

# **STRAUSS-GROUP LTD.**

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**STRAUSS-GROUP LTD.**  
**BOARD OF DIRECTORS' REPORT**  
**TO THE SHAREHOLDERS**  
**AS AT JUNE 30, 2010**

**THE STRAUSS GROUP LTD.**  
**BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS**  
**FOR THE QUARTER ENDED JUNE 30, 2010**

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

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

The 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, principally 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. Strauss Israel is the second-largest company in the Israeli food industry and as at the first half of 2010 held an 11.4% 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 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 material 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 different businesses are run by their own separate managements, while the Corporate Center in Israel is responsible for capitalizing on the synergies between them:

**The Business in Israel – Strauss Israel:** Including a major part of the Group's activities in Israel, this sector 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.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and jams, as well as other products exclusively distributed by the Company such as natural fruit juices manufactured by Ganir and long-life milk manufactured by Ramat Hagolan Dairies, both of which are sold and distributed by the Group, and others.

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

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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.

## Convenience Translation from Hebrew

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

**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 Central and Eastern European countries and in Brazil; chocolate powder and other drink powders (mainly in Israel), and it sells and distributes, in several countries outside of Israel, espresso coffee products (“Lavazza”) that are not manufactured by the Group<sup>2</sup>. In the framework of its business in Brazil, the Group 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 and sweetened juices 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 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 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 chilled Mediterranean salads throughout North America. Sabra is jointly controlled by the Group and PepsiCo (each holds 50%).

**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:** The Group develops, manufactures and sells water filter and purification systems. In 2007 the Company entered a partnership in a new venture in the water business (hereinafter: **“H2Q”**), and on October 1, 2009 H2Q acquired 100% of the shares of Tana Industries (Tami4).

The Company has approximately 13,000 employees, about one-half of them in Israel.

The Group's business is conducted in four major geographical regions (although management is based on the business category and not on the geographical region): **Israel** – the sale of Health & Wellness, Fun & Indulgence and coffee products, as well as the Strauss Water and Max Brenner activity in Israel; **Europe** – the coffee business in Central and Eastern Europe; **Brazil** – the activity is managed by a joint venture that is active primarily in roasted and ground coffee in the domestic market, the manufacture of corn products and the export of green coffee; and **the USA** – Sabra and the Max Brenner activity (the stores in the USA).

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<sup>2</sup> For further information regarding the discontinuation of the distribution of Lavazza products in some countries, see clause 10.2 of the Report of the Company's Business for the year 2009.

### **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.

In Israel, seasonality is the result of 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, chocolate and coffee sales increase considerably. The second factor is the season 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**

Several factors in the Group's macroeconomic environment, including currency exchange rates, raw material prices, inflation and economic slowdown, influence the Group's business operations.

Changes in the prices of raw materials and energy lead to changes in the costs of manufacturing the products, while changes in the exchange rates of the various currencies 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 the necessary steps to be prepared for the different scenarios and to deal with them in the best manner possible.

After having witnessed, in the course of 2009, a rising trend in the prices of some raw materials and energy (notably crude oil, sugar, cocoa and Arabica coffee), the first half of 2010 saw a trend of stabilization in the prices of most raw materials (with the exception of sugar). Towards the end of the second quarter and beginning of the third quarter 2010 there was a rising trend for most raw material and energy prices

For more information on the economic environment and the impact of external factors on the Company's business, see section 6 in the chapter Description of the Company's Business for the year 2009.

Convenience Translation from Hebrew

**ANALYSIS OF FINANCIAL RESULTS\***

*Following are the condensed financial accounting statements of income for the quarter and the half ended June 30, 2010 and 2009 (in NIS millions):*

	First Half			Second Quarter		
	2010	2009	% Chg	2010	2009	% Chg
<b>Sales</b>	<b>3,276</b>	<b>3,036</b>	<b>7.9</b>	<b>1,580</b>	<b>1,514</b>	<b>4.3</b>
Cost of sales not including impact of hedging transactions	1,977	1,917	3.2	965	946	2.0
Revaluation of the balance of hedging transactions on commodities as at the end of the period	(10)	(2)		(11)	3	
Cost of sales	1,967	1,915	2.8	954	949	0.6
<b>Gross Income</b>	<b>1,309</b>	<b>1,121</b>	<b>16.7</b>	<b>626</b>	<b>565</b>	<b>10.7</b>
Selling and marketing expenses	786	678	16.0	385	344	12.1
General and administrative expenses	201	177	13.1	96	90	6.1
<b>Operating income before other income (expenses)</b>	<b>322</b>	<b>266</b>	<b>21.0</b>	<b>145</b>	<b>131</b>	<b>10.1</b>
Other income, net	(27)	(27)		(20)	(22)	
<b>Operating Income</b>	<b>295</b>	<b>239</b>	<b>23.6</b>	<b>125</b>	<b>109</b>	<b>14.6</b>
Financing income, net	(29)	(27)	8.9	(21)	(31)	-34.4
<b>Income before taxes on income</b>	<b>266</b>	<b>212</b>	<b>25.4</b>	<b>104</b>	<b>78</b>	<b>34.2</b>
Taxes on income	(82)	(65)	25.5	(29)	(21)	37.5
Effective tax rate	30.8%	30.8%		28.0%	27.3%	
<b>Income for the period</b>	<b>184</b>	<b>147</b>	<b>25.4</b>	<b>75</b>	<b>57</b>	<b>33.0</b>
<b>Income attributed to the shareholders of the Company</b>	<b>136</b>	<b>112</b>	<b>21.7</b>	<b>52</b>	<b>38</b>	<b>40.7</b>
Income attributed to the minority interest	48	35	37.1	23	19	18.4

*Following are the adjustments to the Company's pro-forma statements (NIS millions):*

	First Half			Second Quarter		
	2010	2009	% Chg	2010	2009	% Chg
<b>Operating income – financial accounting – after other income (expenses)</b>	<b>295</b>	<b>239</b>	<b>23.6</b>	<b>125</b>	<b>109</b>	<b>14.6</b>
Share-based payment and one-time bonus	6	6		3	1	
Revaluation of the balance of hedging transactions on commodities as at the end of the period	(10)	(2)		(11)	3	
Other expenses	27	27		20	22	
<b>Operating income – pro-forma</b>	<b>318</b>	<b>270</b>	<b>17.7</b>	<b>137</b>	<b>135</b>	<b>1.2</b>
Financing expenses, net	(29)	(27)		(21)	(31)	
Taxes on income	(82)	(65)		(29)	(21)	
Taxes in respect of adjustments to the above management operating income	(2)	(3)		1	(3)	
<b>Income for the period – pro-forma</b>	<b>205</b>	<b>175</b>	<b>17.4</b>	<b>88</b>	<b>80</b>	<b>10.5</b>
<b>Income attributed to the shareholders of the Company</b>	<b>155</b>	<b>134</b>	<b>16.0</b>	<b>63</b>	<b>55</b>	<b>16.8</b>
Income attributed to the minority interest	50	41	21.6	25	25	0.3

\* The financial data were rounded off to NIS millions. The percentages change were calculated on the basis of the exact figures in NIS thousands.

Convenience Translation from Hebrew

*Following are the condensed results of business operations (based on the Company's pro-forma statements) for the quarter and the half ended June 30, 2010 and 2009 (in NIS millions):*

	First Half			Second Quarter		
	2010	2009	% Chg	2010	2009	% Chg
<b>Sales</b>	<b>3,276</b>	<b>3,036</b>	<b>7.9</b>	<b>1,580</b>	<b>1,514</b>	<b>4.3</b>
Cost of sales	1,977	1,917	3.2	965	946	2.0
<b>Gross Income</b>	<b>1,299</b>	<b>1,119</b>	<b>16.0</b>	<b>615</b>	<b>568</b>	<b>8.3</b>
Selling and marketing expenses	786	678	15.9	385	344	12.0
General and administrative expenses	195	171	13.7	93	89	4.6
<b>Operating income – pro-forma</b>	<b>318</b>	<b>270</b>	<b>17.7</b>	<b>137</b>	<b>135</b>	<b>1.2</b>
Financing income (expenses), net	(29)	(27)	8.9	(21)	(31)	-34.4
<b>Income before taxes on income</b>	<b>289</b>	<b>243</b>	<b>18.7</b>	<b>116</b>	<b>104</b>	<b>11.8</b>
Taxes on income	(84)	(68)	22.0	(28)	(24)	16.0
<b>Income for the period – pro-forma</b>	<b>205</b>	<b>175</b>	<b>17.4</b>	<b>88</b>	<b>80</b>	<b>10.5</b>
<b>Income attributed to the shareholders of the Company</b>	<b>155</b>	<b>134</b>	<b>16.0</b>	<b>63</b>	<b>55</b>	<b>16.8</b>
Income attributed to the minority interest	50	41	21.6	25	25	0.3

*Following are the condensed results of business operations (based on the Company's pro-forma statements) of the business sectors for the quarter and the half ended June 30, 2010 and 2009 (in NIS millions):*

	First Half			Second Quarter		
	2010	2009	% Chg	2010	2009	% Chg
<b>Israel</b>						
Net sales	1,324	1,308	1.3	627	627	-
Gross income	560	542	3.2	269	261	2.7
Operating income	156	149	5.0	67	66	0.9
<b>Coffee</b>						
Net sales	1,597	1,581	1.0	770	811	-5.1
Gross income	552	493	12.0	254	263	-3.4
Operating income	141	123	14.2	63	73	-13.9
<b>Other *</b>						
Net sales	355	147	141.8	183	76	141.9
Gross income	187	84	120.8	92	44	111.0
Operating income	21	(2)	-	7	(4)	-
<b>Total</b>						
<b>Net sales</b>	<b>3,276</b>	<b>3,036</b>	<b>7.9</b>	<b>1,580</b>	<b>1,514</b>	<b>4.3</b>
<b>Gross income</b>	<b>1,299</b>	<b>1,119</b>	<b>16.0</b>	<b>615</b>	<b>568</b>	<b>8.3</b>
<b>Operating income</b>	<b>318</b>	<b>270</b>	<b>17.7</b>	<b>137</b>	<b>135</b>	<b>1.2</b>

For information on the adjustments to the Company's pro-forma statements see Note 3 to the Financial Statements.

## **ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP**

### **General**

The Strauss Group concluded the first half of 2010 with sales amounting to NIS 3,276 million, an increase of 7.9%, improved gross profit and profitability (accounting and pro-forma) and improved operating profit and profitability (accounting and pro-forma). The growth in sales is evident in all of the Group's activities. The Group's activity in the in-home market in Israel continues to expand, with Israel sales growing by 10.4% further to the acquisition of Tami4.

