

# **STRAUSS-GROUP LTD.**

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**STRAUSS GROUP LTD.**  
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**AS AT JUNE 30, 2009**

**PRINCIPLE INFORMATION FROM THE DESCRIPTION OF THE COMPANY'S BUSINESS**

Strauss Group Ltd. and the companies it controls (hereinafter: the "**Company**" or the "**Group**") are a group of industrial and commercial companies that operate in Israel and abroad, in Central and Eastern Europe, Brazil and the United States of America, in the manufacture, sale and marketing of a variety of branded food and beverage products. The controlling shareholder of the Company is Strauss Holdings Ltd.

The Group manages and develops its business with the aim of providing the entire public with a broad variety of top-quality branded products for different consumption opportunities. The Group is dominant in most of the markets in which it operates. The products of the Group are generally sold through a variety of sales channels including large retail chains, private stores and supermarkets, kiosks, workplaces, hotels, vending machines, etc.

The Group's Corporate Center is in Israel. The Company estimates that Strauss Israel is the second-largest company in the Israeli food industry and in the second quarter of 2009 held an 11.8% share of the domestic food and beverage market (on a quarterly average, in financial terms<sup>1</sup>). The Group is also active in some ten major countries in Central and Eastern Europe, in Brazil (in most of these countries the Group is among the leading companies dealing in roasted and ground coffee), and in the USA.

The Group has two areas of activity that are reported separately as business sectors in the Annual Consolidated Financial Statements of the Company (hereinafter: the "**Annual Financial Statements**"):

**The Business in Israel – Strauss Israel:** This sector includes a major part of the Group's activities in Israel. In this sector the Group develops, manufactures, sells, markets and distributes in Israel a large variety of branded food and beverage products, which include "**Health & Wellness**" and "**Fun & Indulgence**" products.

Health & Wellness products include: yogurts, dairy desserts, soft cheeses, fresh milk products, milk beverages, refrigerated Mediterranean salads (hummus, tehina, eggplant, etc.), freshly cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and jams, as well as other products that the Company distributes, such as natural fruit juices manufactured by Ganir, and long-life milk manufactured by Ramat Hagolan Dairies<sup>2</sup>, both of which are sold and distributed by the Group.

Fun & Indulgence products include: sweet snack bars, chocolate tablets, sweet spreads, confectionery, chewing gum, cakes and cookies, biscuits, wafers and salty snack food.

Strauss Israel is active through two main business divisions that were established according to the product groups described above and are based on consumption trends currently developing worldwide and in Israel in particular, with the aim of developing leading products and solutions that provide a suitable response to the emerging consumer trends.

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<sup>1</sup> According to StoreNext figures. StoreNext engages in the measurement of the regular everyday consumer goods market in the barcoded retail market.

<sup>2</sup> The controlling party of the Company (indirectly) holds part of the shares of Ramat Hagolan Dairies Ltd.

**The Coffee Business – Strauss Coffee:** In this sector the Group develops, manufactures, sells, markets and distributes a variety of branded coffee products in Israel, in Eastern and Central European countries and in Brazil; chocolate and other drink powders (mainly in Israel); in several countries outside of Israel, it sells and distributes espresso coffee products (“Lavazza”) that are not manufactured by the Group; it sells and distributes instant coffee products in Israel (“Jacobs”); in the framework of the business in Brazil, it buys, processes and sells green coffee to exporters in Brazil and to customers outside of Brazil (mainly in Europe and the USA), and also manufactures and sells corn products in Brazil. The Company's products are sold through various channels including retail channels for home consumption and other channels directed to away-from-home (AFH) consumption (cafés, restaurants, institutions, workplaces, etc.).

In addition to the areas of activity described above, the Group has other activities that are included in the Annual Financial Statements as the “**Other Business**” sector. The main activities among these operations are:

**Sabra Refrigerated Dips in the USA:** The Group develops, manufactures, sells, markets and distributes hummus and refrigerated Mediterranean salads throughout North America.

**Max Brenner:** The Group manufactures and sells chocolate products under the Max Brenner brand and operates a chain of "Chocolate Bars" in Israel and abroad. These are wholly-owned by the Company or operated under franchise and through partners, and deliver a novel consumption experience in the chocolate and chocolate beverage category.

**Strauss Water:** In 2007 the Company entered into a partnership in a new venture in the water business (hereinafter: “**H2Q**”). In July 2009 a purchase agreement was signed for the acquisition of Tana Industries, (makers of Tami 4).

The Company has approximately 11,600 employees, about one-half of them in Israel.

The Group's business is conducted in four major geographical regions. Activity in Israel includes the activity of Strauss Israel (sales of a wide variety of fresh and dry food products, including coffee), Max Brenner in Israel, and the H2Q business; Activity in Europe includes the coffee business in Central and Eastern Europe. The business in Brazil, which is managed by a 50% proportionately consolidated company (a joint venture), is active primarily in roasted and ground coffee in the domestic market, the manufacture of corn products and the export of green coffee (the business in Europe, the coffee business in Israel, and the business in Brazil are all managed under the Strauss Coffee Company). Activity in the USA, which includes Sabra [the company is 50% proportionately consolidated (joint venture) since the second quarter of 2008] and the Max Brenner business (except for Max Brenner in Israel), is managed by the CEO of Strauss North America. The various businesses are run by their own separate managements, while the Corporate Center in Israel is responsible for exploiting synergies between them.

The Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The Company applied IFRS for the first time in 2005, with the date of the change to reporting according to IFRS being January 1, 2003.

## **SEASONAL EFFECTS ON THE RESULTS OF THE COMPANY'S BUSINESS OPERATIONS**

The Company's sales in some of its businesses are characterized by seasonality. Income from sales of coffee products abroad is generally (relatively) higher in the fourth quarter and (relatively) lower in the first quarter. Seasonality is affected mainly by the timing of the Christian holidays and the end of the (Gregorian) year in the fourth quarter, a period that is characterized by increased purchases of coffee products. By contrast, in the first quarter purchase volumes are relatively low, mainly because people are still consuming the coffee products purchased in the previous quarter.

As a rule, snack sales are higher in the first and third quarters of the year. The seasonality in the snack business is affected by two main factors: the first is the timing of the Jewish holidays with emphasis on Rosh Hashanah (the Jewish New Year) and Passover, when the Company's snack sales increase considerably. The second factor is the seasons of the year, with winter and fall being characterized by greater consumption of confectionery (mainly chocolate and snack bars) than the hot seasons. Conversely, sales of cold beverages (milk, juices) are higher in the summer, which falls in the second and third quarters of the year.

### **Changes in the Economic Environment**

The global financial crisis continued, manifested, among other things, by the collapse of global financial institutions, the creation of a global credit crunch, increased unemployment rates worldwide, and the development of a recession in most countries,. These developments are currently impacting the Group's business operations, and may continue to do so, directly or indirectly, in the future.

Strauss Management believes that the Group entered this period of crisis in a state of financial and business robustness thanks to the processes it executed in the past few years.

During the second quarter and as at the date of preparation of these Financial Statements there has been a trend towards slightly raised prices, relative to to previous quarter, for energy and raw materials (primarily sugar and cacao), , Moreover, during the first half, there were considerable fluctuations in the exchange rates of the Shekel and the currencies in the various countries where the Group operates (mainly the weakening of many currencies against the Shekel).

The increase in the prices of raw materials and energy will lead to an increase in manufacturing costs of products, and the changes in the various exchange rates will lead to changes in the cost of products that are imported in the various businesses and to changes in the Shekel value arising from the translation into Shekels of the Company's business results in some markets. The Group is taking all steps necessary to be prepared for the different scenarios and to deal with them in the best manner possible.

## **QUALITATIVE REPORT ON EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT**

Other than the following, as at the end of the second quarter and compared to the end of 2008 there has been no material change in the market risks to which the Company is exposed, in the policy for managing these risks, in the persons responsible for their management, and in the means for monitoring and realizing policy, as published in the Board of Directors' Report as at December 31, 2008.

Convenience Translation from Hebrew

### **Sensitivity of the liability value in the books of Debentures (Series C) to changes in interest rates**

Debentures (Series C) in the nominal value amount of NIS 500 million, issued in May 2009, bear variable annual interest rates (the principle and interest are not linked in any way) The interest rate is determined by the interest rate on Government debenture number 817, plus a 0.7% profit. During the first interest rate period (7 May 2009 until 31 August 2009) the overall annual rate of interest for Series C bonds was 1.8%.

### **Sensitivity of the liability value in the books of Debentures (Series A) and Debentures (Series B) to changes in the Consumer Price Index**

The debentures are linked to the Consumer Price Index (CPI) known on the balance-sheet date. The know CPI rose by 1.2% in the first half, and by 1.9% during the second quarter. For information on the sensitivity analysis, see Note 30 to the Annual Financial Statements.

### **Information on new debentures in circulation**

In May 2009 the Company issued Debentures (Series C) in consideration of an amount of NIS 500 million (gross). Information on the debentures issued is presented in the following table:

#### **Series C**

Date issued	May 7, 2009
Listed for trading	May 10, 2009
Type of interest	Varying
Yearly interest rate	The interest rate borne by "Government Bonds 817", plus an interval of 0.7%*
Par value on issue date	NIS 500,000,000
Book value of debentures	NIS 493,702,480**
Book value of interest payable	NIS 1,356,164**
Linkage conditions	Principal and interest are not linked to any index
Payment dates of principal	3 equal yearly payments on June 1 of each year from 2011 to 2013
Interest payment dates	Quarterly interest on June 1, September 1, December 1 and March 1, commencing on September 1, 2009
Securities or charges	None
Name of rating company	Midroog; Maalot
Rating at issue date and reporting date	Aa1 (with stable horizon); AA+/Stable***

\* The total yearly interest rate for the first interest period (May 7, 2009 until August 31, 2009) is 1.8%.

\*\* As at June 30, 2009.

\*\*\* The current rating of Debentures (Series A) and Debentures (Series B) was maintained also after the issue of Debentures (Series C).

### **Additional information**

#### **Debentures (Series C)**

- The Debenture Trustee is Clal Finance Trusts 2007 Ltd.
- The Trustee's offices are located at 37 Derech Menachem Begin, Tel Aviv.
- The supervisor on behalf of Clal Finance Trusts is Advocate. Yuval Likaver (tel. 03-6274848).
- As at the reporting date, the Company is in compliance with the terms and conditions of the trust deed.

Convenience Translation from Hebrew

### ANALYSIS OF FINANCIAL RESULTS\*

Following are the condensed financial accounting statements of income for the quarters and the half years ended June 30, 2009 and 2008 (in NIS millions):

	First Half			Second Quarter		
	2009	2008	% Chg	2009	2008	% Chg
<b>Sales</b>	<b>3,036</b>	<b>3,036</b>	<b>-</b>	<b>1,514</b>	<b>1,532</b>	<b>-1.2</b>
Cost of sales not including impact of hedging transactions	1,917	1,921	-0.2	946	966	-2.1
Revaluation of the balance of commodity hedging transactions as at end of period	(2)	(6)		3	(9)	
Cost of sales	1,915	1,915	-	949	957	-0.9
<b>Gross Income</b>	<b>1,121</b>	<b>1,121</b>	<b>-</b>	<b>565</b>	<b>575</b>	<b>-1.7</b>
Selling and marketing expenses	678	684	-0.8	344	352	-2.4
General and administrative expenses	177	182	-2.4	90	92	-2.4
<b>Operating income before other income (expenses)</b>	<b>266</b>	<b>255</b>	<b>4.1</b>	<b>131</b>	<b>131</b>	<b>0.4</b>
Other income (expenses), net	(27)	20		(22)	(8)	
<b>Operating income after other income (expenses)</b>	<b>239</b>	<b>275</b>	<b>-13.3</b>	<b>109</b>	<b>123</b>	<b>-11.2</b>
Financing income (expenses), net	(27)	(54)	-50.9	(31)	(29)	6.5
<b>Income before taxes on income</b>	<b>212</b>	<b>221</b>	<b>-4.2</b>	<b>78</b>	<b>94</b>	<b>-16.7</b>
Taxes on income	(65)	(62)	5.2	(21)	(28)	-22.3
Effective tax rate	30.8%	28.1%		27.3%	29.3%	
<b>Income for the period</b>	<b>147</b>	<b>159</b>	<b>-7.9</b>	<b>57</b>	<b>66</b>	<b>-14.4</b>
<b>Income attributed to shareholders of the Company</b>	<b>112</b>	<b>140</b>	<b>-20.4</b>	<b>37</b>	<b>56</b>	<b>-33.8</b>
Income attributed to minority interest	35	19	82.6	20	10	90.3

Following are the adjustments to the Company's management accounting statements (NIS millions):

	First Half			Second Quarter		
	2009	2008	% Chg	2009	2008	% Chg
<b>Operating income – financial accounting</b>	<b>239</b>	<b>275</b>	<b>-13.3</b>	<b>109</b>	<b>123</b>	<b>-11.2</b>
Share-based payment and one-time bonus	6	13		1	6	
Revaluation of the balance of commodity hedging transactions as at end of period	(2)	(6)		3	(9)	
One-time amortization of assets	-	3		-	-	
Other expenses (income)	27	(20)		22	8	
<b>Operating income – management accounting</b>	<b>270</b>	<b>265</b>	<b>1.9</b>	<b>135</b>	<b>128</b>	<b>5.6</b>
Financing expenses, net	(27)	(54)		(31)	(29)	
Taxes on income	(65)	(62)		(21)	(28)	
Taxes in respect of adjustments to the above management operating income	(3)	1		(3)	4	
Income for the period – management accounting	175	150	16.1	80	75	5.7
<b>Income attributed to shareholders of the Company</b>	<b>134</b>	<b>131</b>	<b>1.7</b>	<b>55</b>	<b>65</b>	<b>-16.2</b>
Income attributed to minority interest	41	19	113.7	25	10	143.8

\* The financial data were rounded off to NIS millions. The percentages changes were calculated on the basis of the exact figures appearing in the Financial Statements.

