

STRAUSS-GROUP LTD.

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TO THE SHAREHOLDERS
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STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED JUNE 30, 2011

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

PRINCIPAL INFORMATION FROM THE DESCRIPTION OF THE COMPANY'S BUSINESS

Strauss Group Ltd. and the companies it controls (hereinafter: the "**Company**" or the "**Group**") are a group of industrial and commercial companies that operate in Israel and abroad, in Central and Eastern Europe, Brazil and the United States of America, and engage in the manufacture, sale and marketing of a variety of branded food and beverage products. The controlling shareholders of the Company are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter: the "**Parent Company**" or "**Strauss Holdings**") and Ms. Ofra Strauss, who is deemed to hold the shares of the Company together with him.

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 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 2011 held an 11.4% share of the domestic food and beverage market (on a six-month average, in financial terms¹). The Group is also active in some six 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), in the USA, and in England and China, where the Company is active in the water industry.

The Group has five areas of activity that are reported separately as business sectors. See Note 29 to the Annual Consolidated Financial Statements of the Company (hereinafter: the "**Annual Financial Statements**"):

The Business in Israel – Strauss Israel, which includes a major part of the Group's activities in Israel and comprises two sectors of activity:

Health & Wellness – these 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.

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

¹ 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 in two main business sectors 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 developing leading products and solutions that provide a suitable response to the emerging consumer trends.

The Coffee Business – Strauss Coffee: In this sphere the Group develops, manufactures, sells, markets and distributes a variety of branded coffee products in Israel, in Eastern and Central European countries and in Brazil; chocolate and other drink powders; in the framework of its activity 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 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.). This business area comprises two sectors of activity: Israel Coffee (which includes the Coffee Company's corporate center), and the international coffee business.

The International Dips and Spreads Activity: The Group develops, manufactures, sells, markets and distributes dips and spreads throughout North America, presently through the Sabra Dipping Company. Sabra is jointly controlled by the Group and PepsiCo (each party holds 50%).

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

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

Strauss Water: In 2007 the Company entered a partnership in a new venture in the water business (**H2Q**), and on October 1, 2009 H2Q acquired 100% of the shares of Tana Industries (Tami4). Today, the entire operation is merged under the Strauss Water area of activity.

The Company has some 14,000 employees, about one-half of them in Israel.

The Group's business is conducted in four major geographical regions: **Israel**, where activity includes the activity of Strauss Israel (the sale of a broad variety of fresh and dry food products, including coffee), the Max Brenner operation in Israel and Strauss Water in Israel; **Europe**, where activity includes the coffee business in Central and Eastern Europe; **Brazil**, where the activity is managed through a 50% proportionately consolidated company (a joint venture), which is active primarily in roasted and ground coffee in the domestic market, the manufacture of corn products and the export of green coffee (the activity in Europe, the coffee business in Israel and the activity in Brazil are managed by Strauss Coffee B.V.); and the **USA**, where activity includes Sabra (a 50% proportionately consolidated joint venture since the second quarter of 2008) and the Max Brenner activity (excluding Max Brenner in Israel). The various activities are run by their own separate managements, while the Group Corporate Center in Israel is responsible for exploiting synergies between them.

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

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

Sales for the Fun & Indulgence and Israel Coffee activities are characterized by seasonality, and are usually higher in the first quarter of the year. This seasonality is seen mainly as increased consumption of chocolates and hot drinks during the winter months, and of fun and indulgence products for Passover. The Health & Wellness sales activity does not have a clear seasonality trend, however, in the the third quarter, during the hot summer months, income revenues are usually higher and see increased consumption of dairy products.

Internation Coffee sales are typically higher in the fourth quarter. This is mainly affected by the Christmas holidays and the end of the (Gregorian) year, a period that is characterized by increased purchases of coffee products.

Revenues for the Water sector are also affected by seasonality, with increased demand for cold-water solutions during the summer. As a result, the third quarter each year is characterized by a greater activity cycle compared to other quarters.

CHANGES IN THE ECONOMIC ENVIRONMENT

Several factors in the Group's macroeconomic environment, including currency exchange rates, raw material prices and emerging inflation, simultaneous with the recession in the USA and in Europe in the wake of the financial crisis, influenced the Group's business operations. In the first half of 2011, the weakness in some of the global markets in which the Company is active continued, coupled with a rise in raw material prices.

As at the date this report was prepared, and in continuation of the trend that began in the second half of 2010, we have witnessed a trend of sharp increase in the prices of some raw materials (notably coffee, unprocessed milk, sugar, cocoa, oil and hummus) and in energy prices. The increase in coffee prices had a material impact on the Company's business results. This rising trend is liable to continue to influence the Company's results as the year progresses. The Company is taking different steps to contend with these increases, and estimates that in the second half of the year we will witness a moderation of this impact on the Group's financial results. Additionally, exchange rates between the Shekel and the currencies in the different countries where the Group operates have been volatile (mainly the strengthening of many currencies in relation to the Shekel). The increase in the prices of raw materials and energy has led to an increase in the costs of manufacturing the products, while the changes in the exchange rates of the various currencies has led 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.

In June, a public protest began in Israel, calling on consumers to boycott cottage cheese. This boycott led to a protest focusing now on the ongoing food prices, housing, and the general rise in costs of living in Israel. As at the date of this report the impact on the Group has not been material.

Following the public protest, Israeli government decided to establish several committees to examine the regulatory concentration and competitiveness in the food market in general, and in the dairy industry in particular. At this point, it is impossible to evaluate what will be the changes that followed these regulatory provisions and their impact on our results.

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

Other than as described below, as at the end of the second quarter and compared to the end of 2010 there has been no material change in the market risk factors 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 supervising and realizing the policy, as described in the Board of Directors' Report as at December 31, 2010.

