operation of SCBV in the Commonwealth of Independent States.

A total amount of \$ 93 million was paid for the acquired brands and fixed assets. In addition, SCBV invested \$ 10 million in the financing of working capital for the purpose of purchasing inventory and granting credit to its new customers in the region. Transaction costs in the amount of NIS 6,443 thousand were added to the cost of the acquisition.

SCBV is acting to allocate the purchase price to the acquired identified assets and the assumed identified liabilities, as required by IFRS 3 regarding business combinations. Presented hereunder are the amounts that were recognized on the acquisition date, before fair value adjustments:

	<b>Carrying amount before adjustment to fair value</b>
	<b>NIS thousands</b>
Inventory	28,307
Brands (1)	325,170
Fixed assets	10,839
Payables (2)	(323,326)
Identifiable assets	40,990
Goodwill (1)	6,443
Consideration paid in cash	47,434

- (1) The initial amount that was allocated to brands and goodwill was not amortized.
- (2) Out of this amount, a balance of NIS 322,369 thousand was paid a few days after the acquisition date. The amount paid in cash was NIS 310,448 thousand due to the effect of changes in exchange rates.

**Notes to the Consolidated Interim Financial Statements**

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

- 4.8** On May 13, 2008 SCBV signed an agreement with Don Café from Italy for the acquisition of its coffee operation in Albany, Kosovo and Macedonia, including the “Don Café” brand that is registered in the countries of the European Common Market and in Central and Eastern Europe, fixed assets, inventory and working capital, for a consideration of € 7.5 million. The purchase price was financed by the Company’s own sources.

SCBV intends to merge the marketing and selling operations of the acquired brands into its existing infrastructure in the former Yugoslavian countries, and to exploit the synergies with existing operations in the coffee market in Eastern and Central Europe.

SCBV is the owner of the “Don Café” brand in a number of former Yugoslavian countries, including Serbia and Montenegro, and it sells coffee products under this brand. Upon the present acquisition of ownership and rights in the “Don Café” brand, SCBV will be able to expand the use of the brand to additional countries, subject to examinations and processes that need to be performed in the various countries.

SCBV is acting to allocate the purchase price to the acquired identified assets and the assumed identified liabilities. Presented hereunder are the amounts that were recognized on the acquisition date, before fair value adjustments:

	Carrying amount before adjustment to fair value <u>NIS thousands</u>
Receivables	5,439
Inventory	2,268
Brands	1,859
Fixed assets	2,332
Payables	<u>(23,174)</u>
Identifiable assets	<u>(11,276)</u>
Goodwill	<u>31,339</u>
Consideration paid in cash	<u>20,063</u>

The earnings for the period from these operations as from the date of acquisition until June 30, 2008 amounted to NIS 6,842 thousand.

- 4.9** In order to realize the Group’s global expansion strategy in the coffee market and as a result of the financing requirements that arise from this strategy, on June 30, 2008 the Company signed a series of agreements which upon their closing, the private investment fund TPG shall invest (by means of Rubusta Coöperatief U.A., an entity registered in the Netherlands, hereinafter – the investor) in Strauss Coffee B.V., a subsidiary of the Company that is domiciled in the Netherlands (hereinafter – Strauss Coffee). In the framework of the transaction, the coffee operation of the Group in Israel shall be transferred to Strauss Coffee, which will manage the entire coffee operation of the Group.

## Notes to the Consolidated Interim Financial Statements

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

#### 4.9 (cont'd)

The transaction is subject to the fulfillment of certain conditions which as at the date of these financial statements have been fulfilled in their entirety and the transaction is planned to be closed in the forthcoming weeks. The Company anticipates a capital gain in the amount of \$ 70 million upon closing the transaction, in respect of the sale of 25.1% of its holdings in Strauss Coffee and net of transaction expenses and the allocation of fair value to the option that was granted to the investor. The calculation of the gain is based on unaudited data as at June 30, 2008. The final gain will be determined only after the closing of the transaction.