### **Sales**

In the first half of 2010 the Group's sales amounted to NIS 3,276 million compared to NIS 3,036 million last year, an increase of 7.9%. After neutralizing the currency impact, growth amounted to 6.8%. Organic growth after neutralizing the impact of changes in exchange rates in the half amounted to 1.4%.

In the second quarter of 2010 the Group's sales amounted to NIS 1,580 million compared to NIS 1,514 million last year, an increase of 4.3%. After neutralizing the currency impact growth amounted to 5.4%, and organic sales after neutralizing the impact of changes in exchange rates in the second quarter decreased by 0.2%.

### **Gross Profit**

In the first half of the year the financial accounting gross profit totaled NIS 1,309 million (39.9%) compared to NIS 1,121 million last year (36.9%), an increase of 16.7%. The pro-forma gross profit in the half totaled NIS 1,299 million compared to NIS 1,119 million last year, an increase of 16.0%, rising from 36.9% to 39.6%

In the second quarter the financial accounting gross profit totaled NIS 626 million (39.6%) compared to NIS 565 million last year (37.3%), an increase of 10.7%. The pro-forma gross profit in the second quarter amounted to NIS 615 million compared to NIS 568 million last year, an increase of 8.3%, rising from 37.5% to 38.9%.

The gross profit improved in most of the Group's businesses, most notably Sabra and Strauss Coffee. The gross profit was positively influenced by the decrease in material costs and by the growth in sales volumes, as well as by the consolidation of the Tami4 activity for the first time.

The Group has contended with the changes in raw material prices and exchange rates through operational streamlining in most areas of its activity and by raising the prices of its products in the coffee business outside of Israel.

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

#### First half:

The financial accounting operating profit (before other expenses) totaled NIS 322 million (9.8% of sales) compared to NIS 266 million (8.8%), an increase of 21.0%. The growth in the Group's operating profit is mainly due to the increase in the gross profit and to maintaining the operating expenses level.

The pro-forma operating profit in the first half of 2010 totaled NIS 318 million (9.7% of sales) compared to NIS 270 million (8.9%) last year, an increase of 17.7%.

Convenience Translation from Hebrew

Second quarter:

The financial accounting operating profit (before other expenses) totaled NIS 145 million (9.2% of sales) compared to NIS 131 million (8.7%) last year, an increase of 10.1%. The growth in the Group's operating profit is mainly due to the increase in the gross profit and to maintaining the operating expenses level.

The pro-forma operating profit in the second quarter totaled NIS 137 million (8.7% of sales) compared to NIS 135 million (8.9%) last year, an increase of 1.2%.

The increase in the Group's pro-forma operating profit is evident in all of the Company's activities. The operating profit in the Coffee Sector improved by 14.2% and in the Israel Sector by 5.0%. In all other activities there was a significant improvement following the consolidation of Tami4 for the first time and the continued growth in Sabra's profits (3.0%).

**Other Income (Expenses), Net**

Other expenses, net, totaled NIS 27 million in the first half of 2010, similar to the corresponding period last year. Most of the expenses in the half are attributed to the discontinuation of the activity of the subsidiary in Bulgaria further to Strauss Coffee's decision to exit this market. Following this decision the subsidiary recognized expenses of NIS 17 million. Most of the other expenses in the first half of 2010 are attributed to the impairment of goodwill in Strauss Coffee's subsidiary in Serbia in an amount of NIS 22 million in the second quarter.

In the second quarter, other expenses, net, totaled NIS 20 million compared to NIS 22 million in the corresponding period last year.

**Operating Profit after Other Expenses**

In the first half the Company's consolidated operating profit totaled NIS 295 million, compared to NIS 239 million last year.

In the second quarter the Company's consolidated operating profit totaled NIS 125 million, compared to NIS 109 last year.

**Financing, Net**

In the first half of 2010 net financing expenses totaled NIS 29 million compared to expenses of NIS 27 million in the corresponding period last year.

The growth in financing expenses is the result of the revaluation of Index-linked liabilities in respect of Debentures Series A and B on the basis of the known Index (0.4% compared to 1.2% last year) and the attribution of financing expenses from Index hedges in the quarter versus financing income from Index hedges in the corresponding quarter last year, which had a higher impact; from the inclusion of Tami4's results for the first time; and from an increase in net credit volumes compared to the corresponding period last year. Conversely, financing income from the revaluation of foreign currency transactions and net exchange rate differentials in the first half contributed to offsetting the increase.

In the second quarter net financing expenses totaled NIS 21 million compared to expenses of NIS 31 million in the corresponding quarter last year.

## Convenience Translation from Hebrew

The decrease in net financing expenses in the second quarter is due to income from the revaluation of foreign currency positions and balances as a result of the devaluation of the Company's operating currencies versus the US Dollar during the quarter, compared to financing expenses in the corresponding quarter last year as a result of the revaluation of those currencies versus the Dollar. Conversely, financing income in respect of Index hedges entered in the corresponding quarter, which had a higher impact than the revaluation of Index-linked liabilities in respect of Debentures Series A and B on the basis of the known Index (1.3% in the current quarter versus 1.9% in the corresponding quarter); inclusion of Tami4's results for the first time; and the increase in net credit volumes compared to the corresponding quarter last year, contributed to offsetting the decrease.

The net credit volume as at June 30, 2010 totaled NIS 996 million compared to NIS 707 million on December 31, 2009 and NIS 674 million on June 30, 2009.

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

In the first half of 2010 the Group's consolidated income before taxes on income amounted to NIS 266 million (8.1% of sales) compared to NIS 212 million (7.0% of sales) last year, an increase of 25.4%.

In the second quarter the consolidated income before taxes on income amounted to NIS 104 million (6.6% of sales) compared to NIS 78 million (5.2% of sales) in the corresponding quarter last year, an increase of 34.2%.

### **Taxes on Income**

In the first half of 2010 taxes on income amounted to NIS 82 million whereas last year taxes on income amounted to NIS 65 million, with effective tax rate remaining at 30.8%. The increase in tax expenses is the result of an increase in the pre-tax profit.

In the second quarter taxes on income amounted to NIS 29 million, reflecting an effective tax rate of 28.0%, compared to NIS 21 million and an effective tax rate of 27.3% last year. The increase in tax expenses is mainly the result of an increase of pre-tax profit.

### **Income for the Period**

In the first half of 2010 the financial accounting income for the period amounted to NIS 184 million compared to NIS 147 million last year, an increase of 25.4%. The pro-forma income for the period amounted to NIS 205 million compared to NIS 175 million last year, an increase of 17.4%. The increase in profit is mainly the result of the increase in the operating profit.

In the second quarter of 2010 the financial accounting income for the period amounted to NIS 75 million compared to NIS 57 million last year, an increase of 33.0%. The pro-forma income for the period amounted to NIS 88 million compared to NIS 80 million last year, an increase of 10.5%. The increase in profit is mainly the result of the increase in the operating profit.

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

In the first half the financial accounting income for the period for the shareholders of the Company totaled NIS 136 million compared to NIS 112 million last year, an increase of 21.7%. The increase in profit is due mainly to the increase in the operating profit. The pro-forma income for the shareholders of the Company totaled NIS 155 million compared to NIS 134 million last year, an increase of 16.0%.

Convenience Translation from Hebrew

In the second quarter the financial accounting income for the period for the shareholders of the Company totaled NIS 52 million compared to NIS 38 million last year, an increase of 40.7%. The pro-forma income for the shareholders of the Company in the second quarter totaled NIS 63 million compared to NIS 55 million last year, an increase of 16.8%.

The increase in the income for the period for the shareholders of the Company in the half and in the quarter is mainly due to the increase in the operating profit and the decrease in financing expenses.

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

In the first half of 2010 the minority share in the income of subsidiaries totaled NIS 48 million compared to NIS 35 million in the corresponding period last year, an increase of 37.1%. The increase in the minority share is mainly due to the continued growth in the profits of the Coffee Sector.

In the second quarter the minority share in the income of subsidiaries totaled NIS 23 million compared to NIS 19 million in the corresponding period last year, an increase of 18.4%.

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

Cash flows provided by operating activity in the first half of 2010 totaled NIS 186 million, compared to NIS 280 million last year. The change in the operating cash flow in the half is mainly due to increase in net profit that was partially offset by a net increase of NIS 118 million in working capital items in the reported period compared to NIS 37 million in the corresponding period last year, and due to an increase in tax payments compared to the corresponding period last year.

Cash flows used in investment activity in the first half totaled NIS 217 million compared to NIS 257 million in the corresponding period last year. Most of the change in the reported period is the result of reductions in the scope of acquisitions of negotiable securities and bonds offset by the acquisition of land in Shoham for an industrial activity of Strauss Israel at a cost of NIS 50 million transacted during the period.

Cash flows used in financing activity in the first half of 2010 totaled NIS 126 million compared to NIS 209 million in cash provided in the corresponding period last year. During the first half of 2010 the Company received long-term loans in an amount of NIS 81 million, compared to the issue of debentures in the corresponding period last year, in an amount of NIS 494 million.

Cash flows provided by operating activity in the second quarter of 2010 totaled NIS 113 million, compared to NIS 244 million in the corresponding quarter last year. The decrease in the operating cash flow is mainly due to an increase of NIS 8 million in working capital items in the current quarter compared to a decrease of NIS 101 million in the corresponding period last year.

Cash flows used in investment activity in the second quarter totaled NIS 121 million compared to NIS 213 million in the corresponding period last year. Most of the change is due to the acquisition of securities as a short-term investment last year for NIS 126 million, compared to NIS 47 million in the current quarter.

Cash flows used in financing activity in the second quarter totaled NIS 23 million compared to NIS 240 million in cash provided in the corresponding period last year. In the second quarter of 2009 the Company issued debentures in an amount of NIS 494 million.

## Convenience Translation from Hebrew

Cash and cash equivalents of the Company as at June 30, 2010 totaled NIS 742 million, compared to NIS 935 million on June 30, 2009. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Euros, Shekels and Dollars). Additionally, the Company has short-term investments in securities (mainly linked to the Shekel).

Liquidity ratio for the Company as at June 30, 2010 was 1.65, compared to 1.85 on December 31, 2009. As at June 30, 2010 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,711 million compared to NIS 1,619 million on December 31, 2009.