ANALYSIS OF FINANCIAL RESULTS *

Following are the condensed financial accounting statements of income for the quarter and half ended June 30, 2011 and 2010 (in NIS millions):

	For the First Half			Second Quarter		
	2011	2010	% Chg	2011	2010	% Chg
Sales	3,614	3,276	10.3	1,841	1,580	16.6
Cost of sales not including impact of hedging transactions	2,285	1,977	15.6	1,192	965	23.7
Revaluation of the balance of hedging transactions on commodities as at end of period	14	(10)		(2)	(11)	
Cost of sales	2,299	1,967	16.9	1,190	954	24.8
Gross Income	1,315	1,309	0.5	651	626	4.0
Selling and marketing expenses	846	786	7.5	421	385	9.1
General and administrative expenses	221	201	10.0	115	96	20.1
Operating income before other expenses	248	322	(22.8)	115	145	(20.2)
Other expenses, net	(6)	(27)	(75.9)	(4)	(20)	(74.8)
Operating Income	242	295	(18.0)	111	125	(11.8)
Financing expenses, net	(68)	(29)	135.1	(42)	(21)	100.2
Income before taxes on income	174	266	(34.6)	69	104	(33.6)
Taxes on income	(57)	(82)	(30.2)	(26)	(29)	(11.1)
Effective tax rate	32.9%	30.8%		37.5%	28.0%	
Income for the period	117	184	(36.5)	43	75	(42.4)
Income attributed to the shareholders of the Company	81	136	(40.6)	26	52	(50.4)
Income attributed to the holders of rights that do not confer control	36	48	(25.2)	17	23	(24.4)

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

Convenience Translation from Hebrew

Following are the adjustments to the Company's pro-forma statements for the quarter and half ended June 30, 2011 and 2010 (in NIS millions):

	For the First Half			Second Quarter		
	2011	2010	% Chg	2011	2010	% Chg
Operating income – financial accounting – after other income (expenses)	242	295	(18.0)	111	125	(11.8)
Share-based payment and one-time bonus	17	6		12	3	
Revaluation of the balance of hedging transactions on commodities as at end of period	14	(10)		(2)	(11)	
Other expenses	6	27		4	20	
Operating income – pro-forma	279	318	(12.3)	125	137	(8.8)
Financing expenses, net	(68)	(29)		(42)	(21)	
Taxes on income	(57)	(82)		(26)	(29)	
Taxes in respect of adjustments to the above management operating income	(3)	(2)		1	1	
Income for the period – management accounting	151	205	(27.6)	58	88	(34.7)

Following are the condensed results of business operations (based on the Company's pro-forma statements) for the quarter and half ended June 30, 2011 and 2010 (in NIS millions):

	For the First Half			Second Quarter		
	2011	2010	% Chg	2011	2010	% Chg
Sales	3,614	3,276	10.3	1,841	1,580	16.6
Cost of sales	2,285	1,977	15.6	1,192	965	23.7
Gross Income	1,329	1,299	2.3	649	615	5.4
Selling and marketing expenses	846	786	7.5	421	385	9.1
General and administrative expenses	204	195	4.8	103	93	11.0
Operating income – pro-forma	279	318	(12.3)	125	137	(8.8)
Financing expenses, net	(68)	(29)	135.1	(42)	(21)	100.2
Income before taxes on income	211	289	(26.9)	83	116	(28.0)
Taxes on income	(60)	(84)	(27.5)	(25)	(28)	(6.0)
Income for the period – management accounting	151	205	(26.7)	58	88	(34.7)
Income attributed to the shareholders of the Company	109	155	(29.8)	39	63	(36.4)
Income attributed to the holders of rights that do not confer control	42	50	(17.1)	19	25	(28.4)

Convenience Translation from Hebrew

Following are the condensed results of business operations (based on the Company's pro-forma statements) of the major business sectors for the quarter and half ended June 30, 2011 and 2010 (in NIS millions):

	For the First Half			Second Quarter		
	2011	2010	% Chg	2011	2010	% Chg
Israel						
Net sales	1,411	1,324	6.5	683	627	8.9
Operating income	158	156	1.4	68	67	1.7
Coffee						
Net sales	1,755	1,597	9.9	924	770	20.1
Operating income	119	141	(15.5)	52	63	(17.3)
International Dips and Spreads						
Net sales	186	135	38.4	100	72	40.8
Operating income	13	12	0.8	11	4	114.9
Other						
Net sales	262	220	19.1	134	111	19.6
Operating income (loss)	(11)	9	(221.6)	(6)	3	365.0
Total						
Net sales	3,614	3,276	10.3	1,841	1,580	16.5
Operating income	279	318	(12.3)	125	137	(9.6)

For information on the adjustments to the Company's pro-forma statements see Note 3 to the Consolidated Interim Financial Statements as at June 30, 2011.

ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP

General

In the first half of 2011 the Company posted 10.3% growth in sales with a decrease in gross profit and profitability and a decrease in operating and net profitability. Several factors in the Group's macroeconomic environment, including the sharp rise in raw material prices, currency exchange rates and inflation, simultaneously with the slow recovery from the financial crisis in some of the markets where the Group is active, influenced the Group's business operations in the first half.

The sharp increase in green coffee prices and the volatile exchange rates in the countries where Strauss Coffee is active, coupled with the difficulty in raising prices in the prevailing macroeconomic conditions, impacted the growth and profit of the Group's coffee business as well as the activity of the Group as a whole.

Strauss Group has maintained its focus on strengthening its foundations for future growth, long-term investments and building infrastructure for a global company. In the second quarter, further to the signing of the partnership agreement between Strauss Water and the Chinese home electronic appliances giant, Haier Group, in October 2010, the Company launched sales of Strauss Water's products in China. The products are marketed through the partnership Haier–Strauss Water, established in China. In the first stage the products were launched in three cities – Beijing, Shanghai and Qingdao. In the second stage, the products will also be marketed in Shenzhen and Guangzhou.

In the first quarter the Company reported that Strauss Group and PepsiCo had announced the conclusion of principles for the establishment of a jointly-held global company which will manufacture and market fresh salads, dips and spreads in major international markets. Each side will hold 50% of the new company (the

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final paper has not yet been signed). In the framework of this joint venture over the next few years the companies will invest in the development of new categories, advanced technologies, the establishment of new production sites, various acquisitions and entry into new countries and continents additional to those where Strauss is presently active. The global company will be based on the successful model of the dips and spreads company, Sabra, in which, since 2008, Strauss and PepsiCo have been partners.

During the reported period, the Company announced that Strauss Coffee was to acquire, through Tres Coracões, the Brazilian coffee company, Café Fino Grão. The acquisition will enable the Coffee Company to expand and strengthen its position in Brazil. The Company also announced the continued expansion of the Coffee Company in Russia through the acquisition of the Ambassador brand of roasted and freeze-dried instant coffees, sold in Russia, the Ukraine and Moldavia.