Convenience Translation from Hebrew

*Following are the condensed results of business operations (based on the Company's management accounting statements) for the quarters and the half years ended June 30, 2009 and 2008 (in NIS millions):*

	First Half			Second Quarter		
	2009	2008	% Chg	2009	2008	% Chg
<b>Sales</b>	<b>3,036</b>	<b>3,036</b>	<b>-</b>	<b>1,514</b>	<b>1,532</b>	<b>-1.2</b>
Cost of sales	1,917	1,918	-0.1	946	966	-2.1
<b>Gross Income</b>	<b>1,119</b>	<b>1,118</b>	<b>0.2</b>	<b>568</b>	<b>566</b>	<b>0.3</b>
Selling and marketing expenses	678	684	-0.8	344	352	-2.4
General and administrative expenses	171	169	1.5	89	86	3.4
<b>Operating income – management accounting</b>	<b>270</b>	<b>265</b>	<b>1.9</b>	<b>135</b>	<b>128</b>	<b>5.6</b>
Financing income (expenses), net	(27)	(54)	-50.9	(31)	(29)	6.5
Income before taxes on income	243	211	15.4	104	99	5.3
Taxes on income	(68)	(61)	13.4	(24)	(24)	-
<b>Income for the period – management accounting</b>	<b>175</b>	<b>150</b>	<b>16.1</b>	<b>80</b>	<b>75</b>	<b>5.7</b>
<b>Income attributed to shareholders of the Company</b>	<b>134</b>	<b>131</b>	<b>1.7</b>	<b>55</b>	<b>65</b>	<b>-16.2</b>
Income attributed to minority interest	41	19	113.7	25	10	143.8

*Following are the condensed results of business operations (based on the Company's management accounting statements) of the business sectors for the quarters and the half years ended June 30, 2009 and 2008 (in NIS millions):*

	First Half			Second Quarter		
	2009	2008	% Chg	2009	2008	% Chg
<b>Israel sector</b>						
Net sales	1,308	1,320	-0.9	627	640	-2.1
Gross income	542	533	1.8	261	261	0.3
Operating income	149	132	12.1	66	62	7.6
<b>Coffee sector</b>						
Net sales	1,581	1,548	2.2	811	818	-0.8
Gross income	493	504	-2.2	263	271	-2.9
Operating income	123	137	-10.0	73	73	0.8
<b>Other*</b>						
Net sales	147	168	-12.5	76	74	2.7
Gross income	84	81	3.7	44	34	29.4
Operating income	(2)	(4)	-50.0	(4)	(7)	-42.9
<b>Total</b>						
<b>Net sales</b>	<b>3,036</b>	<b>3,036</b>	<b>-</b>	<b>1,514</b>	<b>1,532</b>	<b>-1.2</b>
<b>Gross income</b>	<b>1,119</b>	<b>1,118</b>	<b>0.2</b>	<b>568</b>	<b>566</b>	<b>0.3</b>
<b>Operating income</b>	<b>270</b>	<b>265</b>	<b>1.9</b>	<b>135</b>	<b>128</b>	<b>5.6</b>

\* Sabra's sales are 100% consolidated in the first quarter of 2008 and proportionately consolidated (50%) commencing in the second quarter of 2008 and thereafter.

For information on the adjustments to the Company's management accounting statements, see Note 3 to the Financial Statements.

**Following is the analysis of the business results of the Group:**

**General**

Several factors in the Group's macroeconomic environment, including exchange rates, raw material prices and emerging inflation, simultaneously with the recession in the US and Europe in the wake of the financial crisis, influenced the Group's activity in the first half. The changes in exchange rates in all countries where the Group's coffee company is active, coupled with the difficulty in raising prices in the current macroeconomic conditions, mainly in Poland and Serbia, impacted the growth of the coffee business. Additionally, a decline in the food market in Israel was evident in the first half. The Group has contended with the changing environmental conditions by implementing streamlining processes, using substitutes, and raising the prices of its products from time to time.

In May 2009 the Company completed the raising of NIS 500 million in a public issue of debentures. The debentures were issued according to a shelf offer report of May 5, 2009, which was published pursuant to a shelf prospectus published by the Company on May 10, 2007 (including amendments thereto made on April 7, 2009 and April 22, 2009).

The Debentures (Series C) were offered by way of a tender on the annual rate of interval above the base interest rate, which is the interest rate on "Government Bonds 817". The interest rate interval of the debentures determined in the public tender is 0.7%. The debentures were rated Aa1 with stable horizon by Midroog, and AA+/stable by Maalot.

After balance-sheet date the Company announced the Strauss Water strategy. Strauss Water will lead and manage Strauss Group's activity in the water industry and will serve as one of the Group's growth drivers in coming years. Strauss Water will collate knowledge in the fields of development, production, marketing, distribution and business development of this sector of activity, in Israel and internationally.

In this context the Company announced that an agreement had been signed for the acquisition of Tana Industries (Tami 4) through its subsidiary, H2Q. Tana leads the Israeli market and is one of the leading companies in the world in the development, production and marketing of systems for the purification, filtering, heating and cooling of drinking water for the home and institutional markets, under the "Tami 4" brand.

The acquisition of Tana Industries (Tami 4) is in direct continuation of Strauss's entry to the drinking water industry, which began some two and a half years ago when Strauss invested in H2Q, developers of a technology for the treatment of drinking water, with the aim of becoming a significant global player that will provide drinking water solutions to consumers in and outside of Israel.

Following the establishment of Strauss Water the operations of H2Q and Tami 4 will be gradually merged with the goal of integrating the technology developed by H2Q and Tami 4's capabilities, to serve as the infrastructure for Strauss Water's activities in Israel and internationally.

In consideration for Tana's shares Strauss Group is to pay the sum of NIS 291 million, and Tana will be transferred to H2Q with net zero financial liabilities. The consideration will be paid at the closing of the transaction, which is slated for October 1, 2009. The consideration is subject to certain adjustments to be clarified at the closing. The acquisition will be financed by an investment by Strauss Group in H2Q, which will increase Strauss's holding in H2Q to 90% of the company's share capital. The closing is conditional on the completion of a due diligence process and fulfillment of a number of suspending conditions. For further information, see the Immediate Report of July 12, 2009.

**Sales**

## Convenience Translation from Hebrew

The Group's sales in the first half totaled NIS 3,036 million, similar to the corresponding period last year. After neutralizing the currency impact, growth amounted to 4.4%. Organic growth after neutralizing the impact of changes in exchange rates in the first half amounted to 4.6%.

The Group's sales in the second quarter totaled NIS 1,514 million compared to NIS 1,532 million in the corresponding period last year, a decrease of 1.2%. After neutralizing the currency impact, the Group's sales increased by 1.5%. Organic growth after neutralizing the impact of changes in exchange rates in the second quarter amounted to 1.5%.

### **Gross Profit**

The financial accounting gross profit in the first half totaled NIS 1,121 million, similar to last year, and was maintained at a level of 36.9%, similar to last year.

The pro-forma gross profit in the half increased by 0.2% compared to the corresponding period last year, up from 36.8% in 2008 to 36.9% this year.

The gross profit was positively impacted by the improvement in activities in Israel and in Sabra and by the streamlining measures applied, and was adversely affected by the impact of currency exchange rates.

The financial accounting gross profit in the second quarter decreased by 1.7% and dropped from 37.6% last year to 37.3% this year.

The pro-forma gross profit increased by 0.3%, up from 37.0% in 2008 to 37.5% this year.

Exchange rates adversely impacted the gross profit in the coffee business in the second quarter, while the improvement in Sabra and in Israel positively affected the gross profit..

The Group is contending with the changes in raw material prices and exchange rates by applying streamlining measures in all areas of its activity and by raising the prices of its products.

### **Operating Profit before Other Income (Expenses)**

In the first half of 2009, the financial accounting operating profit (before other expenses) totaled NIS 266 million (a rate of 8.8% of sales), compared to NIS 255 million (8.4%) in the corresponding period last year, an increase of 4.1%.

The pro-forma operating profit totaled NIS 270 million (8.9% of sales) in the first half, compared to NIS 265 million (8.7%) last year, an increase of 1.9%.

The increase in the Group's management accounting operating profit is due mainly to the increase in the operating profit of the Israel sector, which improved by 12.1% as a result of streamlining the cost structure of the Company and of the decrease in the rate of selling and G&A expenses, and also to the improvement in Sabra's operating profit. The operating profit rate in the half rose from 8.4% last year to 8.8% in 2009.

In the second quarter of 2009, the financial accounting operating profit (before other expenses) totaled NIS 131 million (8.7% of sales), compared to NIS 131 million (8.5%) in the corresponding period last year, an increase of 0.4%.

The pro-forma operating profit totaled NIS 135 million (8.9% of sales) in the second quarter, compared to NIS 128 million (8.4% of sales) last year, an increase of 5.6%.

## Convenience Translation from Hebrew

The increase in the Group's management accounting profit is due mainly to the increase in the operating profit of the Israel sector and Sabra, which is the result of continued streamlining and the decrease in selling and G&A expenses. The improvement in the operating profit is mainly the result of the improvement in the gross profit and the streamlining moves.

### **Other Income (Expenses), Net**

Other expenses, net totaled NIS 27 million in the first half compared to NIS 20 million in income in the corresponding period last year. Most of the expenses in the first half of 2009 are attributed to the impairment of goodwill in a Serbian subsidiary of Strauss Coffee in an amount of NIS 22 million in the second quarter. Most of the other income in the first half last year was the result of a capital gain arising from the sale of the holding in Sabra (the move from full to partial consolidation).

In the second quarter, other expenses, net totaled NIS 22 million compared to expenses of NIS 8 million in the corresponding quarter last year (mainly due to an unrealized acquisition)

### **Operating Profit after Other Income (Expenses)**

The Company's consolidated operating profit totaled NIS 239 million in the first half, compared to NIS 275 million in the corresponding period last year.

The Company's consolidated operating profit totaled NIS 109 million in the second quarter, compared to NIS 123 million in the corresponding quarter last year.

### **Financing, Net**

Net financing expenses in the first half of this year totaled NIS 27 million compared to expenses of NIS 54 million in the corresponding period last year. Net financing expenses in the second quarter totaled NIS 31 million compared to expenses of NIS 29 million in the corresponding quarter last year.