As at June 30, 2010 short-term credit (excluding current maturities) amounted to NIS 145 million compared to NIS 131 million on December 31, 2009.

As at June 30, 2010 supplier credit totaled NIS 641 million compared to NIS 757 million on December 31, 2009.

Total assets in the Company's Consolidated Statement of Financial Condition as at June 30, 2010 amounted to NIS 5,961 million, compared to NIS 6,166 million on December 31, 2009.

As at June 30, 2010 the ratio of equity attributed to the shareholders of the Company to the total assets in the Company's Consolidated Statement of Financial Condition was 30.2%, compared to 32.2% on December 31, 2009.

The Company's activities outside of Israel are conducted in various foreign currencies and through autonomous 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.

### **Other comprehensive income for the period**

The other comprehensive income includes profit or loss items credited directly to equity, particularly the revaluation of securities available for sale and differentials arising from the translation of foreign currency in respect of an investment in overseas subsidiaries. In the first half of the year losses in respect of translation differentials, which are the major component of the comprehensive income, totaled NIS 177 million in debit, compared to profits from translation differentials totaling NIS 111 million in credit in the corresponding period last year. These translation differentials are the result of the significant weakening of most of the operating currencies of the Group companies abroad in relation to the Shekel, which was expressed in the quarterly movement in the reserve from translation differentials of foreign currency.

In the second quarter losses in respect of translation differentials totaled NIS 55 million in debit, compared to profits from translation differentials totaling NIS 44 million in credit in the corresponding period last year.

## **ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP'S MAJOR BUSINESS UNITS**

### **The Group's Activity in Israel**

Strauss Group is the second-largest company in the Israeli food industry and in the first half of 2010 held an 11.4% share of the food and beverage market in the domestic retail market (on a monthly average in financial terms, according to StoreNext figures). The Israeli market is the Group's home market, in which it is active in various categories.

## Convenience Translation from Hebrew

The sales for the entire business of Strauss Group in Israel include the Health & Wellness and Fun & Indulgence Divisions, the coffee business in Israel, Max Brenner in Israel and the Tami4 activity.

In the first half of 2010 Strauss Group's sales in Israel totaled NIS 1,817 million compared to NIS 1,646 million in 2009, an increase of 10.4%.

In the second quarter of 2010 the Group's sales in Israel totaled NIS 848 million compared to NIS 776 million in the corresponding period in 2009, an increase of 9.2%.

Further to the acquisition of Tami4 in the fourth quarter of 2009, the Group has intensified its touch points with the Israeli consumer and expanded beyond retail and away-from-home (AFH) sales into a direct interface with the consumer.

## The Coffee Sector

In the global coffee business the Group focuses on the development, manufacture, 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 Sector in the major geographical regions, and growth rates for the quarter and the half ended June 30, 2010 and 2009 (in NIS millions):*

Geographical region	First Half				Second Quarter			
	2010	2009	% chg	% change in local currency*	2010	2009	% chg	% change in local currency*
Brazil (1) (2)	609	508	20.0	6.8	308	280	10.0	2.3
Israel	299	312	(4.2)	(4.2)	124	137	(9.2)	(9.2)
Former Yugoslavia countries	108	110	(2.1)	12.6	56	61	(8.8)	11.7
Former USSR countries	250	264	(5.1)	(4.3)	123	129	(4.6)	(1.4)
Balkan states	133	181	(26.5)	(21.6)	65	98	(33.8)	(24.3)
Poland	198	206	(4.2)	(7.1)	94	106	(11.6)	(6.5)
<b>Total</b>	<b>1,597</b>	<b>1,581</b>	<b>1.0</b>	<b>(1.6)</b>	<b>770</b>	<b>811</b>	<b>(5.1)</b>	<b>(3.9)</b>

\* The growth rate 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 2010 include sales amounting to NIS 114 million of green coffee and NIS 33 million of corn. In the first half of 2009 sales of green coffee amounting to NIS 103 million and corn amounting to NIS 28 million were included.

(2) Brazil sales in the second quarter of 2010 include sales amounting to NIS 53 million of green coffee and NIS 17 million of corn. In the second quarter of 2009 sales of green coffee amounting to NIS 55 million and corn amounting to NIS 15 million were included.

## Sales

Sales by Strauss's Coffee Sector in the first half of 2010 totaled NIS 1,597 million compared to NIS 1,581 million last year, an increase of 1.0%. After neutralizing the impact of currency exchange rates, sales decreased by 1.6%. Organic sales (after neutralizing the acquisition of businesses and the impact of exchange rate differentials) decreased by 2.6%.

## Convenience Translation from Hebrew

Sales by the sector in the second quarter totaled NIS 770 million compared to NIS 811 million last year, a decrease of 5.1%. After neutralizing the impact of currency exchange rates, sales decreased by 3.9%. Organic sales (after neutralizing the acquisition of businesses and the impact of exchange rate differentials) decreased by 4.5%.

Sales in the half and in the quarter were influenced by the weakness in the various markets in CEE and the increase in the competition.

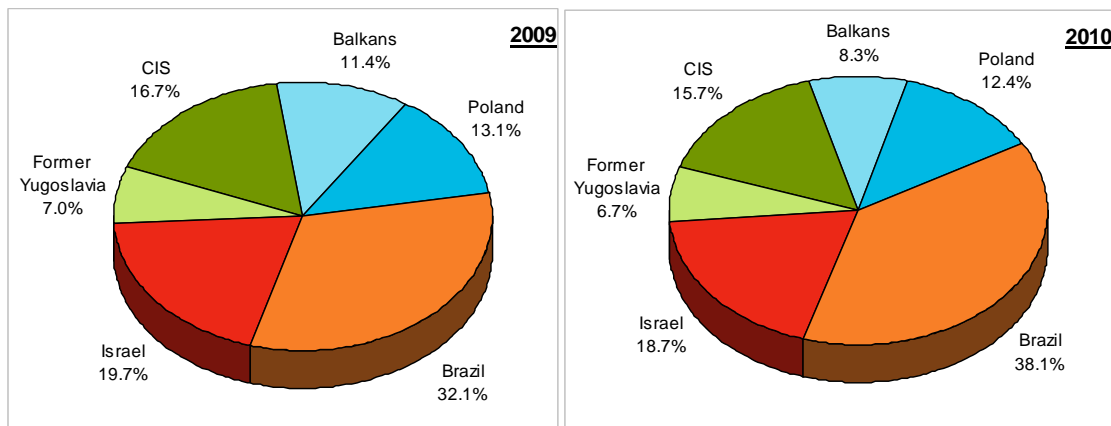
Gross profit in the first half increased by 12.0% and totaled NIS 552 million (34.6% of sales) compared to NIS 493 million (31.2%) last year. The increase in gross profit was mainly the result of the decrease in raw material prices compared to last year and of the currency impact in the various countries.

In the second quarter gross profit decreased by 3.4% and totaled NIS 254 million (33.0%) compared to NIS 263 million (32.5%) last year. The decrease in gross profit was mainly due to the drop in sales and the currency impact.

The operating profit of the Coffee Sector in the first half increased by 14.2% and totaled NIS 141 million (8.8% of sales) compared to NIS 123 million (7.8% of sales) last year. The operating profit was positively influenced mainly by the growth in gross profit in relation to last year.

In the second quarter the operating profit of the Coffee Sector totaled NIS 63 million (8.2% of sales) compared to NIS 73 million (9.0%) last year. The decrease in operating profit was mainly due to the decrease in gross profit in relation to last year.

### **Distribution of coffee sales by geographical region in the first half of 2010 and 2009:**



### Brazil

The Company in Brazil continues to grow while increasing its market shares and expanding into additional geographical regions in the country. Average market share of the Brazilian operation in the first half of 2010, according to A.C. Nielsen, reached 17.6% compared to 15.4% last year and an average of 16.1% in 2009.

After continuous growth and an increase in the number of products and brands in the country, a decision was made to refresh the corporate identity in Brazil. In this context, after half a century under the name "Santa Clara", the name of the Company in Brazil was changed to "3 Corações". The new corporate identity will enable optimization in the allocation of resources for the development of brands at present and in the future, and will allow for a reduction in the costs involved in managing a broad product portfolio by identifying synergies and achieving consistency in communications and in marketing management.

## Convenience Translation from Hebrew

The new logo of the Company in Brazil is a visual representation of three intertwined hearts ("corações" in Portuguese means "hearts"); the three hearts represent three profound pleasures: taste, knowledge and life.

Coffee sales in Brazil (after neutralizing the coffee export, corn and juice powders businesses) grew by 16.6% (3.8% in local currency) in the first half of 2010, and total sales in that country grew by 20.0% (6.8% in local currency). Growth is evident in most regions, especially in Sao Paulo, where the Company continues to grow and to increase its market shares. In the second quarter coffee sales in Brazil grew by 8.4% (0.8% in local currency), and total sales in Brazil grew by 10.0% (2.3% in local currency).

### The former Yugoslavia countries

In the first half of 2010 the Company's sales decreased by 2.1% and in the second quarter, sales decreased by 8.8% (an increase of 11.7% in local currency). The Company continues to contend with challenging market conditions and a shift to the consumption of simpler coffee, mainly in Serbia.

### The Balkan states

Sales were adversely influenced by the economic slowdown and increasing competition in the region.

### The former USSR countries

Volume growth in the Company's sales in Russia continued, but following market weakness in the former USSR region and growing competition (campaigns and discounts), sales in the region in local currency and in Shekels decreased compared to last year.

### Poland

In the first half the Company's sales in Poland were impacted by the weakness in the country and the growing competition. The Company in Poland has succeeded in improving its competitive position in the country, but sales in local currency and in Shekels have fallen slightly compared to last year.

### Israel

The decrease in sales in the first half was influenced mainly by the discontinuation of the distribution of Jacobs Coffee in 2010. Coffee sales in the second quarter were influenced by the timing of Passover. The Company continues to maintain its competitive position in Israel while persevering in the process of operational streamlining.

### **The Israel Sector**

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**”. This structure supports the Company in contending with the challenges in the business environment.