Sales

The Group's sales in the first half of 2011 amounted to NIS 3,614 million compared to NIS 3,276 million in the corresponding period last year, an increase of 10.3%. After neutralizing the currency impact, growth amounted to 10.5%. Organic growth after neutralizing the impact of changes in exchange rates in the half amounted to 9.0%. Growth was evident in all activities of the Company, mainly in the Israel sector, which grew by some 6.5% in the half; in the coffee business, which grew by some 9.9%; in Sabra's activity in North America, where growth amounted to 38.4%; and in the water business, which grew by 16.2% in the half.

The Group's sales in the second quarter amounted to NIS 1,841 million compared to NIS 1,580 million in the corresponding period last year, an increase of 16.6%. After neutralizing the currency impact, growth amounted to 16.4%. Organic growth after neutralizing the impact of changes in exchange rates in the second quarter amounted to 14.8%. Growth in the quarter was evident in all activities – the global coffee business, which grew by some 9.5%; the Israel sector, which grew by 8.9%; in Sabra's activity in North America, where growth amounted to 40.8%; and in the Water business, which grew by 13.2% in the second quarter.

Gross Profit

The financial accounting gross profit in the first half amounted to NIS 1,315 million compared to NIS 1,309 million in the corresponding period last year; the gross profit rate dropped from 39.9% last year to 36.4% this year. The pro-forma gross profit increased in the half by 2.3% and amounted to NIS 1,329 million compared to NIS 1,299 million last year; its percentage dropped from 39.6% to 36.8%.

In the second quarter the financial accounting gross profit increased by 4.0% and amounted to NIS 651 million compared to NIS 626 million in the corresponding period last year; the gross profit rate dropped from 39.6% last year to 35.3% this year. The pro-forma gross profit amounted to NIS 649 million in the quarter compared to NIS 615 million last year, an increase of 5.4%; the gross profit rate dropped from 38.9% to 35.2%.

The gross profit in the half and in the quarter was positively influenced by the growth in sales across all activities of the Company, and by contrast was negatively influenced by the decrease in gross profit in the coffee business due to the continuing sharp rise in raw material prices and the impact of currency exchange rates.

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Operating Profit before Other Income (Expenses)

In the first half of 2011 the financial accounting operating profit (before other income and expenses) totaled NIS 248 million (6.9% of sales) compared to NIS 322 million (9.8%) last year, a decrease of 22.8%.

The pro-forma operating profit totaled NIS 279 million (7.7% of sales) in the first half compared to NIS 318 million (9.7%) last year, a decrease of 12.3%.

The operating profit in the half was negatively influenced by the growth in expenses relating to building Strauss Water's activity in China and in England, by the simultaneous operation of two production sites in the USA, and by the decrease in profit in the coffee business, further to the decrease in gross profit in this activity as a result of the increase in raw material prices.

In the second quarter the financial accounting operating profit (before other income and expenses) totaled NIS 115 million (6.3% of sales) compared to NIS 145 million (9.2%) last year, a decrease of 20.2%.

The pro-forma operating profit totaled NIS 125 million (6.8% of sales) in the second quarter compared to NIS 137 million (8.7%) last year, a decrease of 8.8%.

The quarterly operating profit in the half was negatively influenced by the growth in expenses relating to building Strauss Water's activity in China and in England, and by the decrease in profit in the coffee business, further to the decrease in gross profit in this activity.

Other Expenses, Net

In the first half other expenses, net totaled NIS 6 million compared to other expenses, net amounting to NIS 27 million in the corresponding period last year. Most of the expenses last year are attributed to the discontinuation of the activity of the subsidiary in Bulgaria further to the decision by Strauss Coffee to exit this market. Following this decision, the subsidiary recognized some NIS 17 million in expenses in the corresponding period last year.

In the second quarter other expenses, net totaled NIS 4 million compared to other expenses, net amounting to NIS 20 million in the corresponding quarter last year. Most of these expenses are attributed to the discontinuation of the activity of the subsidiary in Bulgaria as noted above. The subsidiary recognized some NIS 17 million in expenses in the corresponding period last year.

Operating Profit after Other Expenses

The Company's consolidated operating profit in the first half totaled NIS 242 million compared to NIS 295 million in the corresponding period last year, a decrease of 18.0%.

In the second quarter the Company's consolidated operating profit amounted to NIS 111 million compared to NIS 125 million in the corresponding quarter last year, a decrease of 11.8%.

Financing Expenses, Net

Net financing expenses in the first half of 2011 totaled NIS 68 million compared to expenses of NIS 29 million in the corresponding period last year.

The factors that contributed to the increase in financing expenses compared to last year were the revaluation of Index-linked liabilities in respect of Debentures Series A and B on the basis of the known Index (an increase of 2.2% versus 0.4% last year); expenses in respect of the revaluation of foreign currency positions due to the strengthening of the Group's operating currencies in relation to the US Dollar, versus income from

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the revaluation of foreign currency balances and positions as a result of the weakening of these currencies in relation to the Dollar last year; and a material increase in net credit volumes compared to the corresponding period last year.

In the second quarter financing expenses amounted to NIS 42 million compared to NIS 21 million in the corresponding quarter last year.

The factors that contributed to the increase in financing expenses compared to last year were; expenses in respect of the revaluation of foreign currency positions due to the strengthening of the Group's operating currencies in relation to the US Dollar, expenses in respect of interest transactions during the quarter, as opposed to income from the revaluation of foreign currency positions in the corresponding quarter last year, and a material increase in net credit volumes compared to the corresponding period last year.

The net credit volume as at June 30, 2011 totaled NIS 1,654 million compared to NIS 996 million on June 30, 2010 and NIS 1,156 million on December 31, 2010.

Income before Taxes on Income

In the first half the Group's consolidated income before taxes on income amounted to NIS 174 million (4.8% of sales) compared to income of NIS 266 million (8.1% of sales) in the corresponding period last year, a decrease of 34.6%.

In the second quarter the Group's consolidated income before taxes on income amounted to NIS 69 million (3.8% of sales) compared to income of NIS 104 million (6.6% of sales) in the corresponding quarter in 2010, a decrease of 33.6%.

Taxes on Income

In the first half taxes on income amounted to NIS 57 million, reflecting an effective tax rate of 32.9%, compared to NIS 82 million and an effective tax rate of 30.8% last year. The increase in the effective tax rate is mainly due to the increase in losses in which respect there are no deferred taxes, and to a difference mix in the pre-tax profit between the different countries, which is taxed at different rates and impacts the weighted tax expense.