Financing expenses in the reported period in relation to the corresponding period last year were impacted mainly by an increase of 1.2% in the CPI (based on the known Index), on which basis the Debentures (Series A and Series B) are revalued, compared to an increase of 2.85% in the corresponding period last year, which was offset on a similar scale against Index hedges; by a decrease in the net credit volume (mainly due to the consideration from the TPG Capital transaction); and by the entry of expenses relating to reporting according to IFRS in the corresponding period last year in respect of the payment of a dividend to a minority holding put options.

Financing expenses in the second quarter were impacted by an increase of 1.9% in the known Index compared to 2.4% in the corresponding quarter last year, and by a decrease in the net credit volume. Conversely, financing expenses were entered in respect of currency positions in the quarter as opposed to income in the corresponding quarter, which led to an overall increase in financing expenses compared to the second quarter last year.

The net credit volume as at June 30, 2009 totaled NIS 673 million compared to NIS 1.4 billion on June 30, 2008.

### **Income before Taxes on Income**

## Convenience Translation from Hebrew

In the first half the Group's consolidated income before taxes on income amounted to NIS 212 million (7.0% of sales) compared to NIS 221 million (7.3% of sales) in the corresponding period last year, a decrease of 4.2%.

In the second quarter the Group's consolidated income before taxes on income amounted to NIS 78 million (5.2% of sales) compared to NIS 94 million (6.1% of sales) in the corresponding quarter last year, a decrease of 16.7%.

### **Taxes on Income**

In the first half taxes on income amounted to NIS 65 million, reflecting an effective tax rate of 30.8%, whereas in the corresponding period last year taxes on income amounted to NIS 62 million and the effective tax rate was 28.1%.

In the second quarter taxes on income amounted to NIS 21 million, reflecting an effective tax rate of 27.3%, compared to NIS 28 million and an effective tax rate of 29.3% in the corresponding quarter last year.

### **Income for the Period**

In the first half income for the period amounted to NIS 147 million compared to NIS 159 million last year. Income for the first six months, on a pro-forma basis, increased 16.1% reaching NIS 175 million, compared to NIS 150 million last year.

Income for the period in the second quarter totaled NIS 57 million compared to NIS 66 million last year. Income for the second quarter, on a pro-forma basis, increased 5.7% totaling NIS 80 million, compared to NIS 75 million last year.

### **Income for the Period for the Shareholders of the Company**

The financial accounting income for the shareholders of the Company in the first half totaled NIS 112 million compared to NIS 140 million last year, a decrease of 20.4%.

The pro-forma income for the shareholders of the Company in the first half totaled NIS 134 million compared to NIS 131 million last year, an increase of 1.7%.

The financial accounting income for the period for the shareholders of the Company in the second quarter totaled NIS 37 million compared to NIS 56 million last year, a decrease of 33.8%. This decrease is due mainly to the fact that included in the second quarter was NIS 22 million for other expenses impairment in goodwill, last year, other income included a capital gain of NIS 27 million in respect of the transfer from full to proportionate consolidation of Sabra's activity and an increase in the minority share of the income following the TPG transaction (the acquisition of 25.1% of the shares of Strauss Coffee by TPG Capital).

The pro-forma income for the shareholders of the Company in the second quarter totaled NIS 55 million compared to NIS 65 million last year, a decrease of 16.2%.

### **Income for the Period for Minority Shareholders**

In the first half the minority share in the income of subsidiaries totaled NIS 35 million compared to NIS 19 million in the corresponding period last year, an increase of 82.6%.

Convenience Translation from Hebrew

In the second quarter the minority share in the income of subsidiaries totaled NIS 20 million compared to NIS 10 million in the corresponding quarter last year, an increase of 90.3%. The increase in the minority share is due to the fact that in the current quarter the minority share of the income also includes TPG Capital's share of the profits of Strauss Coffee (at a rate of 25.1%).

## **LIQUIDITY, SOURCES OF FINANCING AND FINANCIAL POSITION**

Cash flows provided by ordinary operations in the first half of 2009 totaled NIS 280 million, compared to cash flows provided by ordinary operations totaling NIS 1 million in the corresponding period last year. The increase in the cash flow provided by ordinary operations in the half is due mainly to a decrease in accounts receivable balances compared to a significant increase in accounts receivable in the corresponding period last year due to delays in collection following the launch of a new sales system in Israel, as well as a decrease in inventory balances in the reported period compared to the corresponding period in 2008.

Cash flows used in investment activity in the first half totaled NIS 258 million, compared to NIS 498 million in the corresponding period last year. In the first half total cash investments in fixed assets, other assets and securities amounted to NIS 253 million, compared to NIS 119 million in the corresponding period last year. In the first half of 2009 the Company invested NIS 7 million in the acquisition of subsidiaries and businesses, compared to an amount of NIS 378 million in the corresponding period in 2008.

Cash flows provided by financing activity in the first half totaled NIS 209 million, compared to NIS 374 million in cash provided by financing activity in the corresponding period last year. During the half the Company issued debentures in an amount of NIS 495 million and paid a dividend of NIS 200 million. In the corresponding period last year the Company increased its short-term credit balances by an amount of NIS 417 million (primarily to finance the acquisition activity in Russia).

Cash flows provided by ordinary operations in the second quarter of 2009 totaled NIS 244 million, compared to NIS 48 million in the corresponding quarter last year. The increase in the cash flow provided by ordinary operations in the current quarter compared to the corresponding quarter last year is due mainly to a decrease in accounts receivable balances and inventory balances in the reported period.

Cash flows used in investment activity in the second quarter totaled NIS 213 million, compared to NIS 398 million used in the corresponding period last year. During the second quarter the Company purchased marketable securities and Index-linked bonds for an amount of NIS 126 million, and invested NIS 7 million in the acquisition of subsidiaries and businesses, compared to an amount of NIS 378 million in the corresponding period in 2008.

Cash flows provided by financing activity in the second quarter totaled NIS 240 million, compared to NIS 329 million provided by financing activity in the corresponding period last year. The cash flow in the second quarter of this year was influenced mainly by the issue of debentures in an amount of NIS 495 million and payment of a dividend of NIS 200 million, declared in the first quarter. The cash flow provided by financing activity in the corresponding quarter last year was influenced mainly by the receipt of short-term bank loans and credit in an amount of NIS 363 million.

The Company's cash and cash equivalents as at June 30, 2009 totaled NIS 935 million, compared to NIS 358 million on June 30, 2008. In accordance with Company policy, these assets are invested mainly in Euro deposits held by Strauss Coffee. Additionally, the Company has short-term investments in securities and in deposits (mainly linked to the Shekel and Brazilian Real).

## Convenience Translation from Hebrew

The Company's liquidity ratio as at June 30, 2009 is 2.17, compared to 1.74 on December 31, 2008. As at June 30, 2009 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,610 million, compared to NIS 1,118 million on December 31, 2008. As at June 30, 2009 short-term credit (excluding current maturities) amounted to NIS 154 million compared to NIS 184 million on December 31, 2008. As at June 30, 2009 suppliers' credit amounted to NIS 609 million, compared to NIS 758 million on December 31, 2008.

As at June 30, 2009 the ratio of long-term liabilities to banks and others (including current maturities) to total equity attributed to the shareholders of the Company was 86.9%, compared to 60.2% at the end of 2008.

As at June 30, 2009 the Company's consolidated balance sheet totaled NIS 5,804 million, compared to NIS 5,435 million at the end of 2008.

As at June 30, 2009 the ratio of equity attributed to the shareholders of the Company to total consolidated assets was 31.9%, compared to 34.2% at the end of 2008.

The Company's activities outside of Israel are conducted in various foreign currencies and through autonomous holding companies. Any weakening in relation to the Shekel of the currencies in the countries in which the Company operates reduces the shareholders' equity of the Company, and vice versa.

### **Following is the analysis of the business results of the Group's major business units:**

#### **The Israel Sector – Strauss Israel**

In this sector the Group develops, manufactures, sells, markets and distributes a broad variety of branded food and beverage products in Israel. In line with the Group's focus on the development of products and solutions preferred by the consumer, the Group's products in Israel center on providing a response to two leading consumption trends, "**Health & Wellness**" and "**Fun & Indulgence**". The new organizational structure supports streamlining and has prepared the Company for coping with the challenges in the external environment.

*Following are the condensed results of business operations based on a pro-forma statements of Strauss Israel by unit, for the quarters and the half years ended June 30, 2009 and 2008 (in NIS millions):*

	First Half			Second Quarter		
	2009	2008	% Chg	2009	2008	% Chg
<b>Health &amp; Wellness</b>						
Net sales	862	870	-0.9	444	447	-0.6
Operating income	100	87	13.9	59	49	21.7
<b>Fun &amp; Indulgence</b>						
Net sales	446	450	-0.9	183	193	-5.2
Operating income	49	45	8.8	7	13	-43.4
<b>Total Israel</b>						
<b>Net sales</b>	<b>1,308</b>	<b>1,320</b>	<b>-0.9</b>	<b>627</b>	<b>640</b>	<b>-2.1</b>
<b>Operating income</b>	<b>149</b>	<b>132</b>	<b>12.1</b>	<b>66</b>	<b>62</b>	<b>7.6</b>

Convenience Translation from Hebrew

## Sales

In the first half sales by all of Strauss Israel's activity, including the coffee business in Israel, totaled NIS 1,620 million, a decrease of 0.3%. Sales by the Israeli sector (excluding coffee) totaled NIS 1,308 million, a decrease of 0.9%.

In the second quarter sales by all of Strauss Israel's activity, including the coffee business in Israel, totaled NIS 764 million, a decrease of 2.9%. Sales by the Israeli sector (excluding coffee) totaled NIS 627 million, a decrease of 2.1%. Second quarter sales were affected by the timing of the Passover holiday. The majority of the 2009 Passover holiday sales took place during the first quarter, whereas the majority of the Passover holiday sales in 2008 occurred during the second quarter).

In the first half of 2009 the effects of the recession in Israel on the growth rate of the food and beverages industry were felt. According to StoreNext figures, the Israeli food market decreased in the first half by 1.2% on average in financial terms.

The Company in Israel is investing greater resources in understanding consumer behavior in a period of recession in view of the change in purchasing power, and continues to focus on the fundamental elements – product quality, service level and pricing management.

During the second quarter the Company continued to develop and adapt the brand and product portfolio by creating value proposals that are relevant to the consumer on the one hand, and through innovation in other categories on the other. The Company in Israel is making efforts to achieve streamlining in all its expenses while placing emphasis on retaining its two major assets – people and brands .

The gross profit in the Israel sector totaled NIS 542 million in the first half (41.5% of sales) compared to NIS 533 million (40.4% of sales) last year, an increase of 1.8%. The improvement in the gross profit is due mainly to the improvement in production expenses and in their rate, and to the price increases executed by the Company last year.

In the second quarter the gross profit in the Israel sector totaled NIS 261 million (41.7% of sales) compared to NIS 261 million (40.7% of sales) in the corresponding period last year, an increase of 0.3%.

The operating profit Proforma in Israel increased by 12.1% in the first half of 2009. The growth in the operating profit in Israel is due to the continued improvement in the cost structure. Most of the improvement in the operating profit in the half is evident in the Health & Wellness unit. The operating profit rate in Israel improved in the first half and amounted to 11.4% compared to 10.0% in the corresponding period last year.

The operating profit in Israel increased in the second quarter by 7.6%. The growth in the operating profit is due to the improvement in the cost structure. The operating profit margin in Israel improved in the quarter, amounting to 10.6% compared to 9.6% in the corresponding period last year.

The improvement in the operating profit in the half and in the quarter was achieved mainly by streamlining production expenses and material cost.

## **The Coffee Sector**

In the global coffee business the Group focuses on the development, production, marketing and sale of branded coffee products in Israel and in various emerging markets – Central and Eastern Europe and Brazil.