Convenience Translation from Hebrew

*Following are the condensed results of business operations based on the pro-forma statements of Strauss Israel by unit, for the quarter and half ended June 30, 2010 and 2009 (in NIS millions):*

	First Half			Second Quarter		
	2010	2009	%	2010	2009	%
<b>Health &amp; Wellness</b>						
Net sales	873	862	1.3	448	444	1.0
Operating income	102	99	3.1	59	59	1.2
<b>Fun &amp; Indulgence</b>						
Net sales	451	446	1.2	179	183	-2.3
Operating income	54	50	8.9	8	7	1.3
<b>Total Israel</b>						
<b>Net sales</b>	<b>1,324</b>	<b>1,308</b>	<b>1.3</b>	<b>627</b>	<b>627</b>	<b>-</b>
<b>Operating income</b>	<b>156</b>	<b>149</b>	<b>5.0</b>	<b>67</b>	<b>66</b>	<b>0.9</b>

### Sales

In the first half of 2010 sales by the Israel Sector totaled NIS 1,324 million compared to NIS 1,308 million last year, an increase of 1.3%. Sales by the sector in the second quarter totaled NIS 627 million, similar to last year. Growth in the half was positively influenced by the volume increase in most units and the continuing investment in innovation, and conversely, in the second quarter was negatively influenced by the timing of Passover (which this year fell in the first quarter and last year, in the second quarter).

Gross profit in the Israel Sector totaled NIS 560 million in the first half of 2010 compared to NIS 542 million last year, an increase of 3.2%. The gross profit rate rose from 41.5% to 42.3% this year. In the second quarter gross profit totaled NIS 269 million compared to NIS 261 million last year, an increase of 2.7%. The gross profit rate rose from 41.7% to 42.8%.

Most of the improvement in gross profit in the first half and second quarter is due to the volume growth in sales and to the continued implementation of streamlining processes in the cost of sales.

Pro-forma operating profit in Israel in the first half of 2010 increased by 5.0% and amounted to NIS 156 million. The operating profit margin improved and amounted to 11.8% compared to 11.4% in the corresponding period last year.

In the second quarter the operating profit totaled NIS 67 million compared to NIS 66 million last year, an increase of 0.9%. The operating profit margin improved and amounted to 10.7% compared to 10.6% in the corresponding period last year. The growth in the operating profit in Israel is due to the improvement in gross profit and continued streamlining processes.

### **Other Business**

As mentioned, the Group has other activities, which are included in the Financial Statements in the "Other Business" sector. Following is a brief description of developments in these activities in 2010:

#### **Sabra Refrigerated Dips in the USA**

Sabra's activity has been proportionately consolidated (50%) since the closing of the transaction with PepsiCo, beginning in the second quarter of 2008.

## Convenience Translation from Hebrew

In the first half of 2010 Sabra's sales continued to grow, as did its market share, and it maintained a leading position in the refrigerated flavored spreads and dips category.

In the second quarter Sabra's new salad factory opened in Virginia. The new plant, which is the product of Strauss's partnership with PepsiCo–Frito-Lay in North America, is considered the largest and most advanced facility of its kind in the world, is a model of innovation and includes a variety of developments in the fresh food business.

The new plant will enable Sabra to significantly increase production capacity, continue to improve its product variety and quality and provide a response to increasing demand for its products, as well as enable it to develop a broad range of categories and products while continuing to grow the market in which Sabra is active.

Sabra's average market share in the first half of this year was 44.8% compared to an average market share of 37.7% in the corresponding period last year and an average market share of 41.2% in the fourth quarter of 2009 (according to IRI data published in March 2010).

### Following are selected financial data on Sabra's activity (reflecting 100%):

Sales – In the first half of 2010 Sabra's sales totaled NIS 269 million compared to NIS 201 million last year, an increase of 33.6%. After neutralizing the currency impact, growth amounted to 44.1%.

In the second quarter of the year Sabra's sales totaled NIS 142 million compared to NIS 107 million last year, an increase of 33.2%. After neutralizing the currency impact, growth amounted to 42.8%.

The operating profit in the first half of 2010 totaled NIS 33 million (12.1% of sales) compared to NIS 32 million last year (15.8%), an increase of 3.0%.

In the second quarter operating profit totaled NIS 12 million (8.8% of sales) compared to NIS 18 million last year (16.6%), a decrease of 29.8%. The decrease in operating profit in the quarter is the result of the opening of the new plant in Virginia and the continued operation of the old plant in New York.

## **Max Brenner**

In the first half of 2010 Max Brenner's sales totaled NIS 49 million compared to NIS 46 million last year, an increase of 6.0%. After neutralizing the impact of currency exchange rates, growth in the half amounted to 9.6%.

In the second quarter of 2010 Max Brenner's sales totaled NIS 23 million compared to NIS 22 million last year, an increase of 4.3%. After neutralizing the impact of currency exchange rates, growth in the second quarter amounted to 8.3%.

After the end of the quarter the Company opened a new Chocolate Bar in Las Vegas, which joins the 30 other Max Brenner Chocolate Bars in operation around the world: 6 in Israel, 2 in the USA, 2 in the Philippines, 1 in Singapore and 19 in Australia. Other than seven branches that are owned by the Company, all other branches are operated under franchise.

Toward the end of the year the Company is scheduled to open another Max Brenner Chocolate Bar in Boston, while continuing to invest in the development of core infrastructure for the Max Brenner business.

## **Strauss Water**

In July 2009 the Strauss Group presented Strauss Water and its strategy. Strauss Water will lead and manage Strauss's activity in the water industry and will serve as one of the Group's growth drivers in coming years. Strauss Water will gather knowledge in the fields of development, production, marketing, distribution and business development for 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 (Tami4) through its subsidiary, H2Q. The acquisition of Tana Industries, completed on October 1, 2009, is a direct continuation of Strauss's entry into the drinking water industry, which began some two and a half years ago when Strauss invested in H2Q with the goal of becoming a significant global player providing drinking water solutions to consumers in and outside of Israel.

Following the establishment of Strauss Water the operations of H2Q and Tami4 were merged with the aim of integrating the technology developed by H2Q with Tami4's capabilities, in order to serve as the infrastructure for Strauss Water's activities in Israel and internationally.

In October 2009 the Strauss Group paid NIS 303 million for Tana Industries' shares, and Tana was transferred to H2Q with zero (net) financial liabilities. The acquisition was financed by an investment by the Strauss Group in H2Q, which increased Strauss's holding in H2Q to approximately 87% of the company's share capital. Tami4's sales are fully consolidated in Strauss Water commencing in the fourth quarter of 2009.

Strauss Water's pro-forma sales (assuming that the Tami4 business had been fully consolidated from the beginning of 2009) amounted to NIS 171 million in the first half of 2010 compared to NIS 145 million last year, an increase of 18.1%. In the second quarter Strauss Water sales totaled NIS 88 million compared to NIS 78 million in the corresponding period last year, an increase of 13.5%.

In 2010 the Company plans to continue to invest in the development of infrastructure for the global expansion of the water business.

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

Other than the following, as at the end of the second quarter of 2010 and compared to the end of 2009, there was 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, 2009 and as at March 31, 2010.

During the first half 2010 and the beginning of the third quarter the Company engaged in option transactions on the TELBOR interest rate (CAP) in an amount of NIS 500 million, at an exercise price of 3.25%-3.5%. The goal of these transactions is to completely hedge the exposure to varying interest rates in respect of Debentures Series C.

## **ASPECTS OF CORPORATE GOVERNANCE**

### **Master Control of the Process of Preparing and Approving the Financial Statements**

The Company organ responsible for master control is the Balance Sheet Committee established by the Board of Directors of the Company. Following the publication of the Companies Regulations (Instructions and Conditions with Respect to the Procedure for the Approval of Financial Statements) – although they are applicable only with respect to the Financial Statements for the year 2010 and thereafter – on March 23, 2010 the Board of Directors of the Company adopted a resolution for a change in the composition of the Balance Sheet Committee pursuant to the requirements of the Regulations. The members of the Balance Sheet Committee commencing on that date are Professor Dafna Schwartz (Chairperson), Dalia Lev, CPA, Dr. Arieh Ovadia, Meir Shani and Dr. Michael Angel.

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

- The EVP Finance holds meetings with the Chairperson of the Balance Sheet Committee on financial and accounting issues that are relevant to the Company. Before the Financial Statements were approved a meeting was held between the EVP Finance and the Balance Sheet Committee Chairperson to discuss material issues that arose during the preparation of the Financial Statements for the second quarter of 2010.
- The Company Auditor holds conversations with the Balance Sheet Committee on subjects that arise during the review of the Financial Statements. Before the Financial Statements were approved a conversation was held between the Company Auditor and the Balance Sheet Committee to discuss material issues that arose during the process of reviewing the Financial Statements for the second quarter of 2010.
- 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 Balance Sheet Committee. In this discussion the EVP Finance presents an extensive review of business activities and the Company's business results for the period. The EVP 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, as well as the Internal Auditor. The Financial Statements are presented for further discussion and approval by the Board of Directors.

### **Information on the Company's Preparations for the Implementation of ISOX**

Following are actions executed by the Company for the implementation of ISOX until the date of this report:

- A preparation plan has been defined for the implementation of a project for evaluating the effectiveness of the internal control of financial reporting and disclosure in accordance with the Securities Regulations (Periodic and Immediate Reports).
- The person responsible for the implementation of the project is the Group Controller.
- The processes which the Company considers highly substantive to financial reporting and disclosure are the process of closing financial statements, the sales process with emphasis on the issuing of invoices and customer master data, the procurement process with emphasis on payments to suppliers, and the inventory process, with emphasis on its measurement and costing.
- The Company has performed a risk assessment of internal control, on which basis the business processes and internal controls in place over financial reporting and disclosure were documented.
- Additionally, a gap analysis process was performed with respect to gaps existing in the planning of internal control over financial reporting and disclosure, including the definition of the actions required to close these gaps.

### **REGULATIONS WITH RESPECT TO FINANCIAL REPORTING BY THE CORPORATION**

#### **Events during the Reported Period**

**1. Accounting changes**

For information on the first-time implementation of accounting standards and information on new standards and interpretations not yet adopted, see Note 1.2 and Note 1.3 to the Consolidated Interim Financial Statements as at June 30, 2010, respectively.

**2. Payment of a dividend**

For information on the distribution of a dividend declared on January 19, 2010 and paid on February 17, 2010, see Note 4.2 to the Consolidated Interim Financial Statements as at June 30, 2010.

**3. Real estate transaction**

- For information on the Company's engagement on March 1, 2010 with the Israel Land Administration in an agreement for the leasing of a real estate property, see Note 4.1 to the Consolidated Interim Financial Statements as at June 30, 2010.

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- For information on the engagement of the subsidiary Strauss Health Ltd. (80%), during the reported period, in three transactions for the sale of real estate, including the sale of land rights to a controlling shareholder of the Company, see Note 4.6 to the Consolidated Interim Financial Statements as at June 30, 2010.