In the second quarter taxes on income amounted to NIS 26 million, reflecting an effective tax rate of 37.5%, compared to NIS 29 million and an effective tax rate of 28.0% last year. The increase in the effective tax rate is mainly due to the increase in losses in which respect there are no deferred taxes, and to a difference mix in the pre-tax profit between the different countries, which is taxed at different rates and impacts the weighted tax expense.

Income for the Period

Income for the period in the first half totaled NIS 117 million compared to NIS 184 million last year. The pro-forma income for the period in the half amounted to NIS 151 million compared to NIS 205 million last year, a decrease of 26.7%.

Income for the period in the second quarter totaled NIS 43 million compared to NIS 75 million last year. The pro-forma income for the period in the second quarter amounted to NIS 58 million compared to NIS 88 million last year, a decrease of 34.7%.

Income for the Period for Shareholders of the Company

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The financial accounting income for the period for the shareholders of the Company in the first half totaled NIS 81 million compared to NIS 136 million last year, a decrease of 40.6%. The decrease is mainly the result of the decrease in the operating profit and of the increase in financing expenses compared to last year.

The pro-forma income for the shareholders of the Company in the first half amounted to NIS 109 million (3.0% of sales) compared to NIS 155 million last year (4.7%), a decrease of 29.8%. The decrease in income is mainly the result of the decrease in the operating profit and the increase in financing expenses compared to last year.

In the second quarter the financial accounting income for the shareholders of the Company amounted to NIS 26 million compared to NIS 52 million last year, a decrease of 50.4%. The decrease in income in the quarter is mainly the result of the decrease in the operating profit and of the increase in financing expenses compared to last year.

The pro-forma income for the shareholders of the Company in the second quarter amounted to NIS 39 million (2.1% of sales) compared to NIS 63 million last year (4.0%), a decrease of 36.4%. The decrease in the second quarter is mainly the result of the decrease in the operating profit and the increase in financing expenses compared to last year.

Financial Accounting Income for Minority Shareholders

In the first half the share for minority shareholders in the income of subsidiaries totaled NIS 36 million compared to NIS 48 million in the corresponding period last year, a decrease of 25.2%.

In the second quarter the share for minority shareholders in the income of subsidiaries totaled NIS 17 million compared to NIS 23 million in the corresponding period last year, a decrease of 24.4%.

Other Comprehensive Income for the Period

In the first half of the year other comprehensive income includes profit or loss items credited directly to equity, and which mainly includes differentials arising from the translation of foreign currency in respect of investment in overseas subsidiaries. The other comprehensive income for the period amounted to NIS 186 million compared to NIS 7 million last year.

In the reported period profits in respect of translation differentials, which are the main component of the other comprehensive income, amounted to NIS 72 million compared to losses of NIS 177 million in respect of translation differentials in the corresponding period last year. These translation differentials are the result of a material strengthening of the local currencies abroad in relation to the Shekel, which was expressed in the movement in the foreign currency translation reserve in the first half of the year.

In the second quarter 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 investment in overseas subsidiaries. The other comprehensive income for the period amounted to NIS 40 million compared to other comprehensive income of NIS 15 million in the corresponding quarter last year.

In the reported period losses in respect of translation differentials, which are the main component of the other comprehensive income, amounted to NIS 1 million compared to losses of NIS 55 million in respect of translation differentials in the corresponding quarter last year.

LIQUIDITY, SOURCES OF FINANCING AND FINANCIAL CONDITION

In the first half of the year

Cash flows used in ordinary operations amounted to a negative cash flow of NIS 88 million, compared to a positive cash flow provided by ordinary operations totaling NIS 186 million last year. The decrease in cash flows provided by ordinary operations is due mainly to a significant increase in inventory balances, mainly due to the increase in raw material prices, to a decrease in the balance of accounts payable, and to the decrease in the income for the period compared to the corresponding period last year.

Cash flows used in investment activity totaled NIS 312 million compared to NIS 217 million in the corresponding period last year. Most of the increase is the result of the acquisition of marketable securities and deposits, net.

Cash flows provided by financing activity totaled NIS 63 million compared to cash flow used by financing activity totaling NIS 126 million in the corresponding period last year. The increase in cash flows provided by financing activities is mainly the result of the receipt of loans, particularly a loan of NIS 300 million from Harel Insurance Company and the offsetting impact of the redemption of debentures during the period.

In the second quarter

Cash flows used in ordinary operations amounted to a negative cash flow of NIS 29 million, compared to a positive cash flow provided by ordinary operations totaling NIS 113 million in the corresponding quarter last year. The decrease in cash flows provided by ordinary operations is due mainly to a decrease in the balance of accounts payable, and to the decrease in the income for the period compared to the corresponding period last year.

Cash flows used in investment activity totaled NIS 118 million compared to NIS 121 million in the corresponding period last year.

Cash flows used in financing activity totaled NIS 94 million compared to NIS 23 million in the corresponding quarter last year. The decrease in cash flows used in financing activities is mainly the result of the redemption of debentures during the quarter.

The Company's cash and cash equivalents as at June 30, 2011 totaled NIS 399 million, compared to NIS 729 million on December 31, 2010. In accordance with Company policy, these assets are held mainly in deposits (most of them in Euros, Shekels and Dollars). Additionally, the Company has short-term investments in securities (mainly debentures linked to the Consumer Price Index in Israel).

The Company's liquidity ratio as at June 30, 2011 is 1.50 compared to 1.47 on December 31, 2010. As at June 30, 2011 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 1,977 million compared to NIS 1,780 million on December 31, 2010. As at June 30, 2011 short-term credit (excluding current maturities) amounted to NIS 293 million compared to NIS 170 million on December 31, 2010. As at June 30, 2011 supplier credit totaled NIS 689 million compared to NIS 793 million on December 31, 2010.

As at June 30, 2011 total assets in the Company's Consolidated Statement of Financial Condition amounted to NIS 6,377 million, compared to NIS 6,257 million on December 31, 2010.

As at June 30, 2011 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 27.8%, compared to 29.4% on December 31, 2010.

Convenience Translation from Hebrew

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

ANALYSIS OF THE BUSINESS RESULTS OF THE GROUP'S MAJOR BUSINESS SECTORS

The Group's Activity in Israel

Strauss Group is the second-largest company in the Israeli food industry and in the first half of 2011, according to StoreNext, held 11.4% of the domestic retail food and beverage market (on a six-monthly average, in financial terms). The Israeli market is the Group's home market, in which it is active in various categories. 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 Strauss Water Israel (Tami4).