*Following is the scope of sales by the coffee business in the major geographical regions, and growth rates for the quarters and the half years ended June 30, 2009 and 2008 (in NIS millions):*

	First Half				Second Quarter			
	2009	2008	% change	% change in local currency*	2009	2008	% change	% change in local currency*
<b>Geographical region</b>								
Brazil (1) (2)	508	479	6.1	18.3	280	243	15.3	19.6
Israel	312	306	2.1	2.1	137	147	-6.8	-6.8
Former Yugoslavia countries	110	142	-22.7	-12.8	61	74	-18.1	-10.7
Former USSR countries	264	176	50.1	55.6	129	121	6.3	9.0
Balkan states	181	196	-7.9	4.8	98	104	-5.8	2.4
Poland	206	249	-17.1	7.1	106	129	-17.3	4.7
<b>Total</b>	<b>1,581</b>	<b>1,548</b>	<b>2.2</b>	<b>13.1</b>	<b>811</b>	<b>818</b>	<b>-0.8</b>	<b>5.8</b>

\* The growth percentage in the local currency neutralizes the impact of changes in exchange rates in the different countries in relation to the Shekel on the growth in the countries' sales.

(1) Brazil sales in the first half of 2009 include sales amounting to NIS 103 million of green coffee and NIS 28 million of corn. In the corresponding period last year sales of green coffee amounting to NIS 104 million and corn amounting to NIS 31 million were included.

(2) Brazil sales in the second quarter of 2009 include sales amounting to NIS 54 million of green coffee and NIS 15 million of corn. In the second quarter last year sales of green coffee amounting to NIS 42 million and corn amounting to NIS 16 million were included.

Sales – in the first half of 2009 sales by the coffee sector grew by 2.2% and totaled NIS 1,581 million. After neutralizing the impact of currency exchange rates, growth amounted to 13.1%. Organic growth (after neutralizing the acquisition of businesses and the impact of exchange rate differentials) amounted to 8.2%.

Coffee sales in the first half were adversely impacted by the sharp changes in the exchange rates of the different operating currencies, combined with the difficulty in raising prices in the prevailing macroeconomic conditions in part of the countries. Growth in local currency is evident in the Company's activity in the former USSR countries (following the acquisition of the coffee brands of Cosant Enterprises Ltd. in the CIS countries), Brazil and Poland.

In the second quarter of 2009 sales by the coffee sector totaled NIS 811 million, a decrease of 0.8%. After neutralizing the impact of currency exchange rates, growth amounted to 5.8%. Organic growth (after neutralizing the acquisition of businesses and the impact of exchange rate differentials) amounted to 2.9%.

The growth in local currency in the second quarter is evident mainly in the Company's businesses in Brazil and in the former USSR countries. Coffee sales in the quarter were positively influenced by the growth in volumes in part of the clusters, and were negatively influenced by the changes in the exchange rates of the various currencies.

The gross profit in the coffee sector in the first half totaled NIS 493 million (31.2% of sales) compared to NIS 504 million (32.6%) last year, a decrease of 2.2%.

In the second quarter, the gross profit totaled NIS 263 million (32.5% of sales) compared to NIS 271 million (33.2%) last year, a decrease of 2.9%.

The decrease in the gross profit in the quarter and in the half was due mainly to the impact of currency exchange rates on the cost of raw materials in local currency (the purchase currency of raw materials is the US Dollar, which grew stronger in relation to the different currencies in the reported period), and also to the

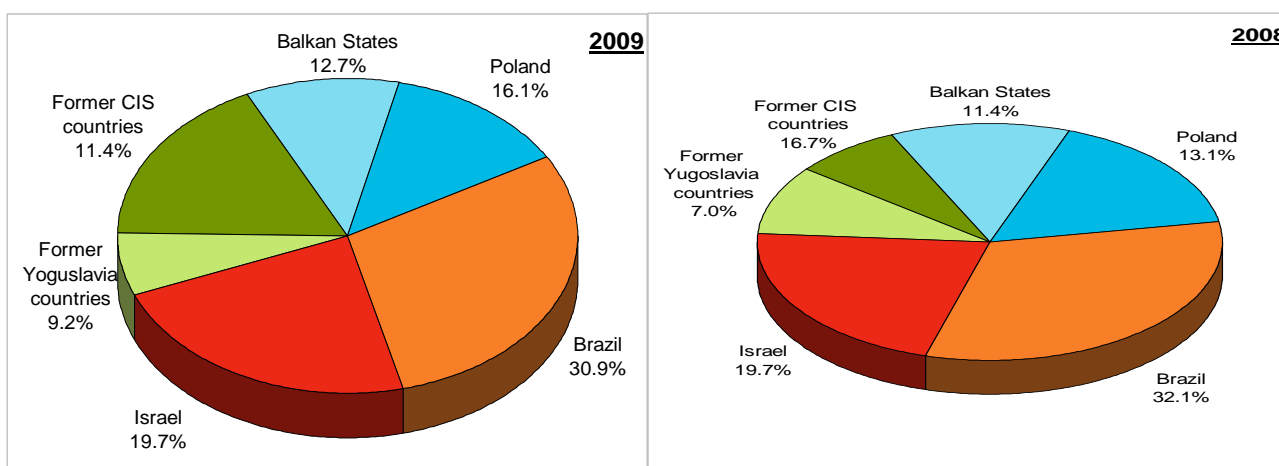
Convenience Translation from Hebrew

impact of the erosion of the various currencies versus the Shekel, which led to a decrease in the gross profit, which is reported in Shekels.

The operating profit of the coffee business in the first half of 2009 totaled NIS 123 million (7.8% of sales) compared to NIS 137 million (8.8% of sales) last year, a decrease of 10.0%. The decrease in the operating profit is mainly the result of the decrease in the gross profit and the impact of currency exchange rates.

The operating profit of the coffee business in the second quarter totaled NIS 73 million (9.0% of sales), similar to the operating profit in the corresponding period last year.

**Distribution of coffee sales by geographical region in the first half of 2009 and 2008:**



The business in Brazil – the Company in Brazil continues to grow, increasing its market shares and expanding in additional geographical regions in the country. The average market share of the Brazilian operation in the first half reached 15.0% compared to an average market share of 13.5% last year.

The coffee activity in Brazil continues to grow and improve across all parameters. Coffee sales in Brazil (after neutralizing the green coffee export business and the corn business) grew by 9.7% (22.2% in local currency). Growth is evident in most regions, especially in Sao Paolo, where the Company continues to increase its market shares.

In the second quarter the strong growth in the Brazilian operation continued and coffee sales in Brazil (after neutralizing the green coffee export and corn businesses) grew by 13.8% (18.1% in local currency).

The former Yugoslavia countries – the Company's sales in the first half of the year decreased by 22.7% (a decrease of 12.8% in local currency) and were adversely affected by the macroeconomic conditions in the region and by the material erosion in local currency rates versus the Shekel.

In the second quarter the Company's sales decreased by 18.1% (a decrease of 10.7% in local currency).

The Balkan States – Sales in the first half of 2009 decreased by 7.9% and were adversely affected by the erosion of the exchange rate of the Romanian currency versus the Euro and the Shekel. After neutralizing the currency impact sales grew by 4.8%.

Sales in the second quarter decreased by 5.8% and were adversely affected by the erosion of the exchange rate of the Romanian currency versus the Euro and the Shekel. After neutralizing the currency impact sales grew by 2.4%.

## Convenience Translation from Hebrew

In the former USSR countries growth continued in the retail sector. The growth in this region is partly the result of merging the marketing and sales operations of the instant coffee and roasted and ground brands of Cosant Enterprises Ltd., acquired in April 2008, into the existing infrastructure in the CIS countries. In 2008 the Company initiated AFH activities in Russia with the Totti Café by Roberto Totti brand for the HoReCa channel (coffee services for hotels, restaurants and cafés).

The Company's sales in the region grew in the first half by 50.1%, and after neutralizing the currency impact, sales grew by 55.6%. Sales in the region in the second quarter grew by 6.3%, and after neutralizing the currency impact – by 9.0%.

In Poland the Company's sales in the first half were affected by the material erosion of local currency rates versus the Shekel. Sales decreased by 17.1% in the first half. After neutralizing the currency impact sales grew by 7.1%. In the premium segment growth continued with the MK brand, with an improvement in its market shares.

In the second quarter sales decreased by 17.3%. After neutralizing the currency impact, sales grew by 4.7%.

In Israel, the Company continues to maintain its competitive position as operational streamlining continues. The growth in sales in Israel was prominent in all coffee categories (Turkish, instant) and in all channels (retail, AFH). In the first half of 2009 sales in Israel grew by 2.1%, and in the second quarter sales decreased by 6.8%.

## Other Business

The Group has other businesses, which are included in the Financial Statements in the "Other Business" sector. The major businesses among them are:

The **Sabra** refrigerated dips business in the US: The Group develops, manufactures, sells, markets and distributes hummus and chilled Mediterranean salads throughout North America.

In 2008 these businesses included the sale of kosher products in the US. This activity was sold on December 31, 2008.

**Max Brenner:** The Group manufactures and sells chocolate products under the Max Brenner brand and operates a chain of "Chocolate Bars" in Israel and abroad. These are wholly-owned by the Company or operated under franchise and through partners, and deliver a novel consumption experience in the chocolate and chocolate beverage category.

**Strauss Water:** In 2007, the Company entered a partnership in a new venture in the water business ("H2Q"), and in July 2009 signed an agreement for the acquisition of Tana Industries (Tami 4).

## **The Sabra Refrigerated Flavored Dips Business (hereinafter: "Sabra")**

Commencing in the second quarter of 2008 the Company proportionately consolidated the Sabra business (50%) according to the rate of its holding following the closing of the transaction with PepsiCo.

In the first half of 2009 Sabra's pro-forma sales (assuming the full consolidation of Sabra's business) totaled NIS 201 million compared to NIS 129 million last year, an increase of 55.5%, and after neutralizing the impact of exchange rates, pro-forma growth in the period totaled 32.5%.

## Convenience Translation from Hebrew

Sabra's pro-forma operating profit (assuming the full consolidation of Sabra's business) totaled NIS 32 million (15.8% of sales) in the first half compared to NIS 15 million last year (11.4%), an increase of 114.7%.

In the second quarter of this year Sabra's pro-forma sales (assuming the full consolidation of Sabra's business) totaled NIS 107 million compared to NIS 68 million last year, an increase of 56.3%, and after neutralizing the impact of exchange rates, pro-forma growth in the second quarter totaled 30.0%.

The pro-forma operating profit (assuming the full consolidation of Sabra's business) totaled NIS 18 million (16.6% of sales) in the second quarter compared to NIS 9 million last year (13.6%), an increase of 90.9%.

Sabra has continued to grow its market share and to maintain a leading position in the refrigerated flavored spreads category. Sabra's average market share in the first half of 2009 was 37.7% compared to an average market share of 28.2% in the corresponding period last year (according to IRI figures published on June 14, 2009).

## The Max Brenner Business

In the first half of the year Max Brenner's sales totaled approximately NIS 46 same as last year, After neutralizing the impact of exchange rates, sales in the first half decreased by 5.9%.

In the second quarter Max Brenner's sales totaled NIS 22 million compared to NIS 24 million last year, a decrease of 8.0%. After neutralizing the impact of exchange rates, sales in the second quarter decreased by 13.6%.

In July 2009 the Company opened a Max Brenner store in Philadelphia, and closed the store on Second Avenue in New York.

## Strauss Water

During the course of 2007 the Company became involved in a research and development project for an innovative venture in the field of water (for consumption). In August 2008, the Company decided to convert a convertible loan of \$2.75 million into shares of H2Q Water Industries Ltd. (hereinafter H2Q), and subsequently invested a further \$3.5 million in share capital. After the conversion of the convertible loan and the additional investment, the Company now has a 51% holding in H2Q.

H2Q is a joint venture owned by Strauss and a group of scientists and entrepreneurs. Strauss Group invested in the venture some three years ago and managed it as a startup alongside the Group's businesses. In the framework of the transaction for the acquisition of Tana Industries Ltd., Strauss Group will increase its holding in H2Q to approximately 90% of the company's issued and paid-up share capital.

The company began as a venture established by a group of scientists from the Hebrew University of Jerusalem and is based on a patent in the field of water purification. The developers behind the technology are Professor Avi Domb of the Hebrew University, and Mr. Haim Wilder, who has twenty-five years of experience in entrepreneurship and product development.

H2Q has developed an innovative water purification technology designed, in the first stage, for home use. The technology consists of the integration of breakthrough developments in the fields of engineering and physics, with innovative developments in chemistry and microbiology, supported by 8 patents. The device's compact size allows for an extremely broad range of applications such as coolers, bottles, refrigerators, jugs, etc. Additionally, H2Q has developed innovative technologies for cooling and boiling drinking water, as well as in the field of bacteriostatic polymers.