**4. Shelf-stocking**

For information on changes in the Company's shelf-stocking system, see Note 4.3 to the Consolidated Interim Financial Statements as at June 30, 2010.

**5. Grant of warrants to a senior executive**

## Convenience Translation from Hebrew

- For information on the grant of warrants to a senior officer in the Group pursuant to the approval of the Board of Directors of March 7, 2010, see Note 5.2 to the Consolidated Interim Financial Statements as at June 30, 2010.
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- For information on the grant of warrants to a senior officer and a senior executive in the Group pursuant to the approval of the Board of Directors of June 14, 2010, see Notes 5.3 and 8.1 to the Consolidated Interim Financial Statements as at June 30, 2010.

### **6. Option plan**

For information on a change in the option plan for senior employees, approved by the Board of Directors of the Company on April 25, 2010, see Note 5.1 to the Consolidated Interim Financial Statements as at March 31, 2010.

### **7. Legal proceedings**

- For information on changes in legal proceedings in the reported period, see Notes 6.2-6.10 to the Consolidated Interim Financial Statements as at June 30, 2010.
- The Auditors' Review Report of these Interim Financial Statements refers the reader to Note 6.1 to the Consolidated Interim Financial Statements as at June 30, 2010 regarding suits filed against the Company with the aim of procuring their recognition as class actions.

### **8. Financing**

For information on the filing of a draft prospectus with the Securities Authority and the Tel Aviv Stock Exchange Ltd., see section 3.1 in the chapter Revision of the Description of the Company's Business as at June 30, 2010.

### **9. Changes in the team of officers in the Group**

For information on changes in the team of officers in the Group, see section 6 in the chapter Revision of the Description of the Company's Business as at June 30, 2010.

### **10. Transactions with controlling shareholders**

For information on a transaction with controlling shareholders, see section 3 above.

### **11. Ratification of debenture rating**

For information on the ratification of Series A, B and C debentures in circulation, by Ma'alot Israel Securities Ltd., see section 3.2 in the Company's Business as at June 30, 2010

Convenience Translation from Hebrew

**POST STATEMENT OF FINANCIAL CONDITION DATE EVENTS**

For a review of events occurring after the date of the Statement of Financial Condition, see Note 8 to the Consolidated Interim Financial Statements as at June 30, 2010.

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

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Ofra Strauss  
Chairperson of the Board

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Gadi Lesin  
CEO

August 16, 2010

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**STRAUSS-GROUP LTD.**  
FINANCIAL STATEMENTS  
AS AT JUNE 30, 2010

**Strauss-Group Ltd.**

**Financial Statements  
As at June 30, 2010**

**Financial Statements as at June 30, 2010**

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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, 2010 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and six months periods then ended. The board of directors and management are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, in addition management is responsible for the financial information to be prepared 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 13.03% of the total consolidated assets as at June 30, 2010, and whose revenues constitute 2.10% and 2.19% of the total consolidated revenues for the six and three months 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 follow, in all material respects, the disclosure directives of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

We call attention to that stated in Note 6.1 regarding a claim that was filed against the Company for the purpose of being certified as class action.

Sincerely,

Somekh Chaikin  
Certified Public Accountants (Isr.)  
August 16, 2010

**Consolidated Interim Statements of Financial Position**

	<b>June 30 2010 (Unaudited)</b>	<b>June 30 2009 (Unaudited)</b>	<b>December 31 2009 (Audited)</b>
	<b>NIS Millions</b>		
<b>Current assets</b>			
Cash and cash equivalents	742	935	957
Marketable securities and deposits	118	156	86
Trade receivables	954	963	998
Income tax receivables	81	**36	**55
Other receivables and debit balances	217	201	176
Inventory	677	714	664
Assets classified as held for sale	8	-	-
<b>Total current assets</b>	<u>2,797</u>	<u>3,005</u>	<u>2,936</u>
<b>Investments and non-current assets</b>			
Other investments and long-term debit balances	139	132	158
Assets designated for the payment of employee benefits, net	6	6	7
Fixed assets	1,438	*1,293	*1,381
Intangible assets	1,544	1,286	1,627
Deferred expenses	27	*29	*31
Investment property	5	*22	*21
Deferred tax assets	5	8	5
<b>Total investments and non-current assets</b>	<u>3,164</u>	<u>2,776</u>	<u>3,230</u>
<b>Total assets</b>	<u>5,961</u>	<u>5,781</u>	<u>6,166</u>

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Ofra Strauss  
Chairperson of the Board of Directors

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Gadi Lesin  
Chief Executive Officer

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Shahar Florence  
Chief Financial Officer

Date of approval of the interim financial statements: August 16, 2010

**Consolidated Interim Statements of Financial Position**

	<b>June 30 2010 (Unaudited)</b>	<b>June 30 2009 (Unaudited)</b>	<b>December 31 2009 (Audited)</b>
	<b>NIS Millions</b>		
<b>Current liabilities</b>			
Current maturities of debentures	258	92	94
Short terms loans and credit	192	*179	*167
Trade payables	641	609	757
Income tax payables	43	**52	**50
Other payables and credit balances	524	408	480
Provisions	39	29	36
<b>Total current liabilities</b>	<u>1,697</u>	<u>1,369</u>	<u>1,584</u>
<b>Non-current liabilities</b>			
Debentures	1,253	1,473	1,410
Long-term loans and credit	153	*21	*79
Long-term payables and credit balances	33	50	38
Employee benefits, net	28	31	32
Deferred taxes	133	*102	*137
<b>Total non-current liabilities</b>	<u>1,600</u>	<u>1,677</u>	<u>1,696</u>
<b>Equity</b>			
Share capital	243	242	243
Share premium	622	622	622
Translation reserve	(198)	(76)	(71)
Treasury stock	(20)	(20)	(20)
Reserve for available for sale financial assets	1	4	1
Retained earnings	1,152	1,081	1,210
<b>Total equity attributable to the Company's shareholders</b>	<u>1,800</u>	<u>1,853</u>	<u>1,985</u>
<b>Minority interest</b>	864	882	901
<b>Total equity</b>	<u>2,664</u>	<u>2,735</u>	<u>2,886</u>
<b>Total liabilities and equity</b>	<u>5,961</u>	<u>5,781</u>	<u>6,166</u>

\* Retrospective implementation, see Note 1.2.2 regarding initial implementation of accounting standards.

\*\* Reclassified, see Note 1.4.

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

**Consolidated Interim Statements of Income**

	<b>For the six months ended</b>		<b>For the three months ended</b>		<b>For the year ended</b>
	<b>June 30 2010</b>	<b>June 30 2009</b>	<b>June 30 2010</b>	<b>June 30 2009</b>	<b>December 31 2009</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>NIS millions</b>				
Sales	3,276	3,036	1,580	1,514	6,373
Cost of sales					
Valuation of balance of commodities hedging transactions as at end of period	(10)	(2)	(11)	3	(4)
Other costs	1,977	1,917	965	946	4,002
Total cost of sales	1,967	1,915	954	949	3,998
<b>Gross profit</b>	<b>1,309</b>	<b>1,121</b>	<b>626</b>	<b>565</b>	<b>2,375</b>
Selling and marketing expenses	786	678	385	344	1,442
General and administrative expenses	201	177	96	90	374
	987	855	481	434	1,816
<b>Operating profit before other income (expenses)</b>	<b>322</b>	<b>266</b>	<b>145</b>	<b>131</b>	<b>559</b>
Other income	4	3	3	3	4
Other expenses	(31)	(30)	(23)	(25)	(39)
Other income (expenses), net	(27)	(27)	(20)	(22)	(35)
<b>Operating profit</b>	<b>295</b>	<b>239</b>	<b>125</b>	<b>109</b>	<b>524</b>
Financing income	23	31	11	2	38
Financing expenses	(52)	(58)	(32)	(33)	(125)
Financing expenses, net	(29)	(27)	(21)	(31)	(87)
<b>Profit before income taxes</b>	<b>266</b>	<b>212</b>	<b>104</b>	<b>78</b>	<b>437</b>
Income taxes	(82)	(65)	(29)	(21)	(119)
<b>Profit for the period</b>	<b>184</b>	<b>147</b>	<b>75</b>	<b>57</b>	<b>318</b>
<b>Attributable to:</b>					
The Company's shareholders	136	112	52	38	233
Minority interest	48	35	23	19	85
<b>Profit for the period</b>	<b>184</b>	<b>147</b>	<b>75</b>	<b>57</b>	<b>318</b>
<b>Earnings per share of the Company's shareholders</b>					
Basic earnings per share (in NIS)	1.28	1.06	0.49	0.35	2.21
Diluted earnings per share (in NIS)	1.27	1.06	0.49	0.35	2.20

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

**Consolidated Interim Statements of Comprehensive Income**

	For the six months ended		For the three months ended		For the year ended
	June 30 2010 (Unaudited)	June 30 2010 (Unaudited)	June 30 2010 (Unaudited)	June 30 2009 (Unaudited)	December 31 2009 (Audited)
	NIS millions				
Profit for the period	184	147	75	57	318
Other comprehensive income:					
Foreign currency translation differences	(177)	111	(55)	44	120
Changes in fair value of available for sale financial assets, net of tax	-*	10	(5)	10	2
Net change in fair value of available for sale financial assets transferred to the statement of income	-	-	-	-	1
Other comprehensive income (loss), net of tax	(177)	121	(60)	54	123
<b>Comprehensive income (loss) for the period</b>	<b>7</b>	<b>268</b>	<b>15</b>	<b>111</b>	<b>441</b>
<b>Attributable to:</b>					
The Company's shareholders	9	198	13	72	321
Minority interest	(2)	70	2	39	120
<b>Comprehensive income (loss) for the period</b>	<b>7</b>	<b>268</b>	<b>15</b>	<b>111</b>	<b>441</b>

\* Less than NIS 1 million.