In the first half, Israel sales totaled NIS 1,963 million compared to NIS 1,817 million in the corresponding period last year, an increase of 8.0%. In the second quarter the Group's total sales in Israel amounted to NIS 947 million compared to NIS 848 million last year, an increase of 11.7%.

Growth in the first half and in the second quarter was evident in all business divisions, Health & Wellness, Fun & Indulgence, Strauss Water Israel and Israel Coffee.

The Coffee Sector

In the global coffee business the Group develops, manufactures, markets and sells branded coffee products in Israel and in various emerging markets – Central and Eastern Europe and Brazil. This business area comprises two segments of activity – Israel Coffee and International Coffee.

In 2010, Strauss Group was the sixth-largest company in the world retail coffee market, with a market share of 2.1% in value terms (according to the market research firm, Euromonitor).

Convenience Translation from Hebrew

Following is the scope of sales of the coffee business in the major geographical regions, and growth rates for the quarter and half ended June 30, 2011 and 2010 (in NIS millions):

	First Half				Second Quarter			
	2011	2010	% chg	% change in local currency*	2011	2010	% chg	% change in local currency*
Geographical region								
Israel Coffee	334	299	11.8	11.8	154	123	26.3	26.3
International Coffee								
Brazil (1) (2)	698	609	14.6	11.3	389	308	26.1	23.8
Former Yugoslavia countries	116	108	7.6	9.9	63	56	14.3	10.3
Former USSR countries	307	250	22.5	26.5	158	123	28.9	34.6
Balkan states	117	133	(12.3)	(11.2)	67	65	3.2	(0.5)
Poland	183	198	(7.4)	(7.3)	92	95	(3.8)	(7.7)
Total International Coffee	1,421	1,298	9.4	8.9	770	647	18.9	17.3
Total Coffee	1,755	1,597	9.9	9.5	924	770	20.1	18.7

* 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 2011 include sales amounting to NIS 127 million of green coffee and NIS 35 million of corn. In the first half of 2010 sales of green coffee amounting to NIS 114 million and corn amounting to NIS 33 million were included.

(2) Brazil sales in Q2 2011 include sales amounting to NIS 64 million of green coffee and NIS 18 million of corn. In Q2 2010 sales of green coffee amounting to NIS 53 million and corn amounting to NIS 17 million were included.

Following are the condensed results of business operations (based on the pro-forma statements) of the Coffee Company by reported sectors for the quarter and half ended June 30, 2011 and 2010 (in NIS millions):

	First Half			Second Quarter		
	2011	2010	% Chg	2011	2010	% Chg
Israel Coffee segment						
Net sales	334	299	11.7	154	123	25.6
Operating income	41	47	(13.5)	17	9	91.7
% profit	12.2%	15.8%		11.1%	7.2%	
International Coffee segment						
Net sales	1,421	1,298	9.5	770	647	19.0
Operating income	78	94	(16.6)	35	54	(35.3)
% profit	5.5%	7.2%		4.5%	8.4%	
Total Coffee						
Net sales	1,755	1,597	9.9	924	770	20.1
Operating income	119	141	(15.5)	52	63	(17.3)
% profit	6.8%	8.8%		5.6%	8.2%	

Convenience Translation from Hebrew

Sales

Sales by Strauss's coffee business in the first half of 2011 totaled NIS 1,755 million compared to NIS 1,597 million in the corresponding period last year, an increase of 9.9%. After neutralizing the impact of currency exchange rates, growth amounted to 9.4%. Organic growth (after neutralizing the acquisition of businesses and the impact of exchange rate differentials) in the first half of 2011 amounted to 8.2%.

Coffee sales were positively influenced by the strong growth in activity in Russia, Brazil and Israel, but were negatively influenced by the weakness in some of the markets in Eastern Europe, by changes in the exchange rates of the various operating currencies, by the sharp rise in raw material prices coupled with the difficulty in raising prices in the prevailing macroeconomic conditions in some of the countries, and by the growing competition.

Sales by Strauss's coffee business in the second quarter of 2011 totaled NIS 924 million compared to NIS 770 million in the corresponding period last year, a strong growth of 20.1%. After neutralizing the impact of currency exchange rates, growth amounted to 18.7%. Organic growth (after neutralizing the acquisition of businesses and the impact of exchange rate differentials) amounted to 17.0%. In the second quarter growth in most of the regions was strong, especially in Russia, Brazil and Israel. The Coffee Company continues to invest in expansion, and after the reported period announced acquisitions in Brazil and in Russia .

Gross Profit

In the first half, the gross profit totaled NIS 547 million (31.2% of sales) compared to NIS 553 million (34.6%) last year, a decrease of 0.9%. The gross profit in the second quarter amounted to NIS 269 million (29.1% of sales) compared to NIS 255 million (33.1%) last year, an increase of 5.8%.

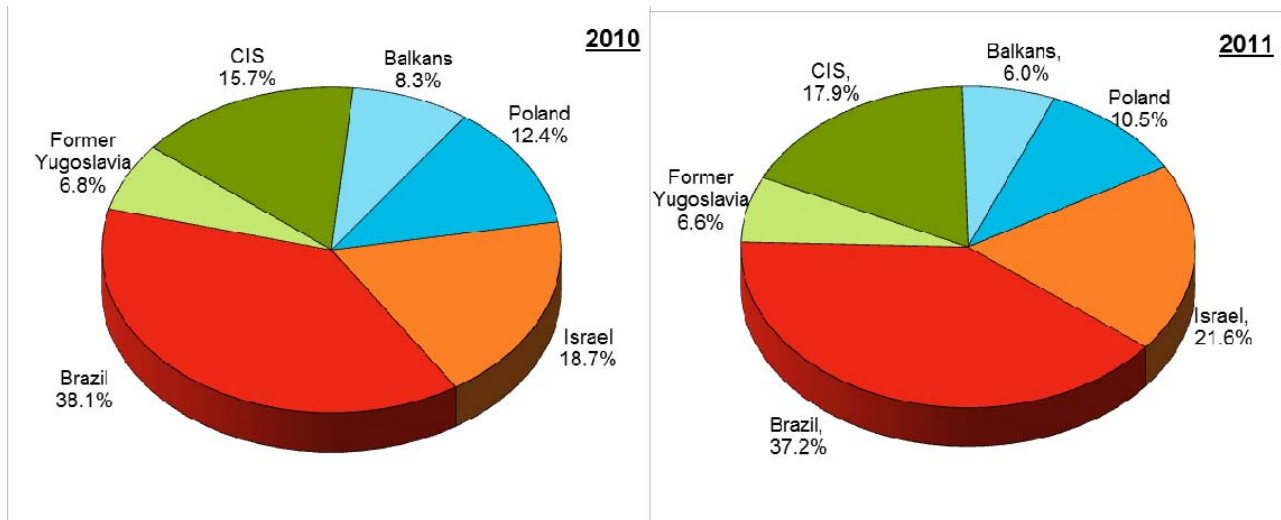
The decrease in gross profit in the first half is the result of the sharp rise in raw material prices and the difficulty in transferring the entire increase in these prices to the consumer.