## Convenience Translation from Hebrew

The processes of approval and standardization of the technology by the world's most rigid standards institutions in the field of water standardization (the American EPA and NSF) are currently being completed.

In July 2009 the Company presented Strauss Water and its strategy. Strauss Water will lead and manage Strauss Group's activity in the water industry and will serve as one of the Group's growth drivers in coming years. Strauss Water will collate knowledge in the fields of development, production, marketing, distribution and business development of this sector of activity, in Israel and internationally. In this context the Company announced that an agreement had been signed for the acquisition of Tana Industries (Tami 4) through its subsidiary, H2Q.

### **MASTER CONTROL OF THE PROCESS OF PREPARING AND APPROVING THE FINANCIAL STATEMENTS**

The Company organ responsible for master control is the Finance Committee established by the Board of Directors of the Company. The members of the Finance Committee are Dalia Lev, CPA, Ofra Strauss, Dr. Arieh Ovadia, Ronit Haimowitz, Meir Shani and Dr. Michael Angel.

The Board of Directors and its Finance Committee have a series of control processes in place for the Financial Statements before they are approved. These controls include, among others:

- The VP Finance holds meetings with the Chairperson of the Finance Committee on matters relating to financial and accounting issues that are relevant to the Company. Before the Financial Statements were approved a meeting was held between the VP Finance and the Chairperson of the Finance Committee, CPA Dalia Lev, to discuss material issues that arose during the preparation of the Financial Statements for the second quarter of 2009.
- The Company auditor holds conversations with the Finance Committee on subjects that arose during the audit of the Financial Statements. Before the Financial Statements were approved a conversation was held between the Finance Committee and the Company auditor to discuss material issues that arose during the process of auditing the Financial Statements for the second quarter of 2009.
- Before the Financial Statements are approved the draft Financial Statements are forwarded to the Committee members and the rest of the members of the Board for their inspection.
- The Financial Statements are presented for discussion by the Board's Finance Committee. In this discussion the VP Finance presents an extensive review of business activities and the Company's business results for the period. The VP Finance also reviews the critical estimates applied and material issues that arose in the process of preparing the Financial Statements. The Company auditor is also present at this meeting. The Financial Statements are presented for further discussion and approval by the Board of Directors.

### **EVENTS DURING THE REPORTED PERIOD**

#### **1. Accounting changes**

For information on the implementation of accounting standards for the first time, see Note 1.2 to the Financial Statements; for information on new standards and interpretations not yet adopted, see Note 1.3 to the Financial Statements.

Convenience Translation from Hebrew

**2. Expiry of Warrants (Series 1)**

For information on the expiry of Warrants (Series 1) issued by the Company, see Note 4.1 to the Financial Statements.

**3. Payment of a dividend**

For information on the payment of a dividend declared on March 25, 2009 and paid on April 27, 2009, see Note 4.2 to the Financial Statements.

**4. Financing**

For information on the publication of a shelf offer report for the issue and listing for trading of Debentures (Series C), see Note 4.3 to the Financial Statements.

**5. Holding structure – merger**

For information on the merger of the company Elite Confectionery of the Strauss Group, a wholly-owned subsidiary, with the Company, see Note 4.4 to the Financial Statements.

**6. Legal proceedings**

- For information on the approval by the court on January 26, 2009 of the cancellation of a suit and the motion for its approval as a class action, see Note 5.2 to the Financial Statements.
- For information on a suit filed on April 19, 2009 and the motion for its approval as a class action, see Note 5.3 to the Financial Statements.
- For information on the abatement of a motion for an action by the court on June 22, 2009, see Note 5.4 to the Financial Statements.
- For information on a suit filed on June 30, 2009, the motion for its approval as a class action and the motion for its consolidation with a previous action on the subject, see Note 5.5 to the Financial Statements.
- The review report refers the reader to Notes 5.1 and 5.7 to the Financial Statements regarding suits filed against the Company with the aim of procuring their recognition as class actions.

**7. Changes in the executive team in the Group**

For information on changes in the executive team in the Group, see Note 6.2 to the Financial Statements and Clause 7 of the report updating the description of the Company's business.

**8. Material transactions with related parties**

For information on the reduction of the salary of the CEO, Chairman of the Board and Members of Senior Management of the Company in Israel, see Note 6.1 to the Financial Statements.

**POST BALANCE-SHEET DATE EVENTS**

For a review of events occurring after balance-sheet date, see Note 8 to the Financial Statements.

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

Convenience Translation from Hebrew

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Ofra Strauss  
Chairperson of the Board

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Gadi Lessin  
CEO

August 25, 2009

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**STRAUSS-GROUP LTD.**  
FINANCIAL STATEMENTS  
AS AT JUNE 30, 2009

**Strauss-Group Ltd.**  
**Financial Statements**  
**As at June 30, 2009**

**Financial Statements as at June 30, 2009**

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## Review Report to the Shareholders of Strauss Group Ltd.

### Introduction

We have reviewed the accompanying financial information of Strauss Group Ltd. and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of June 30, 2009 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six and three months periods then ended. The board of directors and management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for these interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 16.46% of the total consolidated assets as at June 30, 2009, and whose revenues constitute 2.65% and 2.17% of the total consolidated revenues for the six and three month periods then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

### *Scope of Review*

We conducted our review in accordance with Standard on Review Engagements 1, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to the mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

We call attention to that stated in Notes 5.1 and 5.7 regarding claims that were filed against the Company for the purpose of being certified as class action suits.

Sincerely,

Somekh Chaikin  
Certified Public Accountants (Isr.)  
August 25, 2009

**Consolidated Statements of Financial Position**

	<b>June 30 2009</b>	<b>June 30 2008</b>	<b>December 31 2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS thousands</b>		
<b>Current assets</b>			
Cash and cash equivalents	934,864	357,794	680,237
Marketable securities and deposits	156,092	60,114	33,074
Trade receivables	963,327	987,820	948,600
Income tax receivables	59,310	51,063	94,934
Other receivables and debit balances	200,339	*286,044	*191,390
Inventory	713,871	699,541	813,966
Assets classified as held for sale	-	2,728	-
<b>Total current assets</b>	<b>3,027,803</b>	<b>2,445,104</b>	<b>2,762,201</b>
<b>Investments and non-current assets</b>			
Other investments and long-term debit balances	132,148	*96,147	*124,612
Assets designated for the payment of employee benefits, net	6,327	6,373	7,347
Fixed assets	1,270,769	1,230,265	1,229,977
Intangible assets	1,285,663	1,416,964	1,226,275
Deferred expenses	52,475	*60,086	54,647
Investment property	21,198	18,420	20,869
Deferred tax assets	7,563	8,964	9,230
<b>Total investments and non-current assets</b>	<b>2,776,143</b>	<b>2,837,219</b>	<b>2,672,957</b>
<b>Total assets</b>	<b>5,803,946</b>	<b>5,282,323</b>	<b>5,435,158</b>

Ofra Strauss  
Chairperson of the Board of Directors

Gadi Lesin  
Chief Executive Officer

Shahar Florence  
Chief Financial Officer

Date of approval of the interim financial statements: August 25, 2009

**Consolidated Statements of Financial Position (cont'd)**

	<b>June 30 2009</b>	<b>June 30 2008</b>	<b>December 31 2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS thousands</b>		
<b>Current liabilities</b>			
Current maturities of debentures	92,431	85,931	90,802
Short terms loans and credit	178,521	634,498	223,097
Trade payables	609,195	702,586	757,504
Income tax payables	74,967	43,667	52,596
Other payables and credit balances	408,832	450,335	433,755
Provisions	28,712	38,666	26,715
<b>Total current liabilities</b>	<u>1,392,658</u>	<u>1,955,683</u>	<u>1,584,469</u>
<b>Non-current liabilities</b>			
Debentures	1,473,522	1,068,864	966,112
Long-term loans and credit	19,812	51,662	21,914
Long-term payables and credit balances	50,126	29,731	39,634
Employee benefits, net	30,801	19,763	22,668
Deferred taxes	102,861	124,607	102,017
<b>Total non-current liabilities</b>	<u>1,677,122</u>	<u>1,294,627</u>	<u>1,152,345</u>
<b>Equity</b>			
Share capital	242,142	242,112	242,121
Share premium	622,279	622,279	622,279
Translation reserve	(76,457)	(40,382)	*(158,479)
Treasury stock	(19,845)	(19,845)	(19,845)
Reserve for available for sale financial assets	4,125	(1,311)	-
Retained earnings	1,079,900	1,035,032	1,170,508
<b>Total equity attributable to the Company's shareholders</b>	<u>1,852,144</u>	<u>1,837,885</u>	<u>1,856,584</u>
<b>Minority interest</b>	<u>882,022</u>	<u>194,128</u>	<u>*841,760</u>
<b>Total equity</b>	<u>2,734,166</u>	<u>2,032,013</u>	<u>2,698,344</u>
<b>Total liabilities and equity</b>	<u>5,803,946</u>	<u>5,282,323</u>	<u>5,435,158</u>

\* 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 2009	June 30 2008	June 30 2009	June 30 2008	December 31 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands				
Sales	3,035,624	3,036,046	1,513,799	1,531,968	6,245,875
Cost of sales					
Valuation of balance of commodities hedging transactions as at end of period	(2,076)	(5,890)	2,719	(9,099)	9,621
Other costs	1,916,221	1,920,804	945,776	965,742	3,959,746
Total cost of sales	1,914,145	1,914,914	948,495	956,643	3,969,367
<b>Gross profit</b>	<b>1,121,479</b>	<b>1,121,132</b>	<b>565,304</b>	<b>575,325</b>	<b>2,276,508</b>
Selling and marketing expenses	678,102	683,794	343,502	351,827	1,426,775
General and administrative expenses	177,464	181,861	90,435	92,630	369,421
	855,566	865,655	433,937	444,457	1,796,196
<b>Operating profit before other income (expenses)</b>	<b>265,913</b>	<b>255,477</b>	<b>131,367</b>	<b>130,868</b>	<b>480,312</b>
Other income	3,070	35,311	3,070	5,065	294,593
Other expenses	(30,291)	(15,471)	(25,214)	(12,994)	(86,268)
Other income (expenses), net	(27,221)	19,840	(22,144)	(7,929)	208,325
<b>Operating profit</b>	<b>238,692</b>	<b>275,317</b>	<b>109,223</b>	<b>122,939</b>	<b>688,637</b>
Financing income	31,498	27,147	1,714	18,071	75,443
Financing expenses	(57,905)	(80,940)	(32,898)	(47,351)	(147,484)
Financing expenses, net	(26,407)	(53,793)	(31,184)	(29,280)	(72,041)
<b>Profit before income taxes</b>	<b>212,285</b>	<b>221,524</b>	<b>78,039</b>	<b>93,659</b>	<b>616,596</b>
Income taxes	(65,434)	(62,179)	(21,324)	(27,455)	(109,263)
<b>Profit for the period</b>	<b>146,851</b>	<b>159,345</b>	<b>56,715</b>	<b>66,204</b>	<b>507,333</b>
<b>Attributable to:</b>					
The Company's shareholders	111,498	139,988	37,026	55,857	461,493
Minority interest	35,353	19,357	19,689	10,347	45,840
<b>Profit for the period</b>	<b>146,851</b>	<b>159,345</b>	<b>56,715</b>	<b>66,204</b>	<b>507,333</b>
<b>Earnings per share of the Company's shareholders</b>					
Basic earnings per share (in NIS)	1.06	1.33	0.35	0.53	4.38
Diluted earnings per share (in NIS)	1.06	1.33	0.35	0.53	4.37