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

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

	Attributable to the Company's shareholders							Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total		
					NIS millions				
<b>Balance as at January 1, 2010 – audited</b>	243	622	(71)	(20)	1	1,210	1,985	901	2,886
<b>Changes during the six-month period ended June 30, 2010 - unaudited:</b>									
<b>Comprehensive income the period</b>									
<i>Profit for the period</i>	-	-	-	-	-	136	136	48	184
<i>Components of comprehensive income the period:</i>									
Foreign currency translation differences	-	-	(127)	-	-	-	(127)	(50)	(177)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	-*	-	-*	-*	-*
<i>Other comprehensive income (loss) for the period, net of tax</i>	-	-	(127)	-	-*	-	(127)	(50)	(177)
<b>Comprehensive income (loss) for the period</b>	-	-	(127)	-	-	136	9	(2)	7
<b>Exercise of employee share options</b>	-*	-	-	-	-	-	-*	-	-*
<b>Share-based payment</b>	-	-	-	-	-	6	6	-	6
<b>Share-based payment in subsidiary</b>	-	-	-	-	-	-	-	-*	-*
<b>Dividend paid to non-controlling interests in subsidiary</b>	-	-	-	-	-	-	-	(21)	(21)
<b>Dividend declared to non-controlling interests in subsidiary</b>	-	-	-	-	-	-	-	(14)	(14)
<b>Dividend paid</b>	-	-	-	-	-	(200)	(200)	-	(200)
<b>Balance as at June 30, 2010 – unaudited</b>	243	622	(198)	(20)	1	1,152	1,800	864	2,664

\* Less than NIS 1 million.

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

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

	Attributable to the Company's shareholders							Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total		
					NIS millions				
<b>Balance as at January 1, 2009 – audited</b>	242	622	(158)	(20)	-	1,171	1,857	842	2,699
<b>Changes during the six-month period ended June 30, 2009 - unaudited:</b>									
<b>Comprehensive income the period</b>									
<i>Profit for the period</i>	-	-	-	-	-	112	112	35	147
<i>Components of comprehensive income the period:</i>									
Foreign currency translation differences	-	-	82	-	-	-	82	29	111
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	4	-	4	6	10
<i>Other comprehensive income (loss) for the period, net of tax</i>	-	-	82	-	4	-	86	35	121
<b>Comprehensive income (loss) for the period</b>	-	-	82	-	4	112	198	70	268
<b>Exercise of employee share options</b>	-*	-	-	-	-	-	-*	-	-*
<b>Share-based payment</b>	-	-	-	-	-	(2)	(2)	-	(2)
<b>Share-based payment in subsidiary</b>	-	-	-	-	-	-	-	-*	-*
<b>Dividend paid</b>	-	-	-	-	-	(200)	(200)	-	(200)
<b>Dividend paid to non-controlling interests in subsidiary</b>	-	-	-	-	-	-	-	(30)	(30)
<b>Balance as at June 30, 2009 – unaudited</b>	<u>242</u>	<u>622</u>	<u>(76)</u>	<u>(20)</u>	<u>4</u>	<u>1,081</u>	<u>1,853</u>	<u>882</u>	<u>2,735</u>

\* Less than NIS 1 million.

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

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

	Attributable to the Company's shareholders						Total	Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings			
	NIS millions								
<b>Balance as at April 1, 2010 – audited</b>	243	622	(161)	(20)	3	1,097	1,784	897	2,681
<b>Changes during the three-month period ended June 30, 2010 – unaudited:</b>									
<b>Comprehensive income the period</b>									
<i>Profit for the period</i>	-	-	-	-	-	52	52	23	75
<i>Components of comprehensive income the period:</i>									
Foreign currency translation differences	-	-	(37)	-	-	-	(37)	(18)	(55)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	(2)	-	(2)	(3)	(5)
<i>Other comprehensive income (loss) for the period, net of tax</i>	-	-	(37)	-	(2)	-	(39)	(21)	(60)
<b>Comprehensive income (loss) for the period</b>	-	-	(37)	-	(2)	52	13	2	15
<b>Exercise of employee share options</b>	*	-	-	-	-	-	*	-	*
<b>Share-based payment</b>	-	-	-	-	-	3	3	-	3
<b>Share-based payment in subsidiary</b>	-	-	-	-	-	-	-	*	*
<b>Dividend paid to non-controlling interests in subsidiary</b>	-	-	-	-	-	-	-	(21)	(21)
<b>Dividend declared to non-controlling interests in subsidiary</b>	-	-	-	-	-	-	-	(14)	(14)
<b>Balance as at June 30, 2010 – unaudited</b>	243	622	(198)	(20)	1	1,152	1,800	864	2,664

\* Less than NIS 1 million.

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

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

	Attributable to the Company's shareholders						Total	Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings			
	NIS millions								
<b>Balance as at April 1, 2009 – unaudited</b>	242	622	(106)	(20)	-	1,049	1,787	873	2,660
<b>Changes during the three-month period ended June 30, 2009 - unaudited:</b>									
<b>Comprehensive income the period</b>									
<i>Profit for the period</i>	-	-	-	-	-	38	38	19	57
<i>Components of comprehensive income the period:</i>									
Foreign currency translation differences	-	-	30	-	-	-	30	14	44
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	4	-	4	6	10
<i>Other comprehensive income (loss) for the period, net of tax</i>	-	-	30	-	4	-	34	20	54
<b>Comprehensive income (loss) for the period</b>	-	-	30	-	4	38	72	39	111
<b>Exercise of employee share options</b>	*-	-	-	-	-	-	*-	-	*-
<b>Share-based payment</b>	-	-	-	-	-	(6)	(6)	-	(6)
<b>Share-based payment in subsidiary</b>	-	-	-	-	-	-	-	*-	*-
<b>Dividend paid to non-controlling interests in subsidiary</b>	-	-	-	-	-	-	-	(30)	(30)
<b>Balance as at June 30, 2009 – unaudited</b>	242	622	(76)	(20)	4	1,081	1,853	882	2,735

\* Less than NIS 1 million.

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

## Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders						Total	Non-Controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings			
	NIS millions								
<b>Balance as at January 1, 2009 – audited</b>	242	622	(158)	(20)	-	1,171	1,857	842	2,699
<b>Changes in 2009 – audited:</b>									
<i>Profit for the period</i>	-	-	-	-	-	233	233	85	318
<i>Components of comprehensive income the period:</i>									
Foreign currency translation differences	-	-	87	-	-	-	87	33	120
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1	-	1	2	3
<i>Other comprehensive Income for the period, net of tax</i>	-	-	87	-	1	-	88	35	123
<b>Comprehensive income the period</b>	-	-	87	-	1	233	321	120	441
<b>Exercise of employee share options</b>	1	-	-	-	-	-	1	-	1
<b>Share-based payment</b>	-	-	-	-	-	6	6	-	6
<b>Share based payment in subsidiary</b>	-	-	-	-	-	-	-	*	*
<b>Benefit in respect of capital notes to minority in Subsidiary</b>	-	-	-	-	-	-	-	(2)	(2)
<b>Dividend paid</b>	-	-	-	-	-	(200)	(200)	-	(200)
<b>Dividend paid to the minority in subsidiary</b>	-	-	-	-	-	-	-	(63)	(63)
<b>Issuance of rights and investment in subsidiary</b>	-	-	-	-	-	-	-	4	4
<b>Balance as at December 31, 2009 – audited</b>	243	622	(71)	(20)	1	1,210	1,985	901	2,886

\* Less than NIS 1 million.

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

**Consolidated Interim Statements of Cash Flows**

	For the six months ended		For the three months ended		For the year ended
	June 30 2010	June 30 2009	June 30 2010	June 30 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
<b>Cash flows from operating activities</b>					
Income for the period	184	147	75	57	318
Adjustments:					
Depreciation	82	77	42	40	158
Amortization of intangible assets and deferred expenses	28	16	11	10	39
Impairment provision of fixed assets, intangible assets and investment property	-	22	-	22	23
Other expenses (income), net	9	(2)	9	(4)	4
Expenses in respect of share based payment	6	(1)	3	(6)	8
Financing expenses, net	29	27	21	31	87
Income tax expenses	82	65	29	21	119
Change in inventory	(40)	114	(66)	29	197
Change in trade and other receivables	(21)	8	67	119	48
Change in long-term trade receivables	12	(11)	-	(6)	2
Change in trade and other payables	(57)	(160)	(9)	(47)	(90)
Change in provisions and employee benefits	(1)	8	(1)	4	9
Interest paid	(33)	(33)	(11)	(6)	(62)
Interest received	11	9	6	7	18
Income tax paid, net	(105)	(6)	(63)	(27)	(85)
<b>Net cash flows provided by operating activities</b>	<b>186</b>	<b>280</b>	<b>113</b>	<b>244</b>	<b>793</b>
<b>Cash flows to investing activities</b>					
Purchase of marketable securities, net	(37)	(122)	(47)	(126)	(47)
Proceeds from sale of fixed assets and intangible assets	6	7	3	4	18
Acquisition of subsidiary, net of cash acquired	-	(7)	-	(7)	(284)
Acquisition of fixed assets (see also Note 4.1)	(176)	(115)	(64)	(69)	(241)
Investment grants received	1	1	-	-	4
Investments in intangible assets and deferred expenses	(18)	(16)	(13)	(10)	(39)
Repayment of deposits and loans granted	12	9	4	4	20
Long-term loans granted	(5)	(14)	(4)	(9)	(47)
<b>Net cash flows used in investing activities</b>	<b>(217)</b>	<b>(257)</b>	<b>(121)</b>	<b>(213)</b>	<b>(616)</b>

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

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

	For the six months ended		For the three months ended		For the year ended
	June 30 2010	June 30 2009	June 30 2010	June 30 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
<b>Cash flows from financing activities</b>					
Short-term bank credit, net	14	(40)	(14)	(19)	(79)
Receipt of long-term loans	102	10	19	3	63
Repayment of long-term loans and debentures	(21)	(25)	(7)	(8)	(140)
Issuance of debentures, net	-	494	-	494	494
Issuance of preferred shares to non-controlling interests' holders in subsidiary	-	-	-	-	13
Dividend paid	(200)	(200)	-	(200)	(200)
Dividend paid to non-controlling interests' holders in subsidiary	(21)	(30)	(21)	(30)	(63)
<b>Net cash flows provided by (used in) financing activities</b>	<b>(126)</b>	<b>209</b>	<b>(23)</b>	<b>240</b>	<b>88</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(157)</b>	<b>232</b>	<b>(31)</b>	<b>271</b>	<b>265</b>
Cash and cash equivalents as at beginning of period	957	680	790	671	680
Effect of exchange rate fluctuations on cash balances	(58)	23	(17)	(7)	12
<b>Cash and cash equivalents as at end of period</b>	<b>742</b>	<b>935</b>	<b>742</b>	<b>935</b>	<b>957</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 Interim Consolidated 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, 2010 and for the six and three months periods 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.