Operating Profit

In the first half of the year, the operating profit of the coffee business totaled NIS 119 million (6.8% of sales) compared to NIS 141 million (8.8% of sales) last year, a decrease of 15.5%. In the second quarter the operating profit amounted to NIS 52 million (5.6% of sales) compared to NIS 63 million (8.2% of sales) last year, a decrease of 17.3%.

The decrease in the operating profit in the period was influenced mainly by the decrease in the gross profit.

Distribution of coffee sales by geographical region in the first half of 2011 and 2010:



Brazil

In the first half of 2011 the Company's coffee sales in Brazil grew by 14.6%, and according to A.C. Nielsen figures the average market share in the second quarter reached 18.5% compared to 17.5% in the corresponding period last year. In the second quarter the Company's sales in Brazil grew by 26.1%, and in local currency, sales grew by 23.8%.

During the reported period the Company announced the acquisition of Café Fino Grão in Brazil. Most of Fino Grão's sales consist of roasted and ground coffee, as well as cappuccino and espresso products. Fino Grão is the second-largest player in terms of market share in the state of Minas Gerais and its capital city Belo Horizonte, after Tres Corações. The transaction amounted to approximately NIS 70 million. Fino Grão's sales turnover in 2010 amounted to 32 to 35 million Brazilian Reals (approximately NIS 68 to 74 million).

Israel

In the first half coffee sales in Israel grew by 11.8%. In the second quarter, Israel coffee sales grew by 26.3%. Growth in Israel sales was expressed in all coffee categories (Turkish, instant) and in all channels (retail, AFH).

The Company's sales were positively influenced by the sales volume growth and price increases. The Company succeeded in maintaining its position in the competitive coffee market in Israel.

The former USSR countries

The Company's sales in the region in the first half grew by 22.5%, and, after neutralizing the currency impact, sales grew by 26.5%. In the second quarter sales grew by 28.9%, and after neutralizing the currency impact, sales grew by 34.6%. Growth in the region continues and is the result of the continuing expansion in instant coffee and roasted and ground coffee and of the acquisition of the Le Café brand, as well the expansion of AFH activities in Russia with the Totti Café by Roberto Totti brand for the HoReCa sector (coffee services for hotels, restaurants and cafés).

After the reported period the Company announced the acquisition of the Ambassador brand of freeze-dried instant coffee and roasted coffee products, sold in Russia, Ukraine and Moldavia. This acquisition extends the

Convenience Translation from Hebrew

Group's expansion and strengthens its competitive position in the Russian coffee market, which is considered one of the largest in the world. In the past year the Company also acquired the Le Café brand, and the acquisition of Ambassador is another step in realizing the Group's growth strategy in this market. The acquisition will strengthen Strauss's position as the third-largest coffee player in Russia.

The Company's sales in the region were positively influenced by the volume growth in sales in Russia and by the consolidation of Le Café for the first time, but were adversely influenced by the currency erosion and the economic weakness in some of the former USSR countries.

The former Yugoslavia countries

The Company continues to contend with the challenging market conditions in the former Yugoslavia countries. In the first half sales in the region grew by 7.6%. After neutralizing the currency impact, sales grew by 9.9%. In the second quarter sales grew by 14.3% and in local currency – by 10.3%.

The Balkan states

In the first half the weakness of the Company's activity in the Balkan region continued and sales decreased by 12.3%, 11.2% after neutralizing the currency impact. In the second quarter sales grew by 3.2%, and after neutralizing the currency impact, sales decreased by 0.5%. Sales were impacted by the erosion in the exchange rate of the Euro and the Shekel in relation to the Romanian currency and by the discontinuation of the Company's operation in Bulgaria, in view of the low growth potential in relation to the resources invested in that country.

Poland

The Company's sales in the region decreased by 7.4% in the half, and after neutralizing the currency impact, sales decreased by 7.3%. In the second quarter sales decreased by 3.8%, and after neutralizing the currency impact, sales decreased by 7.7%. Sales in Poland were influenced by the challenging environmental conditions, the decline in the Polish coffee market, growing competition and the currency erosion.

The Israel 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 activity segments, for the quarter and half ended June 30, 2011 and 2010 (in NIS millions):

	First Half			Second Quarter		
	2011	2010	% Chg	2011	2010	% Chg
Health & Wellness segment						
Net sales	915	873	4.8	474	448	5.8
Operating income	99	102	(3.0)	57	59	(4.3)
% profit	10.8%	11.6%		11.9%	13.2%	
Fun & Indulgence segment						
Net sales	496	451	9.9	209	179	16.8
Operating income	59	54	9.8	11	8	47.8
% profit	12.0%	12.0%		5.5%	4.3%	
Total Israel						
Net sales	1,411	1,324	6.5	683	627	8.9
Operating income	158	156	1.4	68	67	1.7
% profit	11.2%	11.8%		10.0%	10.7%	

Sales

The Company in Israel concluded the first half 2011 with growth in sales coupled with an increase in the operating profit. Sales by the Israel sector in the first half totaled NIS 1,411 million compared to NIS 1,324 million in the corresponding period last year, an increase of 6.5%. Growth was expressed in the sales of both units, Health & Wellness and Fun & Indulgence, and is evident in most categories. Growth was affected mainly by the 4.9% increase in total volume. In the second quarter sales by the Israel area of activity amounted to NIS 683 million compared to NIS 627 million last year, an increase of 8.9%. Growth was affected mainly by the 5.5% increase in total volume.