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

**Consolidated Statements of Comprehensive Income**

	For the six months ended		For the three months ended		For the year ended
	June 30 2009 (Unaudited)	June 30 2008 (Unaudited)	June 30 2009 (Unaudited)	June 30 2008 (Unaudited)	December 31 2008 (Audited)
NIS thousands					
Profit for the period	146,851	159,345	56,715	66,204	507,333
Other comprehensive income:					
Foreign currency translation differences	110,677	(104,840)	44,014	(36,755)	(300,645)
Realization of translation reserve	-	4,550	-	-	42,057
Changes in fair value of available for sale financial assets, net of tax	10,311	(6,157)	10,311	(3,769)	(5,865)
Net change in fair value of available for sale financial assets transferred to the statement of income, net of tax	-	-	-	-	2,985
Other comprehensive income, net of tax	120,988	(106,447)	54,325	(40,524)	(261,468)
<b>Comprehensive income for the period</b>	<b>267,839</b>	<b>52,898</b>	<b>111,040</b>	<b>25,680</b>	<b>245,865</b>
<b>Attributable to:</b>					
The Company's shareholders	194,645	37,235	71,452	17,594	241,954
Minority interest	70,197	15,663	39,588	8,086	3,911
<b>Comprehensive income for the period</b>	<b>267,839</b>	<b>52,898</b>	<b>111,040</b>	<b>25,680</b>	<b>245,865</b>

Presentation of Consolidated Statements of Comprehensive Income has changed due to the implementation of IAS 1 Revised in these interim financial statements. See also Note 1.2.3 regarding initial implementation of accounting standards

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

**Consolidated Statements of Changes in Shareholders' Equity**

	Attributable to the Company's shareholders						Total	Minority interest	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings			
	NIS thousands								
<b>Balance as at January 1, 2009 – audited</b>	242,121	622,279	*(158,479)	(19,845)	-	1,170,508	1,856,584	*841,760	2,698,344
<b>Changes during the six-month period ended June 30, 2009 - unaudited:</b>									
Comprehensive income the period	-	-	82,022	-	4,125	111,498	197,645	70,194	267,839
Exercise of share options	21	-	-	-	-	-	21	-	21
Share-based payment	-	-	-	-	-	(2,106)	(2,106)	-	(2,106)
Share-based payment in subsidiary	-	-	-	-	-	-	-	468	468
Dividend paid	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Dividend paid to minority in subsidiary	-	-	-	-	-	-	-	(30,400)	(30,400)
<b>Balance as at June 30, 2009 – unaudited</b>	<u>242,142</u>	<u>622,279</u>	<u>(76,457)</u>	<u>(19,845)</u>	<u>4,125</u>	<u>1,079,900</u>	<u>1,852,144</u>	<u>882,022</u>	<u>2,734,166</u>

\* Reclassified (see Note 1.4.1)

Presentation of Consolidated Statements of Changes in Equity has changed due to the implementation of IAS 1 Revised in these interim financial statements. See also Note 1.2.3 regarding initial implementation of accounting standards

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

**Consolidated Statements of Changes in Shareholders' Equity**

	Attributable to the Company's shareholders						Total	Minority interest	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings			
	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>									
Comprehensive income the period	-	-	(100,290)	-	(2,463)	139,988	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>	<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>

Presentation of Consolidated Statements of Changes in Equity has changed due to the implementation of IAS 1 Revised in these interim financial statements. See also Note 1.2.3 regarding initial implementation of accounting standards

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

**Consolidated Statements of Changes in Shareholders' Equity**

	Attributable to the Company's shareholders						Total	Minority interest	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings			
	NIS thousands								
<b>Balance as at April 1, 2009 – unaudited</b>	242,121	622,279	(106,758)	(19,845)	-	1,049,323	1,787,120	872,792	2,659,912
<b>Changes during the three-month period ended June 30, 2009 - unaudited:</b>									
Comprehensive income the period	-	-	30,301	-	4,125	37,026	71,452	39,588	111,040
Exercise of share options	21	-	-	-	-	-	21	-	21
Share-based payment	-	-	-	-	-	(6,449)	(6,449)	-	(6,449)
Share-based payment in subsidiary	-	-	-	-	-	-	-	42	42
Dividend paid to minority in subsidiary	-	-	-	-	-	-	-	(30,400)	(30,400)
<b>Balance as at June 30, 2009 – unaudited</b>	<u>242,142</u>	<u>622,279</u>	<u>(76,457)</u>	<u>(19,845)</u>	<u>4,125</u>	<u>1,079,900</u>	<u>1,852,144</u>	<u>882,022</u>	<u>2,734,166</u>

Presentation of Consolidated Statements of Changes in Equity has changed due to the implementation of IAS 1 Revised in these interim financial statements. See also Note 1.2.3 regarding initial implementation of accounting standards

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

**Consolidated 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 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>									
Comprehensive income the period	-	-	(36,755)	-	(1,508)	55,857	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 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>

Presentation of Consolidated Statements of Changes in Equity has changed due to the implementation of IAS 1 Revised in these interim financial statements. See also Note 1.2.3 regarding initial implementation of accounting standards

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

**Consolidated 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, 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 in 2008 – audited:</b>									
Comprehensive income for the period	-	-	*(218,387)	-	(1,152)	461,493	241,954	*3,911	245,865
Exercise of share options granted to employees	44	-	-	-	-	-	44	-	44
Exercise of option warrants (Series 1)	417	21,811	-	-	-	-	22,228	-	22,228
Share-based payment	-	-	-	-	-	26,000	26,000	-	26,000
Share-based payment in subsidiary	-	-	-	-	-	-	-	351	351
Dividend paid	-	-	-	-	-	(199,951)	(199,951)	-	(199,951)
Dividend paid to minority in subsidiary	-	-	-	-	-	-	-	(31,979)	(31,979)
Investment in a subsidiary	-	-	-	-	-	-	-	6,520	6,520
Benefit in respect of capital notes to minority in subsidiary	-	-	-	-	-	-	-	(434)	(434)
Issuance of share option to minority	-	-	-	-	-	-	-	36,448	36,448
Issuance of shares to minority in subsidiary	-	-	-	-	-	-	-	625,459	625,459
<b>Balance as at December 31, 2008 – audited</b>	<b>242,121</b>	<b>622,279</b>	<b>*(158,479)</b>	<b>(19,845)</b>	<b>-</b>	<b>1,170,508</b>	<b>1,856,584</b>	<b>*841,760</b>	<b>2,698,344</b>

\* Reclassified (see Note 1.4.1)

Presentation of Consolidated Statements of Changes in Equity has changed due to the implementation of IAS 1 Revised in these financial statements. See also Note 1.2.3 regarding Initial implementation of accounting standards

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
	June 30 2009	June 30 2008	June 30 2009	June 30 2008	year ended December 31 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands				
<b>Cash flows from operating activities</b>					
Income for the period	146,851	159,345	56,715	66,204	507,333
Adjustments:					
Depreciation	77,472	78,890	39,263	37,061	159,811
Amortization of intangible assets and deferred expenses	16,425	16,148	10,109	8,226	36,316
Impairment provision of fixed assets and intangible assets (note 4.6)	22,138	-	22,138	-	56,706
Other expenses (income), net	(2,366)	(3,180)	(3,683)	620	6,093
Expenses (income) in respect of share based payment	(1,284)	13,121	(6,127)	6,488	26,226
Gain from disposal and partial disposal of Subsidiaries	-	(24,869)	-	-	(276,844)
Financing expenses, net	26,407	53,793	31,184	29,280	72,041
Income tax expenses	65,434	62,179	21,324	27,455	109,263
Change in inventory	113,813	(72,267)	29,219	(40,494)	(250,984)
Change in trade and other receivables	7,985	(235,496)	119,075	(112,680)	(169,211)
Change in long-term trade receivables	(11,324)	3,452	(5,542)	6,625	4,286
Change in trade and other payables	(159,906)	11,544	(48,141)	41,582	157,216
Change in employee benefits	7,944	(1,024)	4,417	(483)	452
Interest paid	(32,596)	(32,413)	(6,360)	(8,006)	(74,407)
Interest received	9,092	8,972	6,833	1,398	19,621
Income tax paid, net	(5,858)	(36,785)	(26,596)	(15,646)	(155,123)
<b>Net cash flows provided by operating activities</b>	<b>280,227</b>	<b>1,410</b>	<b>243,828</b>	<b>47,630</b>	<b>228,795</b>
<b>Cash flows from investing activities</b>					
Sale (purchase) of marketable securities and short-term deposits, net	(122,045)	15,394	(126,323)	26,342	23,036
Proceeds from sale of fixed assets and intangible assets	6,505	4,754	4,393	722	12,887
Sale of subsidiary and transition to jointly controlled entity	-	1,698	-	-	(1,571)
Disposal of subsidiary	-	-	-	-	(2,485)
Acquisition of subsidiaries and operations, net of cash acquired	(7,084)	(377,945)	(7,084)	(377,945)	(403,802)
Purchase of minority interests	-	(2,061)	-	(2,061)	(3,326)
Acquisition of fixed assets	(115,077)	(118,462)	(69,102)	(42,808)	(268,443)
Investment in long-term deposits	-	(1,025)	-	(784)	-
Investment grants received	1,164	-	3	-	348
Investments in intangible assets and deferred expenses	(16,125)	(15,503)	(9,840)	(3,611)	(31,632)
Repayment of deposits and long-term loans granted	9,124	7,696	3,768	5,041	33,631
Long-term loans granted	(13,991)	(12,193)	(8,551)	(2,924)	(23,276)
<b>Net cash flows used in investing activities</b>	<b>(257,529)</b>	<b>(497,647)</b>	<b>(212,736)</b>	<b>(398,028)</b>	<b>(664,633)</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
	June 30 2009	June 30 2008	June 30 2009	June 30 2008	year ended December 31 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands				
<b>Cash flows from financing activities</b>					
Short-term bank credit, net	(40,511)	416,600	(19,975)	362,787	26,822
Receipt of long-term loans	10,455	-	3,388	-	46,653
Issuance of debentures, net (note 4.3)	494,766	-	494,766	-	-
Repayment of long-term loans and debentures	(25,265)	(12,166)	(7,628)	(9,829)	(137,202)
Early repayment of debentures	-	-	-	-	(28,313)
Issuance of shares in subsidiary	-	-	-	-	966,235
Proceeds from exercise of share options (note 4.5)	21	22,263	21	16	22,272
Repayment of capital note	-	-	-	-	(24,012)
Repayment of liability to purchase minority Interests	-	(28,796)	-	-	(28,796)
Dividends paid (note 4.2)	(200,000)	-	(200,000)	-	(199,951)
Dividend paid to minority in subsidiary	(30,400)	(23,950)	(30,400)	(23,950)	(31,450)
<b>Net cash flows provided by financing activities</b>	<b>209,066</b>	<b>373,951</b>	<b>240,172</b>	<b>329,024</b>	<b>612,258</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>231,764</b>	<b>(122,286)</b>	<b>271,263</b>	<b>(21,374)</b>	<b>176,420</b>
Cash and cash equivalents as at beginning of period	680,237	489,737	671,055	384,651	489,737
Effect of exchange rate fluctuations on cash balances	22,683	(9,657)	(7,454)	(5,483)	14,080
<b>Cash and cash equivalents as at end of period</b>	<b>934,864</b>	<b>357,794</b>	<b>934,864</b>	<b>357,794</b>	<b>680,237</b>

For investing and financing activities not involving cash flows see Note 7.

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

The Company and its subsidiaries are a group of industrial and commercial companies, which operates in Israel and abroad, in developing, manufacturing, marketing and selling a broad variety of branded food products and beverages. The consolidated interim financial statements as at June 30, 2009 and for the three month period then ended (hereinafter - the "Interim Statements") comprise the Company and its subsidiaries and the Group's interest in jointly controlled companies.

The controlling shareholder of the Company is Strauss Holdings Ltd. (hereinafter: "the Parent Company" or "Strauss Holdings").

- 1.1.2 The consolidated Interim Statements have been prepared in accordance with IAS 34 regarding interim financial reporting and Section D of the Securities Regulations (Periodic and Immediate Reports) – 1970 and do not include all the information required in full annual financial statements.

These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2008 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 Item 1.2 hereunder. Certain comparative figures have been reclassified so that they may correspond with presentation in the current period (see Note 1.4).

- 1.1.3 These Interim Statements have been approved by the Company's Board of Directors on August 25, 2009.

#### 1.2 Initial implementation of accounting standards

- 1.2.1 IFRIC 13, *Customer Loyalty Programs* –

In accordance with the Interpretation, when products and services are sold together with sale incentives (such as award credits or free products) the arrangement is considered a multiple-element arrangement and the proceeds received in its respect are to be allocated to the various components according to their fair value. Implementation of the interpretation did not have a material effect on the Group's financial position and results of operations.