These Interim Statements should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries as at December 31, 2009 and for the year then ended together with their accompanying notes (hereinafter – the "Annual Financial Statements"). The accounting principles applied in preparing these Interim Statements are consistent with the principles applied in preparing the Annual Financial Statements, except for that mentioned in Item 1.2 hereunder. Certain comparative figures have been reclassified so that they may correspond with presentation in the current period, see Note 1.4.

- 1.1.3 The consolidated financial statements are presented in NIS, which is the functional currency of the Company. As from the financial statements for the first quarter of 2010, the Company presents the financial information in NIS millions. The financial information has been rounded to the nearest million.

- 1.1.4 These Interim Statements have been approved by the Company's Board of Directors on August 16, 2010.

#### 1.2 Initial implementation of accounting standards

- 1.2.1 Revised IFRS 3, *Business Combinations*, and Revised IAS 27, *Consolidated and Separate Financial Statements* –

As from this years' financial statements the Group implements IFRS 3 (2008) and IAS 27 (2008). Furthermore, as from the current year financial statements the Group has early implemented the following amendments to IFRS 3 (2008), which were published in the framework of Improvements to IFRSs 2010:

The principal revisions and amendments are as follows:

- The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.
- Transactions resulting in the parent company losing control over a subsidiary are to be accounted for so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.
- In business combinations achieved in stages, the difference between the fair value at the first date of consolidation and the carrying amount of the original investment at that date, is recognized in profit or loss.
- Non-controlling interests that are instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation (for example: ordinary shares), will be measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. This accounting policy choice does not apply to other instruments that meet the definition of non-controlling interests (for example: options to ordinary shares). Such instruments will be measured at fair value or in accordance with other relevant IFRSs.
- Transactions with non-controlling interests (formerly "minority interests") while retaining control are accounted for as equity transactions, so that any difference between the consideration paid or received and the change in non-controlling interests is included in the share of the Company's owners in equity.

**Notes to the Interim Consolidated Financial Statements**

Unaudited

**Note 1 - Reporting Principles and Accounting Policy (cont'd)****1.2 Initial implementation of accounting standards (cont'd)****1.2.1 Revised IFRS 3, *Business Combinations*, and Revised IAS 27, *Consolidated and Separate Financial Statements* (cont'd) –**

- Costs associated with the acquisition that were incurred by the acquirer in respect of the business combination are accounted for as an expense in the period they are incurred and the services are received.
- Contingent consideration is measured at fair value at the date of the business combination. Subsequent to the date of acquisition, changes in the fair value of a contingent consideration classified as a financial liability are recognized in profit or loss. The cost of a business combination that occurred before January 1, 2010 is adjusted in respect of contingent consideration that has not been settled or otherwise resolved, if and when the payment of the contingent consideration is probable and the amount can be measured reliably.
- Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.
- Profit or loss and any part of other comprehensive income are allocated to the equity holders of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.
- The discounted exercise price of a put option granted by the Group to non-controlling interests is recognized as a financial liability. In subsequent periods, changes in value of the liability are recognized in profit or loss.
- On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination, even if it is not included in the financial statements of the acquiree, if there is a present obligation resulting from past events and its fair value can be reliably measured.
- The definition of non-controlling interests has been broadened and includes in it additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.
- The market-based valuation of share-based payment awards of the acquirer that are issued in a business combination in exchange for share-based payment awards of the acquiree, will be apportioned between the cost of the acquisition and post-acquisition compensation costs, whether or not the acquirer is obliged to replace the acquiree's existing share-based payment awards.

The initial implementation of the accounting standards and amendments had no effect on the company's financial statements.

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

In accordance with the Amendment, a lease of land does not have to be classified as an operating lease in every case that ownership is not expected to pass to the lessee at the end of the lease period; rather, a land lease is to be examined according to the regular criteria for classifying a lease as a finance lease or as an operating lease.

It was also provided that when a lease includes both a land component and a buildings component, the classification of each component should be based on the criteria of the standard.

The Group examined the classification of land leases on the basis of the information available on the date of the lease agreements.

The Group has capitalized land lease agreements with the Israel Lands Administration and others for a period of 49-99 years. Before adopting the Amendment the Group classified these leases as operating leases. As a result of adopting the Amendment, the Group classified the lands as being leased under a finance lease and presented them under fixed assets or investment property, according to the nature of the asset.

**Notes to the Interim Consolidated Financial Statements**

Unaudited

**Note 1 - Reporting Principles and Accounting Policy (cont'd)****1.2 Initial implementation of accounting standards (cont'd)**1.2.2 Amendment to IAS 17, *Leases*, with respect to classification of land and building leases (cont'd) –

The Amendment was adopted on a retrospective basis, and the following amounts were reclassified as a result:

	<b>June 30, 2009</b>		
	<b>(Unaudited)</b>		
	<b>NIS Millions</b>		
<b>As reported previously</b>	<b>Reclassification</b>	<b>As reported in these financial statements</b>	
Fixed assets	1,271	22	1,293
Deferred expenses	52	(23)	29
Investment property	21	1	22
Short-term loans and credit	(179)	*-	(179)
Long-term loans and credit	(20)	(1)	(21)
Deferred tax liabilities	(103)	1	(102)
Net effect on retained earnings		*-	

	<b>December 31, 2009</b>		
	<b>(Audited)</b>		
	<b>NIS Millions</b>		
<b>As reported previously</b>	<b>Reclassification</b>	<b>As reported in these financial statements</b>	
Fixed assets	1,354	27	1,381
Deferred expenses	59	(28)	31
Investment property	20	1	21
Short-term loans and credit	(167)	*-	(167)
Long-term loans and credit	(78)	(1)	(79)
Deferred tax liabilities	(138)	1	(137)
Net effect on retained earnings		*-	

\* Less than NIS 1 million.

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

1.3.1 In the framework of Improvements to IFRSs 2010, in May 2010 the IASB published and approved 11 amendments to IFRS and to one interpretation on various accounting issues. Most of the amendments shall apply to periods beginning on or after January 1, 2011 and permit early adoption, subject to the specific conditions of each amendment.

Presented hereunder are the amendments that have not been early adopted and may be relevant to the Group, and which are expected to have an effect on the financial statements:

- Amendment to IAS 34 *Interim Financial Reporting* – Significant events and transactions – The Amendment expanded the list of events and transactions that require disclosure in interim financial statements, such as the recognition of a loss from the impairment of financial assets and changes in the classification of assets as a result of changes in their purpose or use. In addition, the materiality threshold was removed from the minimum disclosure requirements included in the Standard before its amendment. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

**Notes to the Interim Consolidated Financial Statements**

Unaudited

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

## 1.3.1 (Cont'd) –

- Amendment to IAS 1 *Presentation of Financial Statements* – Presentation of statement of changes in equity – In accordance with the Amendment a reconciliation between the carrying amount at the beginning of the period and the carrying amount at its end for each component of equity is required to be presented in the statement of changes in equity, while separately disclosing changes arising from profit or loss, other comprehensive income and transactions with the owners in their capacity as owners. Such reconciliation should also be presented for each component of other comprehensive income either in the statement of changes in equity or in the notes. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- 1.3.2 For information regarding new standards and interpretations not yet adopted, see also Note 3.24 of the Annual Financial Statements.

**1.4 Reclassification**

The amount of NIS 23 millions was reclassified as at June 30, 2009 and as at December 31, 2009 following which the balance of income tax receivables and the balance of income tax payables have decreased.

The reclassification did not have an effect on equity and on profit and loss.

**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.

**Notes to the Interim Consolidated Financial Statements**

Unaudited

**Note 3 - Segments**

Details according to operating segments and reconciliation to the consolidated report –

	For the six months ended		For the three months ended		For the year ended
	June 30 2010	June 30 2009	June 30 2010	June 30 2009	December 31, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
<b>Revenues</b>					
Sales to external customers:					
Israel	1,324	1,308	627	627	2,624
Coffee	1,597	1,581	770	811	3,349
Other	355	147	183	76	400
Inter-Segment sales:					
Israel	6	3	4	1	6
Coffee	4	4	2	2	8
Other	1	-	1	-	1
Total revenues of segments	3,287	3,043	1,587	1,517	6,388
Elimination of inter-segment sales	(11)	(7)	(7)	(3)	(15)
Total consolidated revenues	3,276	3,036	1,580	1,514	6,373
<b>Profit</b>					
Israel	156	149	67	66	288
Coffee	141	123	63	73	270
Other	21	(2)	7	(4)	12
Total profit of the segments	318	270	137	135	570
Unallocated income (expenses):					
Valuation of commodities hedging transactions as at the end of the period	10	2	11	(3)	4
Other income (expenses) (1)	(27)	(27)	(20)	(22)	(35)
Share based payment and non recurring grant	(6)	(6)	(3)	(1)	(15)
Total operating profit	295	239	125	109	524
Financing income (expenses), net	(29)	(27)	(21)	(31)	(87)
Profit before taxes on income	266	212	104	78	437

- (1) In 2009 includes a loss of NIS 22 million in respect of impairment of goodwill attributed to the coffee segment. In 2010 includes expenses in the amount of NIS 17 million in respect of restructuring in the subsidiary Strauss Bulgaria EOOD (see also Note 4.7).

**Notes to the Interim Consolidated Financial Statements**

Unaudited

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

**4.1** On March 1, 2010, the company entered a cartelized leasing agreement with the Israel Land Administration to lease real state in Shoham for 49 years with the purpose of establishing a logistics center. Lease payments amounting NIS 33 million were prepaid. The lease was classified as finance lease. Additionally, the company entered an agreement with the Shoham area council on February 21, 2010 to develop the real state for the amount of NIS 31 million. The development works will take place during the course of the year 2010. Half of the agreements' amount was paid during February 2010 while the balance will be paid during the course of the years 2010 – 2011 in six installments.

**4.2** On January 19, 2010 the Company declared the distribution of a cash dividend to the shareholders of the Company on record as at February 2, 2010 in the amount of NIS 200 million, which reflects an amount of NIS 1.889 per each NIS 1 par value of shares outstanding on the date of declaring the dividend. The dividend was distributed on February 17, 2010.

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

**4.3** As at the date of the financial statements, the Group operates in Israel a shelf arrangement system in the large stores, which takes care of renewing orders and arranging the Group's products on the shelves. Towards the end of 2009 the large food chains announced their intention to gradually implement an independent shelf arrangement system and in March 2010 an agreement was signed between the Company and the Shufersal chain. As a result the Company recognized in the reporting period a provision for restructuring in the amount of NIS 2.4 million. Restructuring expenses in the total amount of NIS 3.5 million, including the aforementioned provision, were recorded in the reported period and were presented under other expenses.