Presented hereunder is a summary of the transaction's principal provisions:

#### **The investment agreement:**

In accordance with the investment agreement between the Company (together with Strauss Confectionary), Strauss Coffee and the investor, upon the closing of the transaction the investor shall be allotted shares and capital notes in consideration for its investment of \$281 million in Strauss Coffee (of which \$7.8 million is attributed to redeemable capital notes), with the addition of 6% per year from January 1, 2008 until the date of closing the transaction (about \$293 million). Upon the closing of the transaction, the investor shall hold 25.1% of the shares of Strauss Coffee and the Company shall hold (directly or indirectly through Strauss Confectionary) 74.9% of the shares of Strauss Coffee.

The investor shall be granted an option to purchase additional shares of Strauss Coffee at an exercise price of € 106 million (about \$166 million) with the addition of 6% per year from January 1, 2008 until the exercise date, subject to adjustments as specified in the agreement, so that if exercised the investor shall hold 35% of the share capital of Strauss Coffee. The option shall be exercisable with respect to all the share options (and not part of them) for a period of two years from the closing date.

The investment agreement includes a list of Company representations to the investor. The Company's liability for breach of such representations is limited, so that the investor shall be allowed to contend that the representations have been breached only in the case of damages higher than 5% of the initial consideration (about \$14 million) up to a maximum of 30% from the initial consideration (about \$84 million), other than certain representations that are not limited in liability as aforementioned; the liability is limited to the periods specified in the agreement and in any event to the amount of the investment.

#### **The shareholders' agreement:**

Upon the closing of the transaction, a shareholders' agreement shall be signed by the shareholders of Strauss Coffee. In accordance with the agreement, the board of directors of Strauss Coffee shall comprise up to seven directors, of which four will be appointed by the Company (one will serve as the chairperson), two will be appointed by the investor, and one will be an expert director appointed by the parties who will serve on the board in the first year (and subsequently for as long as the director's appointment is not terminated by one of the parties).

## Notes to the Consolidated Interim Financial Statements

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

#### 4.9 (cont'd)

A list was prepared of the resolutions and actions that require approval by 90% of the shareholders of Strauss Coffee, as well as a list of the cases that require the approval of the board of directors, on the condition that at least one director appointed by the investor has voted in favor. The cases include resolutions regarding: amendment of the incorporation documents on matters relating to the rights of the minority shareholders; any change in the share capital of Strauss Coffee that causes dilution of the minority shareholders and/or the issuance of other securities; the approval of material purchases or sales of operations or assets; decisions regarding a material change in the nature of Strauss Coffee's operation; and the approval of transactions or actions not in the ordinary course of Strauss Coffee's operations. A mechanism was provided for resolving disagreements in the absence of such approvals.

Furthermore, the agreement includes mechanisms for the sale of shares by either of the parties, including first offer rights, tag along rights and the right to compel the investor to sell if the investor receives a minimum return on its investments in the Company. In addition, the agreement includes an understanding to adopt an annual distribution policy of no less than 30% of the profits of Strauss Coffee, subject to the cash flow requirements of Strauss Coffee.

#### **Service agreements:**

In accordance with service agreements between the Company and Strauss Coffee that will come into effect on the date of closing the transaction, the Company shall continue to provide certain main office services to Strauss Coffee and to provide to it distribution, selling and marketing services with respect to the coffee operation in Israel, on the basis of the billing mechanisms that existed between the Company and Strauss Coffee before the closing of the transaction.

#### **Restructuring and approval of the Tax Authority:**

The structure of the transaction includes splitting the coffee operation of the Group in Israel and merging it with Strauss Coffee so that it manages all the coffee operation of the Group, by means of restructuring the group. The restructuring is subject to various conditions, including closing the transaction with the investor, and it will be executed effective as from June 30, 2008.

In accordance with the pre-ruling on the agreement that was received from the Tax Authority on August 24, 2008 with respect to the aforementioned restructuring, the Company, the investor and Strauss Coffee are subject to various restrictions until the end of the specified period (two years from the end of the tax year in which the restructuring was executed – December 31, 2010). In accordance with the pre-ruling, the date of the restructuring is June 30, 2008.

- A. Restrictions applicable to the owners of rights in Strauss Coffee (the Company and the investor) after the restructuring:
  - Requirement to hold until the end of the specified period all the rights they had in Strauss Coffee immediately after the aforementioned restructuring.