According to StoreNext figures, in the first half of 2011 the Israeli food market grew by 6.7% in financial terms. Strauss Group succeeded in strengthening its competitive position in Israel in the period, mainly due to the continuing investment in its brands, innovation and marketing moves.

The gross profit for the business in Israel totaled NIS 568 million in the first half (40.3% of sales) compared to NIS 560 million in the corresponding period last year (42.3%), an increase of 1.4%. The gross profit was positively influenced by the growth in sales, and was negatively influenced by the increase in the prices of most raw materials and energy.

The gross profit in the second quarter amounted to NIS 266 million (38.9% of sales) compared to NIS 269 million in the corresponding quarter last year (42.9%), a decrease of 0.8%. The gross profit was positively influenced by the growth in sales, and was negatively influenced by the increase in the prices of most raw materials and energy.

In the first half, the pro-forma operating profit in Israel amounted to NIS 158 million compared to NIS 156 million in the corresponding period last year, an increase of 1.4%, with a slight erosion in the operating profit rate, down from 11.8% last year to 11.2% this year.

In the second quarter, the pro-forma operating profit in Israel amounted to NIS 68 million compared to NIS 67 million last year, an increase of 1.7%, with an erosion in the operating profit rate, down from 10.7% last year to 10.0% in the second quarter this year.

Convenience Translation from Hebrew

The International Dips and Spreads Sector (Presently Executed by Sabra)

In this activity the Group develops, manufactures, sells, markets and distributes hummus and refrigerated Mediterranean salads, presently through the Sabra company, throughout North America. Sabra is jointly controlled by the Group and PepsiCo (each party holds 50%). Sabra's activity has been proportionately consolidated (50%) since the second quarter of 2008. This area of activity includes the expenses of Strauss North America's head office.

In the first half Sabra's sales continued to grow, as did its market shares, and it maintained a leading position in the refrigerated flavored spreads category. In the second quarter, Sabra's market share reached 53%.

During the first quarter the Company reported that Strauss Group and PepsiCo had announced the conclusion of principles for the establishment of a jointly-held global company which will manufacture and market fresh salads, dips and spreads in major international markets. Each of the partners will hold 50% of the new company. After the reported period the Company announced the PepsiCo-Strauss Fresh Dips & Spreads International GmbH was established (the final JV agreement has not yet been signed).

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

Sales – In the first half Sabra's sales totaled NIS 373 million compared to NIS 269 million last year, an increase of 38.4%. After neutralizing the currency impact, growth amounted to 48.4%. Organic growth excluding the currency impact was 24.1%. In the second quarter Sabra's sales amounted to NIS 201 million compared to NIS 142 million last year, an increase of 41.0%. After neutralizing the currency impact, growth amounted to 55.1%. Organic growth excluding the currency impact amounted to 32.0%.

The operating profit in the first half totaled NIS 30 million (7.9% of sales) compared to NIS 33 million in the corresponding period last year (12.1%), a decrease of 9.6%. The decrease in the operating profit is the result of the simultaneous operation of two production sites (the old factory was closed at the end of the first quarter 2011). In the second quarter, the operating profit amounted to NIS 20 million (10.1% of sales) compared to NIS 12 million last year (8.8%), an increase of 62.6%.

Other Operations

In addition to the areas of activity described above the Group has other businesses, which are included in the Financial Statements as the "Other Operations" sector. Following is a brief description of developments in these activities in 2011:

Strauss Water

Strauss Water engages in the development, manufacture and marketing and sales of systems for the purification, filtration, heating and cooling of drinking water for the home market and away-from-home consumption, on the basis of a long-term commitment to its customers. Strauss Water developed the Maze technology, a breakthrough in the purification and treatment of water. Strauss Water is presently active in Israel (through the Tami4 brand) and in the UK (through the T6 brand). In the second quarter the Company launched the water business in China (through the Haier-Strauss Water brand), further to the establishment of the joint venture in home water solutions in that country between Strauss Water and the Haier Group, the Chinese home electronic appliances giant. In the first stage the products were launched in three cities – Beijing, Shanghai and Qingdao. In the second stage, the products will also be marketed in Shenzhen and Guangzhou.

Convenience Translation from Hebrew

Strauss Water's sales continue to grow, and in the first half totaled NIS 199 million compared to NIS 171 million in the corresponding period last year, an increase of 16.2%. In the second quarter sales amounted to NIS 100 million compared to NIS 88 million last year, an increase of 13.2%.

Strauss Water plans to expand into additional geographical regions in the future, while continuing to develop innovative technologies for the purification and treatment of water, a long-term commitment to its customers, and caring for people, water and the environment.

Max Brenner

In the first half 2011 Max Brenner's sales totaled NIS 63 million compared to NIS 49 million last year, an increase of 28.6%; after neutralizing the impact of the erosion of the Dollar in relation to the Shekel, sales in the half increased by 32.9%. In the second quarter Max Brenner's sales amounted to NIS 33 million compared to NIS 23 million in the corresponding quarter last year, an increase of 43.5%. After neutralizing the impact of the erosion of the Dollar versus the Shekel, sales in the quarter grew by 50.5%.

As at the date of this report, 37 Max Brenner Chocolate Bars are in operation around the world: 6 in Israel, 4 in the US, 2 in the Philippines, 1 in Singapore and 24 in Australia. Eight branches are owned by the Company, and all other branches are operated under franchise.

The Company continues to invest in the development of core infrastructure for the Max Brenner business in Israel and abroad.

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

Other than as described below, as at the end of the second quarter and compared to the end of 2010 there has been no material change in the market risk factors 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 supervising and realizing the policy, as described in the Board of Directors' Report as at December 31, 2010.

Sensitivity to changes in exchange prices of green coffee inventory in the Company's warehouses

The fair value of green coffee inventory includes only the exchange trading price component and not the species and quality components (differential).