**4.4** On February 4, 2010 Amendment 174 to the Income Tax Ordinance – Temporary Order for Tax Years 2007, 2008 and 2009 was published in the official gazette. In accordance with the amendment to the ordinance, Israeli Accounting Standard No. 29 regarding the adoption of International Financial Reporting Standards (IFRS) shall not apply when determining the taxable income for those years even if it was applied when preparing the financial statements.

As yet there is no legislation regarding the non-application of International Financial Reporting Standards (IFRS) with respect to the taxable income for 2010.

The amendment to the ordinance has no effect on the financial statements.

**4.5** On April 22, 2010 a subsidiary distributed to its shareholders a dividend in the amount of NIS 84.8 million. The share of the non-controlling interests in the distributed dividend is NIS 21.3 million.

**4.6** In the reporting period the Company, by means of its subsidiary Strauss Health Ltd., entered into a transaction for the sale of property it owns, which in the past served as the plant of the dairy in Nahariya and is classified as investment property. The transaction includes agreements with three different parties:

One agreement with a third party was approved and signed on May 12, 2010; the subsidiary will receive an amount of \$ 2.5 million in consideration for the sale. The agreement also includes the sale of property owned by the Company's controlling shareholder.

The other two agreements are for the sale of property rights to a third party and to the Company's controlling shareholder, and their completion is contingent upon the sale of rights to the controlling shareholders being approved as required by law. The subsidiary will receive \$ 1.7 million and \$ 0.5 million for the sale and lease, respectively.

These two agreements were approved by the Audit Committee in a meeting it held on May 23, 2010, by the Board of Directors in a meeting it held on the same date and by the general meeting of shareholders on July 4, 2010.

A capital gain in the amount of NIS 0.7 million was recognized as a result in the reporting period.

**Notes to the Interim Consolidated Financial Statements**

Unaudited

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

- 4.7 As the result of the subsidiary Strauss Coffee adopting a strategy to focus on large markets, the subsidiary decided to discontinue the operations of the subsidiary Strauss Bulgaria EOOD. As a result of this decision, the subsidiary recognized restructuring expenses in the amount of NIS 17 million in the reporting period.

**Note 5 – Share-based payment**

- 5.1 Further to that mentioned in Note 25.1 to the Annual Financial Statements, in April 2010 an amendment was approved to the compensation plan for senior employees from May 2003. In accordance with the amendment, the exercise period of the options will be extended by one additional year, so that the options will be exercisable over a period of 4 years from the vesting date.

The amendment will apply to new awards. The effect of the amendment on the financial statements of the Group, with respect to future awards, is not expected to be material.

- 5.2 On March 7, 2010, the Company's Board of Directors approved the granting of 110,000 options to a Group's senior officer pursuant to the options' plan for senior employees in the Group, described in Note 25.1 to the Annual Financial Statements.

The entitlement of senior officers to exercise the options will vest in three equal portions, on March 7 of each of the years 2012–2014. The fair value of the benefit included in this grant, calculated to March 7 is about NIS 1.9 million. The main assumptions used in determination of the fair value are as follows: price per share – NIS 58; annual standard deviation – 28.22%–28.61%; risk-free interest rate – 1.05%–1.71%; exercise price – NIS 54.07; and life of the options – 3.2–5.9 years. The benefit deriving from this grant will be recorded as an expense in the financial statements for periods beginning on January 1, 2010 and ending on March 31, 2014.

- 5.3 On June 14, 2010, the Company's Remuneration and Human Resources Committee of the Board of Directors approved the granting of 22,000 options to a Group's senior officer pursuant to the options' plan for senior employees in the Group, described in Note 25.1 of the Annual Financial Statements.

The entitlement of senior officers to exercise the options will vest in three equal portions, on June 14 of each of the years 2012–2014. The fair value of the benefit included in this grant, calculated to June 14 is about NIS 0.3 million. The main assumptions used in determination of the fair value are as follows: price per share – NIS 54.52; annual standard deviation – 27.9%–28.11%; risk-free interest rate – 0.78%–1.43%; exercise price – NIS 54.52; and life of the options – 3.2–5.9 years. The benefit deriving from this grant will be recorded as an expense in the financial statements for periods beginning on April 1, 2010 and ending on June 30, 2014.

- 5.4 During the reported period, 1,372,116 share options that were granted to employees were exercised into 242,709 shares in consideration for their par value.

**Note 6 – Contingent liabilities**

- 6.1 See Note 26.1 of the Annual Financial 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 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 26.1.1.2 of the Annual Financial Statements. See Note 6.9 regarding settlement agreement filed to the court subsequent to the statement of financial positions date.

**Notes to the Interim Consolidated Financial Statements**

Unaudited

**Note 6 – Contingent liabilities (cont'd)**

- 6.2** On January 31, 2010, Carmit Candy Industries Ltd. filed a claim with the District Court in the Central Region against the Company and three of its managers in the amount of NIS 22 million. The plaintiff alleges that in the early 2000's, it was appointed as an exclusive representative-distributor of Cadbury, an international candy company, and the company, allegedly, prevented the entry of competitive products to the Israeli market, as a result, the penetration of Cadbury products failed and in 2005, Cadbury discontinued its contacts with the plaintiff. Based upon the opinion of its legal counsel, the company believes the chances of the claim to prevail are low.
- 6.3** Further to that mentioned in Note 26.1.1.13 to the Annual Financial Statements, on April 23, 2010 the District Court of Central Region decided to deny the personal claims and approve the request of the plaintiffs, with the agreement of the defendants, to strike out the request to certify a class action with respect to advertisements relating to the "Gamadim" product.
- 6.4** Further to that mentioned in Note 26.1.1.11 to the Annual Financial Statements, on April 26, 2010 the District Court of Central Region decided to deny the personal claims and approve the request of the plaintiffs, with the agreement of the defendants, to strike out the request to certify a class action with respect to the labeling of a coffee product as being decaffeinated
- 6.5** On May 23, 2010 a monetary claim and a request to certify the claim as a class action were filed against the Company with respect to the package marking of the "Mimrahit" product manufactured by it. The personal claim and class action amount to NIS 178.4 million. The Company denies the allegations included in the claim and will act towards its dismissal.
- Management of the Company evaluates at this stage, on the basis of the opinion of its legal counsel, that it is not likely that the claim will be certified as a class action.
- 6.6** Further to that mentioned in Note 26.1.1.16 to the Annual Financial Statements, on June 24, 2010 the Haifa District Court decided to approve the withdrawal notice of the plaintiff in the class action relating to an error in the translation of the package marking of the "Actimel" product. The plaintiff and his representative will be paid an amount of NIS 88 thousand plus VAT.
- 6.7** On July 13, 2010 a monetary claim and a request to certify the claim as a class action were filed against the Company with respect to the package marking of the "Danone Pecan Bar" product manufactured by it. The personal claim and class action amount to NIS 22.4 million. The Company denies the allegations included in the claim and will act towards its dismissal.
- Since the claim has been filed only recently, the Company is unable at this early state to assess the chances of the claim being accepted and the effect of the claim, should it be accepted, on the financial statements of the Company.
- 6.8** On July 29, 2010 a monetary claim and a request to certify the claim as a class action were filed against the Company with the District Court of Central Region regarding the package marking of no added sugar chocolate products that are manufactured by it. The personal claim and class action amount to NIS 621 million. The Company denies the allegations included in the claim and will act towards its dismissal.
- Since the claim has been filed only recently, the Company is unable at this early state to assess the chances of the claim being accepted and the effect of the claim, should it be accepted, on the financial statements of the Company.
- 6.9** Further to that mentioned in Note 26.1.1.2 16 to the Annual Financial Statements, regarding a claim and the request that it be approved as a class action suit for the amount of NIS 12.3 billion (Gelatin); on July 11, 2010 a request for approval of a compromise arrangement was made to the District Court. The principles of the request are donations of goods, discounts and financial discounts equaling a comprehensive value to the consumer of NIS 8.5 million. A person who is a member of the plaintiff's group, a public authority or an organization functioning to advance public goals relating to the claim's subject, and the Attorney General, are allowed to submit objection to the compromise arrangement.

**Notes to the Interim Consolidated Financial Statements**

Unaudited

**Note 6 – Contingent liabilities (cont'd)**

- 6.10** Further to that mentioned in Note 26.1.1.9 to the Annual Financial Statements, on July 29, 2010 the District Court of Central Region decided to deny the request to certify as a class action a claim that had been filed against the subsidiary (50%) Uri Horazo Yotvata Dairies Ltd., with respect to the packaging of the product "Yotvata Chocolate Milkshake". The plaintiff will be required to reimburse expenses in the amount of NIS 35 thousand plus VAT.
- 6.11** Further to that mentioned in Note 26.1.1.9 to the Annual Financial Statements, based upon the plaintiff's assessment, the company's proportional share is NIS 747 million.

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

The Company did not engage in any material non-cash investing and financing activities in the six and three month periods ended June 30, 2010 and in the corresponding periods of prior year, other than purchasing fixed assets on credit in the amount of NIS 40 millions and NIS 19 millions, respectively.

In the year ended December 31, 2009, the Company purchased fixed assets on credit in the amount of NIS 39 millions.

**Note 8 - Subsequent Events**

- 8.1** On July 19, 2010, following the approval of the Company's Board of Directors from June, 14 2010, the Company granted 110,000 options to a Group's senior officer pursuant to the options' plan for senior employees in the Group, described in Note 25.1 to the Annual Financial Statements.
- The entitlement of senior officers to exercise the options will vest in three equal portions, on June 14 of each of the years 2012–2014. The fair value of the benefit included in this grant, calculated to July 19 is about NIS 1.7 million. The main assumptions used in determination of the fair value are as follows: price per share – NIS 54.73; annual standard deviation – 27.92%–28.09%; risk-free interest rate – 0.62%–1.32%; exercise price – NIS 53.55; and life of the options – 3.2–5.9 years. The benefit deriving from this grant will be recorded as an expense in the financial statements for periods beginning on July 1, 2010 and ending on June 30, 2014.
- 8.2** See Notes 6.7 and 6.8 details regarding claims that were filed against the Company. See Note 6.10 for details regarding a claim that was removed.
- 8.3** Subsequent to statement of financial positions' date, 114,734 share options that were granted to employees were exercised into 57,846 shares in consideration for their par value.