## Notes to the Consolidated Interim Financial Statements

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

#### 4.9 (cont'd)

##### A. (cont'd)

- Notwithstanding the aforementioned, the following actions will not constitute breach of the restrictions, for as long as the shareholders' holdings do not fall below 51%: the sale of up to 10% of the shares of each one of the shareholders; the allotment of new shares at a rate not exceeding 20% after the allotment to anyone who was not a shareholder before the said restructuring; a public issuance of the Company.
- It is noted that exercise of the additional option by the investor shall not be considered a change in the rights of the shareholders.
- The excess of the assets that were transferred to Strauss Coffee in respect of the coffee operation in Israel will be considered the original price of the shares of Strauss Coffee being allocated in respect of the coffee operation in Israel to the owners of its rights. When calculating the capital gain on shares of Strauss Coffee that are sold by the Company, the shares will be considered being sold pro-rata as regards the date of acquisition and the original price.

##### B. Restrictions and conditions applicable to the Company:

- The losses of the merging companies as well as expenses or deductions accumulated by the transferring companies shall be spread over a period of five years from the date of the merger and be limited to half of the amount of current taxable income.
- The entire amount of required tax shall be paid on the sale of shares of Strauss Coffee, all or part, that were allocated to the Company in respect of the coffee operation in Israel, and no tax credit and/or exemption shall be granted. As regards this matter, the allocated shares include also shares that are allocated because of them.
- The taxable income of the Company shall not include dividends received from the earnings of a permanent establishment in Israel. In this respect – dividends paid from the taxable income of a permanent establishment in Israel in respect of which company tax was paid in Israel. Furthermore, the Company shall not be granted a credit in respect of the foreign tax paid on the said dividend in the Netherlands.

##### C. Restrictions applicable to Strauss Coffee:

- The original cost and acquisition date will continue to apply to the assets transferred to Strauss Coffee, and no additional amount will be attributed to them beyond the original price for the subsidiaries and the Company.
- The coffee operation in Israel being transferred to Strauss Coffee in the split shall be considered a permanent establishment in Israel.
- The permanent establishment shall be subject to the provisions of the Income Tax Ordinance and its related regulations as if it was an Israeli resident body of persons.

## Notes to the Consolidated Interim Financial Statements

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

#### 4.9 (cont'd)

- The full amount of required tax shall be paid in respect of the sale of an asset by the permanent establishment or the sale of the entire permanent establishment by Strauss Coffee, and the asset will be considered as having been sold by an Israeli resident company and the sale will be subject to capital gains tax in Israel in accordance with the provisions of Chapter E of the Income Tax Ordinance.

### Note 5 - Contingent Liabilities

**5.1** See Note 26.1 of the Annual Statements regarding claims pending against the Company as at the date of approval of these financial statements. In their review report to these financial statements, the auditors call attention to two of those claims: a claim and request to certify it as a class action in the amount of NIS 12.3 billion ("Gelatin"), which is described in Note 26.1.1.6 of the Annual Statements, and a claim and request to certify it as a class action in the amount of NIS 1.33 billion ("Pro-biotic beverages"), which is described in Note 26.1.1.11 of the Annual Statements.

**5.2** In April 2008 a claim was filed against the Company and others with the District Court of Central Region by four plaintiffs who allege that they purchased and viewed a videotape intended for children that contains subliminal advertising, following which they incurred pecuniary and non-pecuniary damages.

The plaintiffs allege that the subliminal advertising is contrary to the Consumer Protection Law, Communication Rules (Bezeq and Broadcasting) and impairs their autonomy, and also that they were caused mental anguish by being exposed to the subliminal advertising, which may have, inter alia, an effect on bad nutritional habits. The plaintiffs also allege that they may have "acted differently" had they been aware of the subliminal advertising.

In addition to the personal claim of NIS 1,000, the plaintiffs filed a request to certify the claim as a class action in the amount of NIS 100,000 thousand with respect to all the defendants. The Company intends to deny the allegations included in the claim and to act towards its dismissal.

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.

**5.3** In June 2008, a claim was filed against the Company with the Petach Tikva District Court on the basis of the Class Actions Law and the Consumer Protection Law. A request to certify the claim as a class action was filed together with the claim.