- 1.2.2 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 hedge transactions of the Company do not meet hedge accounting criteria. Hence, implementation of the interpretation had no effect on the Company's financial position and results of operations. The Company will examine the possible application of hedge accounting in the future.

- 1.2.3 Revised IAS 1, *Presentation of Financial Statement* –

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 was applied retrospectively.

The Company chose the second alternative. Therefore it presents for the first time a separate Statement of Comprehensive income.

## 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)

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

Revised 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 effects of the revised standard depend on future projects for the construction of fixed assets that require a considerable period of time to prepare for their intended use. As at balance sheet date, a jointly controlled company, Sabra Dipping Company LLC, began acting towards the construction of a new plant for the manufacture of Sabra products in Virginia, USA, at a total maximum cost of \$ 68 million. The new plant is planned to start operating during 2010. The cost of construction will be financed by long-term shareholders' loans. Capitalization of borrowing costs did not have a material effect on the Company's financial statements.

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

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

- a. Vesting conditions are service conditions that require the other party to complete a defined period of services, and also performance conditions that require meeting certain performance objectives. Other features are not vesting conditions and shall be taken into consideration when assessing the fair value of the grant.
- 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.

Implementation of the revised standard did not have an effect on the Company's financial position and results of operations.

##### 1.2.6 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 aforementioned project includes changes in accounting standards that are relevant to the Company as follows:

##### - Amendment to IAS 38, *Intangible Assets* –

The amendment provides that expenses in respect of advertising and sales promotion activities are to be recognized as an expense. The standard clarifies that the expense should be recognized on the date the company has access to the products or services used for advertising and sales promotion. The effect of the standard on these Interim Statements and on previous periods is immaterial.

##### - Amendment to IAS 19, *Employee Benefits* –

The amendment provides that classification of employee benefits as short-term or other long-term benefits will be done based on the date on which the liability is to be settled. According to the aforesaid, certain benefits were classified as short-term benefits. The effect of the standard on these Interim Statements and on previous periods is immaterial.

## 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

- 1.3.1 In the framework of the *Improvements to IFRSs* project, in April 2009 the IASB published and approved 15 amendments to various IFRS on a wide range of accounting issues. The amendments shall apply to periods beginning on or after January 1, 2010. Earlier application is permitted subject to the specific conditions of each amendment.

The aforementioned project includes changes in accounting standards that may be relevant to the Company in the future, as follows:

- Amendment to IAS 17, *Leases*, with respect to classification of land and building leases –

According to the Amendment there is no longer a requirement to classify land leases as operational leases whenever ownership is not expected to pass to the lessee at the end of the lease period. Rather, the requirement is to evaluate the land lease based on the ordinary criteria for classification as a financing or operating lease.

Likewise, it was provided that the elements of land and building in a land and building lease are examined separately for the purpose of classifying the leases, based on the Standard's criteria, with considerable weight in classifying the land element given to the fact that the land generally has an indefinite useful life.

The Amendment applies to financial statements for annual periods commencing on or after January 1, 2010. Early application of the Amendment is possible, upon giving disclosure. The amendment is to be applied retrospectively. The amendment is expected to have an effect on balance sheet classification (reclassification of deferred expenses, fixed assets and investment property), but not on income statements.

- Amendment to IAS 36, *Impairment of Assets*, with respect to allocation of goodwill to cash-generating units

According to the Amendment, for the purpose of examining for impairment, the cash-producing unit to which goodwill will be allocated will not be larger than the operating segment as defined in IFRS 8, before application of the grouping criteria in Section 12 of IFRS 8. The Amendment will apply to annual periods commencing on or after January 1, 2010. Early application is permitted, upon providing disclosure. The Amendment is not expected to have effect on the Company's financial position and results of operations.

- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement*, with respect to scope exemption for business combination contracts –

The Amendment clarifies that only forward contracts between a buyer and seller regarding the sale or purchase of a controlled entity, within the scope of a business combination on a future purchase date, is not covered by IAS 39, when the forward contract's period does not exceed the normal period required to obtain the requisite approvals for the transaction.

The Amendment will be applied prospectively to all contracts that have not yet lapsed, for annual periods commencing January 1, 2010. Early application is permitted, upon providing disclosure. The implementation of the amendment depends on future events, and therefore at this stage, the Company is unable to assess their effect on the financial statements, if at all.

## 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)

- Amendment to IFRS 8, *Financial Instruments: Operating Segments*, with respect to disclosure of information about segment assets –

According to the Amendment, disclosure of a measure of segment assets is required only if that measure is regularly reported to the chief operating decision maker.

The Company's management is evaluating segments performance based on measures of profit and loss, not based on segment assets; thus, the Company is expected to cease reporting segment assets.

- 1.3.2 Amendment to IFRS 2, *Share-based Payment*, with respect to group cash-settled share-based payment transactions –

The Amendment to IFRS 2 clarify the classification of share-based payment transactions for both the entity that receives the goods or services, and the entity that settles the share-based payment transaction and replaces IFRIC 8, Scope of IFRS 2, and IFRIC 11, Group and Treasury Share Transactions.

According to the Amendment the entity receiving the goods or services will recognize the transaction as an equity-settled share-based payment transaction only if the awards granted are its own equity instruments or if it has no obligation to settle the transaction. In all other circumstances, the entity will measure the transaction as a cash-settled share-based payment. The entity responsible for settling the transaction will recognize it as an equity-settled share-based payment only if the transaction is settled in its own equity instruments. In all other circumstances, the transaction will be recognized by the entity that settles the award as a cash-settled share-based payment.

The other Amendment is to be applied retrospectively for annual periods beginning on or after 1 January 2010, subject to the transitional provisions in IFRS 2. Earlier application permitted. The Amendment is not expected to have effect on the Company's financial position and results of operations.

- 1.3.3 For additional information regarding new standards and interpretations not yet adopted, see Note 3.24 of the Annual statements.

#### 1.4 Reclassification

- 1.4.1 The amount of NIS 16,015 thousands was reclassified as at December 31, 2008 following which the minority interest decreased and the translation reserve increased, without any change in the Company's equity.
- 1.4.2 Reclassification of debit balances between current assets and non-current assets. As a result of the reclassification, as at December 31, 2008 there was a decrease in other receivables and debit balances and a corresponding increase in other investments and long-term debit balances by the amount of NIS 18,986 thousand.
- 1.4.3 Reclassification of deferred expenses. As a result of the reclassification as at June 30, 2008, the deferred expenses increased by the amount of NIS 4,964 thousand with a corresponding decrease in other receivables and debit balances.
- 1.4.4 Reclassification of loans granted. As a result of the reclassification as at June 30, 2008 other receivables decreased by the amount of NIS 3,846 thousand with a corresponding increase in other investments and long-term debit balances.

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

## Notes to the Consolidated Interim Financial Statements

Unaudited

### Note 2 - Seasonality

The Company'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.

### Note 3 - Segments

Details according to operating segments –

	For the six months ended		For the three months ended		For the
	June 30 2009	June 30 2008	June 30 2009	June 30 2008	year ended December 31 2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands				
<b>Revenues</b>					
Sales to external customers:					
Israel	1,308,123	1,320,148	627,027	640,310	2,671,118
Coffee	1,581,008	1,547,872	811,355	818,234	3,243,246
Other	146,493	168,026	75,417	73,424	331,511
Inter-Segment sales:					
Israel	2,526	9,935	712	3,326	27,254
Coffee	4,047	3,478	2,277	1,259	7,548
Other	400	243	165	112	-
Total revenues of segments	<u>3,042,597</u>	<u>3,049,702</u>	<u>1,516,953</u>	<u>1,536,665</u>	<u>6,280,677</u>
Elimination of inter-segment sales	(6,973)	(13,656)	(3,154)	(4,697)	(34,802)
Total consolidated revenues	<u>3,035,624</u>	<u>3,036,046</u>	<u>1,513,799</u>	<u>1,531,968</u>	<u>6,245,875</u>

**Notes to the Consolidated Interim Financial Statements**

Unaudited

**Note 3 – Segments (cont'd)**

Details according to operating segments (cont'd) –

	For the six months ended		For the three months ended		For the
	June 30	June 30	June 30	June 30	year ended
	2009	2008	2009	2008	December
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
NIS thousands					
<b>Profit</b>					
Israel	148,528	132,320	66,389	61,531	273,927
Coffee	123,212	136,855	73,134	72,531	255,187
Other	(1,687)	(4,209)	(4,064)	(5,805)	(7,205)
Total profit of the segments	<u>270,053</u>	<u>264,966</u>	<u>135,459</u>	<u>128,257</u>	<u>521,909</u>
Unallocated income (expenses):					
Valuation of commodities hedging transactions as at the end of the period	2,076	5,890	(2,179)	9,099	(9,621)
Non-recurring impairment of assets	-	(2,258)	-	-	(5,750)
Other income (expenses) (1)	(27,221)	19,840	(22,144)	(7,929)	208,325
Share based payment and non recurring grant	(6,216)	(13,121)	(1,373)	(6,488)	(26,226)
Total operating profit	<u>238,692</u>	<u>275,317</u>	<u>109,223</u>	<u>122,939</u>	<u>688,637</u>
Financing income (expenses), net	(26,407)	(53,793)	(31,184)	(29,280)	(72,041)
Profit before taxes on income	<u>212,285</u>	<u>221,524</u>	<u>78,039</u>	<u>93,659</u>	<u>616,596</u>

- (1) In the three months period ended June 30, 2009 and in the year ended December 31, 2008 includes a loss of NIS 22 million and NIS 40 million, respectively, in respect of impairment of goodwill attributed to the coffee segment, see Note 4.6. In addition, in 2008 includes a loss of NIS 12 million in respect of impairment of goodwill attributed to other segment.

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

- 4.1 On March 17, 2009 the Company's Series 1 options have expired. For additional information see Note 28.2 of the Annual Statements.
- 4.2 On March 25, 2009 the Company declared the distribution of a cash dividend to the shareholders of the Company on record as at April 12, 2009 in the amount of NIS 200,000 thousand, which reflects an amount of NIS 1.897 per each NIS 1 par value of shares outstanding on the date of declaring the dividend. The dividend was distributed on April 27, 2009.

As a result of the dividend distribution, the exercise price of the share options granted to employees, as described in Note 25.2 of the Annual Statements, was adjusted.

## Notes to the Consolidated Interim Financial Statements

Unaudited

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

- 4.3 On May 5, 2009 the Company published a shelf prospectus report to the issuance and registration of Debentures (Series C). On May 7 the issuance was completed and the Company listed the debentures for trading on the Tel Aviv Stock Exchange. The gross issuance consideration amounted to NIS 500 Million. Total issuance costs amounted to NIS 6.5 million.

The terms of the debentures are as follows:

- Debentures of a par value of NIS 500 million.
- The principal of the debentures is repayable in three equal annual payments on June 1 of each of the years 2011 through 2013 (inclusive).
- The debentures bear a variable annual interest rate, based on the interest rate of "Government Bonds 817" plus a margin of 0.7%. The interest will be paid every three months, as from September 1, 2009 up until June 1, 2013.
- The principal and the interest of the debentures are not linked to any index.

The total yearly interest rate for the first interest period (May 7, 2009 until August 31, 2009) is 1.8%.

The debentures were rated AA+/stable by Maalot and Aa1 with stable horizon by Midroog. The current rating of Debentures (Series A) and Debentures (Series B) was maintained also after the issuance.

- 4.4 On May 14, 2009 Strauss Group Elite Confectionery Ltd., a wholly owned subsidiary, was merged within the Company. See also Note 37.5 of the Annual Statements regarding the approval of the Israeli Tax Authority to the merger in accordance with Section 103 of the Income Tax Ordinance.
- 4.5 During the reported period, 63,900 share options that were granted to employees were exercised into 20,040 shares in consideration for their par value.
- 4.6 Due to the financial crisis, in the reported period the Group recognized an impairment loss in the amount of NIS 22 million in respect of goodwill attributed to a subsidiary of Strauss Coffee B.V. in Serbia that constitutes a cash generating unit. The recoverable amount of the unit was calculated by discounting the future cash flows anticipated from the unit at a discount rate of approximately 12.7%.