The plaintiff alleges that for a long period of time she regularly bought Danone yogurt products with chocolate coated Chinese pecans and Danone yogurt products with chocolate coated cereal. The plaintiff alleges that the percentage of fat indicated on the containers of the products is misleading, as the percentage indicates only the percentage of fat in the yogurt (without the additions), while in reality the percentage of fat including the additions is higher than that indicated on the containers of the products. The plaintiff set the amount of the class action at NIS 60.5 million, which according to her includes the pecuniary damage that was caused to the consumers as a result of the aforementioned, as well as the non-pecuniary damage that was allegedly caused to the members of the Group following impairment of individual will autonomy.

## Notes to the Consolidated Interim Financial Statements

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### Note 5 - Contingent Liabilities (cont'd)

#### 5.3 (cont'd)

Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.

- 5.4 Further to that mentioned in Note 26.1.2.9 of the Annual Statements regarding a claim that was filed against the Don Café group with respect to use of the C-KAFA brand, on June 10, 2008, the Court in Belgrad, Serbia, approved the compromise that was reached by the parties, pursuant to which the Don Café group is entitled to use the C-KAFA brand in consideration for the royalties due to the plaintiff in the amount of NIS 3.77 million. The said amount was paid in June.

### Note 6 - Investing and Financing Activities not Involving Cash Flows

The Company was not engaged in material non-cash investing and financing activities in the six and three month periods ended June 30, 2008 and in the corresponding periods last year.

In the year ended December 31, 2007, the Company was engaged in the following material non-cash transactions:

- Investment grants accrued in respect of fixed assets in the amount of NIS 2,851 thousand.
- Liabilities assumed for purchase of minority interests, with respect to put option granted to the minority, in the amount of NIS 235,226 thousand.
- Sale of operation on credit in the amount of NIS 20,716 thousands.

### Note 7 - Subsequent Events

- 7.1 Further to that mentioned in Note 20.3 of the Annual Statements, in July 2008 the Company announced that it had purchased on the stock exchange NIS 11,700 thousand par value of debentures (Series B), and in an off-floor transaction NIS 13,200 thousand par value of the same debentures, for a total consideration of NIS 26,286 thousand.

Subsequent to the purchase, NIS 745,100 thousand of debentures (Series B) are outstanding. The debentures that were purchased by the Company were delisted from the stock exchange and the Company is not permitted to reissue them.

Following the purchase of the debentures, the Company anticipates recognizing in the third quarter of 2008 a loss on early redemption in the amount of NIS 0.5 million.

- 7.2 Further to that mentioned in Note 26.1.2.5 of the Annual Statements regarding an objection submitted to the Registrar of Trademarks with respect to registration of the "MUST" trademark, on July 31, 2008 the objection proceedings were cancelled and the trademark was registered.
- 7.3 Further to that mentioned in Note 26.1.1.3 of the Annual Statements regarding a claim and request to certify the claim as a class action that were filed against the Company with respect to remnants of gelatin that were found in candy kosher for Passover, on August 4, 2008 the Tel Aviv Jaffa District Court approved the compromise the parties had signed with respect to the claim. In accordance with the compromise that was approved as aforementioned by the Court, the Company has undertaken to hold a consumer campaign for two years from the date of approval of the compromise, and to pay the plaintiffs and their representatives compensation and fees in the amount of NIS 200,000.

**Notes to the Consolidated Interim Financial Statements**

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**Note 7 - Subsequent Events (cont'd)**

- 7.4** Further to that mentioned in Note 5.3 of the Annual Statements regarding an investment in H2Q Water Industries Ltd. (hereinafter – H2Q), in August 2008 the convertible loan in the amount of \$ 2.75 million was converted into shares and an additional amount of \$ 3.5 million was invested. The Company currently holds 51% of the shares of H2Q.
- 7.5** Towards the end of August 2008 the Company received a demand from the Tax Authorities for the payment of customs in the amount of NIS 13.4 million in respect of imports of raw materials in prior years. The Company is examining the demand, which was received proximate to the date of publishing the financial statements. In the opinion of management of the Company, which is based on the opinion of its legal counsel, the financial statements include a sufficient provision in respect of the demand for the payment of customs.