During the year 2008 the Group recognized an impairment loss in the amount of NIS 40 million in respect of goodwill attributed to that unit. For further information see Note 15.3 to the Annual Statements.

### 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 26.1.1.4 of the Annual Statements, and a claim and request to certify it as a class action in the amount of NIS 1.43 billion ("Pro-biotic beverages"), which is described in Note 26.1.1.5 of the Annual Statements.
- 5.2 Further to that mentioned in Note 26.1.1.10 of the Annual Statements, on January 26, 2009, the Court ordered to cancel the claim and the request to certify it as a class action suit with respect to the alleged existence of a restrictive trade arrangement between the defendants with respect to Ramat Hagolan Dairies, with no order for expenses.

## Notes to the Consolidated Interim Financial Statements

Unaudited

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

- 5.3** On April 19, 2009 a claim and request to certify the claims as a class action suit were filed with the District Court of Jerusalem against the Company and other defendants regarding the labeling of the packaging of one of its products. The plaintiff claims that the marking "Kosher for Passover" was stamped on the product and not "Kosher for Passover only for legume eaters".

In addition to the personal claim of NIS 10 thousand the plaintiff filed a request for approval of the claim as a class action suit for the amount of NIS 50 million, relating to all of the respondents.

The Company rejects the claims appearing in the suit and is acting to remove them. At this stage, management of the Company believes, on the basis of the opinion of its legal counsel, that it is unlikely that the claim will be certified as a class action suit.

- 5.4** Further to Note 26.1.1.7 to the Annual Statements, on June 22, 2009, the District Court of Tel-Aviv-Jaffa ordered rejection of the claim regarding enriched milk, with no order for expenses.

- 5.5** On June 30, 2009, a monetary claim and request for certification thereof as a class action suit were filed against the Company and against additional defendants (including Hed Arzi, Classikaletet and Osem) in the District Court for the Central District, concerning publication of children's cassettes. The amount of the claim is NIS 1,000 and in total NIS 100,000,000 for all members of the class represented.

The claim's cause of action and amount are identical to a claim filed in the past and which was reported in Note 26.1.1.8 to the Annual Statements. The plaintiff is requesting that the Court join the proceedings in the two actions.

The Company rejects the contentions appearing in the statement of claim and will take action to have it rejected. At this stage, Company Management estimates, based on the evaluation of its legal advisors, that the claim is not expected to be accepted as a class action suit.

- 5.6** On July 8, 2009, a monetary claim and request for certification thereof as a class action suit were filed in the District Court for the Central District against the subsidiary, Yotvata Dairies in memory of Ori Chorazo Ltd. (50%) (hereinafter – "Yotvata Dairies") alleging reduction of the package of the "Yotvata Chocolate Milkshake" product. The amount of the claim is NIS 11 million.

Yotvata Dairies rejects the contentions appearing in the claim and will take action to have it rejected. At this stage, Company Management estimates, based on the evaluation of its legal advisors, that the claim is not expected to be accepted as a class action suit.

- 5.7** On July 12, 2009, a monetary claim and request for certification thereof as a class action suit were filed in the District Court for the Central District against the subsidiary, Yotvata Dairies, and against Tnuva, concerning marking of milk cartons and milk beverage packages containing milk produced by the subsidiary. The amount of the claim is NIS 4,679 million.

Yotvata Dairies rejects the contentions appearing in the claim and will take action to have it rejected. At this stage, Company Management estimates, based on the evaluation of its legal advisors, that the claim is not expected to be accepted as a class action suit.

- 5.8** On July 15, 2009, a monetary claim and request for certification thereof as a class action suit were filed in the District Court for the Central District against the Company and against Osem, concerning marking of packages of one of the Company coffee products. The amount of the claim is NIS 550 million.

The Company rejects the contentions appearing in the statement of claim and will take action to have it rejected. At this early stage, the Company and its legal advisors are not able to estimate the claim's chances of succeeding or the chances that the request for certification as a class action suit will be approved, nor of the possible impact thereof on Company. No provision was included in the financial statements in respect of this claim.

## Notes to the Consolidated Interim Financial Statements

Unaudited

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

**5.9** Further to Note 26.1.1.3 to the Annual Statements, on July 28, 2009, the Court ordered rejection of the claim regarding halva flavored wafers and cream-nut flavored wafers, and deletion of the request for approval as class action suit.

**5.10** On August 10, 2009, a monetary claim and request for certification thereof as a class action suit were filed against the Company with regards to the labeling of the packaging of "Light Chocolate Milky". The amount of the claim filled with the District Court for the Central District is NIS 31.6 million.

The Company rejects the contentions appearing in the statement of claim and will take action to have it rejected. At this early stage, the Company and its legal advisors are not able to estimate the claim's chances of succeeding or the chances that the request for certification as a class action suit will be approved, nor of the possible impact thereof on Company. No provision was included in the financial statements in respect of this claim.

### Note 6 – Material related parties' transactions

**6.1** On February 25, 2009 a reduction of 15% in the salary (not including social benefits) of the Company's CEO and Chairperson of the Board was approved, as well as a reduction of 10% in the salaries (not including social benefits) of the Company's members of senior management in Israel, effective as from January 1, 2009 until December 31, 2009. In addition, a reduction of 10% in the remuneration of the Company's members of Board of Directors was approved for the same period.

The other service and employment terms of the Chairperson of the Board, the CEO, the members of Board of Directors and the members of senior management remained the same.

**6.2** On July 1, 2009, the Company's CEO and Deputy CEO ceased serving in their positions. On July 6, 2009, the Company's Board of Directors approved, after approval by the Company's Audit Committee on June 29, 2009, the retirement conditions of the Company's exiting CEO and Deputy CEO.

As a result of the ending of their employment, the Company recognized expenses in this quarter in the amount of NIS 4.5 million in respect of a special retirement bonus and NIS 3 million regarding a commitment not to compete with the Company's business for a period of 12 months.

The Company also recognized expenses in the amount of about NIS 1.4 million in respect of change in the terms of the options granted to these senior employees. The essence of the change is an extension of the exercise period of the options, where the entitlement of these senior employees to exercise them vested or will vest up to the end of the period of their employment with the Company (including the adaptation period), to December 31, 2011. During the second half of 2009, the Company is expected to recognize additional expenses, in the amount of about NIS 0.3 million, relating to the change in terms.

Concurrently, the Company recognized an elimination of expenses, in the amount of about NIS 10.4 million, in connection with share-based payment expenses recorded in prior periods. The expenses relate to options granted to the senior employees and that were forfeited upon discontinuance of their service.

## Notes to the Consolidated Interim Financial Statements

Unaudited

### Note 7 - Investing and Financing Activities not Involving Cash Flows

- 7.1 The Company did not engage in any material non-cash investing and financing activities in the three and six months periods ended June 30, 2009, other than purchasing fixed assets on credit in the amount of NIS 18,910 thousands and NIS 19,945 thousands, respectively.

In the corresponding period of prior year there were no material investing or financing non-cash transactions. In the year ended December 31, 2008, the Company purchased fixed assets on credit in the amount of NIS 30,230 thousand, respectively.

### Note 8 - Subsequent Events

- 8.1 On July 11, 2009, the Company signed an agreement for acquisition of 100% of the shares of Tana Industrial Company Ltd. (hereinafter – “Tana”), through its subsidiary H2Q Water Industries Ltd. (hereinafter – “H2Q”). Tana leads the Israeli market and is one of the world’s leading companies in the development, manufacture and marketing of systems for purification, filtering, heating and cooling of drinking water, to the private homes and institutional markets, under the trademark “Tami 4”.

In consideration for the shares of Tana, H2Q will pay NIS 291 million, where Tana will pass over to H2Q with no net financial liabilities. The consideration is to be paid on the closing date of the transaction, which is planned for October 1, 2009. The consideration is subject to certain adjustments that will be finalized at the time of the closing of the transaction.

Closing of the transaction is contingent on performance of a due diligence examination along with a number of conditions stipulated in the agreement, including, approval of the Supervisor of Restrictive Business Practices.

The acquisition price will be financed by an investment of the Strauss Group in H2Q, which will increase its share in H2Q to about 90% of H2Q’s issued and paid-up share capital.

- 8.2 On July 6, 2009, the Company’s Board of Directors approved, after approval by the Company’s Audit Committee on June 29, 2009, the Company’s undertaking in an employment contract with the entering CEO, commencing from July 1, 2009. The CEO’s salary will be NIS 125,000 (gross) per month, linked to the CPI, accompanying social benefits, a vehicle and reimbursement of various expenses. In addition, the Company’s CEO will be entitled to an annual bonus of up to 12 salaries, in accordance with the annual bonus plan for members of the Company’s Management, which will be determined based on compliance with financial and qualitative targets to be derived from the goals set in the Company’s work plan and that are to be determined on an annual basis.

As part of the undertaking in the employment contract, the Company’s Board of Directors approved the granting of 1,065,150 options to the Company’s CEO pursuant to the options’ plan for senior employees in the Group, described in Note 25.1 to the Annual Statements. The entitlement to exercise the options will vest in three equal portions, on July 1 of each of the years 2011–2013. The fair value of the benefit included in this grant is about NIS 15.2 million. The main assumptions used in determination of the fair value are as follows: price per share – NIS 42.09; annual standard deviation – 28.9%–34.0%; risk-free interest rate – 1.12%–1.86%; exercise price – NIS 41.26; and life of the options – 5–7 years. The benefit deriving from this grant will be recorded as an expense in the financial statements for periods beginning on July 1, 2009 and ending on June 30, 2013.

## Notes to the Consolidated Interim Financial Statements

Unaudited

### Note 8 - Subsequent Events (cont'd)

- 8.3** On July 21, 2009, the Company's Board of Directors approved the granting of 301,480 options to 5 of the Group's senior employees pursuant to the options' plan for senior employees in the Group, described in Note 25.1 to the Annual Statements. The employee received notification of the grant on July 27, 2009.

The entitlement of four of the senior officers to exercise the options will vest in three equal portions, on July 21 of each of the years 2011–2013. The fair value of the benefit included in this grant, calculated to July 27, 2009, is about NIS 4.0 million. The main assumptions used in determination of the fair value are as follows: price per share – NIS 47.1; annual standard deviation – 29.63%–29.96%; risk-free interest rate – 0.64%–1.69%; exercise price – NIS 42.92; and life of the options – 4.0–5.6 years. The benefit deriving from this grant will be recorded as an expense in the financial statements for periods beginning on July 1, 2009 and ending on September 30, 2013.

The entitlement of the fifth senior officer to exercise the options will vest in three equal portions, on July 21 of each of the years 2012–2014. The fair value of the benefit included in this grant is about NIS 0.5 million. The main assumptions used in determination of the fair value are as follows: price per share – NIS 47.1; annual standard deviation – 29.05%–34.05%; risk-free interest rate – 1.41%–2.04%; exercise price – NIS 42.92; and life of the options – 4.8–6.4 years. The benefit deriving from this grant will be recorded as an expense in the financial statements for periods beginning on July 1, 2009 and ending on September 30, 2014.

- 8.4** On July 25, 2005, the Law for Amendment of the Income Tax Ordinance (No. 147), 2005, was passed by the Israel Knesset (parliament), which provided, among other things, a gradual reduction in the Companies Tax rate to 25% in 2010 and thereafter.

On July 14, 2009, the Law for Economic Efficiency (Legislative Amendments for Implementation of the Economic Plan for the years 2009 and 2010), 2009, was passed by the Israel Knesset, which provided, among other things, an additional gradual reduction in the Companies Tax rate to 18% in 2016 and thereafter. Pursuant to the said Amendments, the Companies Tax rates applicable in the 2009 tax year and thereafter are as follows: in the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20% and in the 2016 tax year and thereafter the applicable Companies Tax rate will be 18%.

The impact of the change in the tax rates as stated will be reflected in the financial statements for the third quarter of 2009 by means of a decrease in the balance of the deferred tax assets and liabilities and recognition of taxes on income or a tax benefit. The Company estimates that the effect of the change in the tax rate will be the recognition of deferred tax benefits in the amount of NIS 14 million.

- 8.5** For details regarding claims filed against the Company subsequent to the balance sheet date – see Note 5.