	June 30, 2011						
	Profit (loss) from Changes			Fair Value	Profit (loss) from Changes		
	(1)	10%	5%		-5%	-10%	(2)
NIS '000							
Arabica inventory, New York	12,593	5,724	2,862	57,240	(2,862)	(5,724)	(7,441)
Arabica inventory, Brazil	14,475	6,579	3,290	65,793	(3,290)	(6,579)	(8,553)
Robusta inventory, London	4,766	3,177	1,589	31,771	(1,589)	(3,177)	(4,289)
Robust inventory Brazil	1,334	889	445	8,893	(445)	(889)	(1,201)

	December 31, 2010						
	Profit (loss) from Changes			Fair Value	Profit (loss) from Changes		
	(1)	10%	5%		-5%	-10%	(2)
NIS '000							
Arabica inventory, New York	10,815	4,916	2,458	49,159	(2,458)	(4,916)	(6,391)
Arabica inventory, Brazil	10,034	4,561	2,281	45,610	(2,281)	(4,561)	(5,929)
Robusta inventory, London	2,923	1,949	974	19,488	(974)	(1,949)	(2,631)
Robust inventory Brazil	347	231	116	2,312	(116)	(231)	(312)

Sensitivity to changes in exchange prices of green coffee in relation to procurement engagements with suppliers, net

	Profit (loss) from changes		Fair value	Profit (loss) from changes	
	10%	5%		-5%	-10%
NIS '000					
As at June 30, 2011	20,250	10,125	29,332	(10,125)	(20,250)
As at December 31, 2010	16,491	8,246	21,406	(8,246)	(16,491)

Sensitivity to changes in exchange prices of green coffee in relation to stock exchange derivatives

	June 30, 2011						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)
	NIS '000						
Arabica	2,923	1,340	628		(1,135)	(2,364)	(3,259)
Robusta	17,215	11,489	5,751		(5,765)	(11,541)	(15,593)
Total	20,138	12,829	6,379	4,509	(6,900)	(13,906)	(18,852)

	December 31, 2010						
	Increase (1)	Increase of 10%	Increase of 5%	Fair value and carrying amount	Decrease of 5%	Decrease of 10%	Decrease (2)
	NIS '000						
Arabica	(9,997)	(3,223)	(1,206)		589	104	(668)
Robusta	4,281	2,855	1,429		(1,436)	(2,890)	(3,926)
Total	(5,716)	(368)	223	(2,007)	(847)	(2,786)	(4,594)

- (1) In the past ten years the maximum daily increase in prices for Arabica was 22% and for Robusta, 15% (based on closing prices).
- (2) In the past ten years the maximum daily decrease in prices for Arabica was 13% and for Robusta, 13.5% (based on closing prices).

ASPECTS OF CORPORATE GOVERNANCE

General

The Board of Directors of the Company has adopted the recommendations in the Goshen Committee Report and acts in accordance with them. For further information, see the Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure in accordance with Regulation 38C(a).

Compensation of Senior Executives

For information on approval by the Board of Directors on April 11, 2011 to grant the Chairperson of the Board of Directors of the Company and the CEO a yearly bonus for 2010, see the Company's Immediate Reports of April 12, 2011 (references 2011-01-118188 and 2011-01-188194). As mentioned in these reports, the Board of Directors reexamined the total compensation for 2010 for the Chairperson of the Board and the CEO individually, noting the annual bonus and other compensation conditions, and determined that the abovementioned compensation is fair and reasonable and reflects the Chairperson's and CEO's contribution.

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

The Company organ responsible for master control is the Financial Statements Review Committee (hereinafter: the "Balance Sheet Committee") established by the Board of Directors of the Company, which comprises four members. The members of the Balance Sheet Committee are Professor Dafna Schwartz (Chairperson) (external director), Dalia Lev, CPA (independent director), Meir Shani and Dr. Michael Angel (external director). All possess accounting and financial qualifications and the ability to read and understand financial statements in view of their many years' experience and academic education in the financial field. For the particulars of the directors of the corporation serving in office on the date of the report, see regulation 26 in the chapter "Additional Information on the Corporation" in the Periodic Report for the year 2010.

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 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 reported period. The EVP Finance also reviews the critical estimates applied, material issues that arose in the process of preparing the Financial Statements, internal controls relating to financial reporting, the completeness and properness of disclosure in the Financial Statements, and the accounting policy adopted and accounting treatment applied in material affairs of the corporation. On August 15, 2011 the Balance Sheet Committee discussed the Financial Statements as aforesaid. On completion of the discussion the Committee sent its recommendation to the Board of Directors, to approve the Financial Statements for the second quarter of 2011. The meeting was attended by members of the Balance Sheet Committee (except for Dr. Michael Angel), the Company CEO, the Company EVP Finance, The Company legal council, the Company Controller, the Company Auditor and the Internal Auditor.
- At the meeting of the Board of Directors on August 16, 2011 the Board discussed the recommendations of the Balance Sheet Committee to approve the Financial Statements of the Company as at June 30, 2011. In the opinion of the Board of Directors, the Committee's recommendations were forwarded to the members of the Board a reasonable time before the abovementioned meeting. Members of the Board of Directors were present at the meeting (except for Dr. Michael Angel and Ran Madin), as well as the Company CEO, the Company EVP Finance, the Company legal council, the Company Controller and the Company Auditor.

Convenience Translation from Hebrew

- The CFO and the Company Controller hold meetings from time to time with the Chairperson of the Balance Sheet Committee on subjects relating to financial and accounting issues that are relevant to the Company. Before the Financial Statements as at June 30, 2011 were approved such a meeting was held to discuss material issues that arose during the preparation of the Quarterly Financial Statements.
- The Company Auditor also holds conversations with the Balance Sheet Committee on subjects that arose during the audit 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 as at June 30, 2011.
- Before the Financial Statements are approved the draft Quarterly Financial Statements are forwarded to the Committee members and the rest of the members of the Board for their review. The draft Financial Statements were forwarded to the members of the Board approximately five business days before the date of approval of the Financial Statements, and the recommendations of the Financial Statements Review Committee were forwarded to the members of the Board approximately one business day before the date of approval of the Quarterly Financial Statements of the Company.

Transactions with Interests Holders

Following the information provided in the Board of Directors Report as at December 31, 2010, Sales of raw materials to Strauss Ice Creams Ltd (whose part of its shares are held by Strauss Holdings) amounted to approximately NIS 14 million.

Critical Accounting Estimates

For information on critical accounting policy and Management's considerations, see Note 4 to the Consolidated Financial Statements as at December 31, 2010.

Convenience Translation from Hebrew

Information Relating to the Debentures Series

Following is up-to-date information as at June 30, 2011:

		Debentures Series A	Debentures Series B	Debentures Series C
A	Nominal par value	83	744	333
B	Par value linked to the Consumer Price Index	100	868	333
C	Book value of debentures	98	863	331
D	Book value of interest payable	-*	15	1
E	Market price	100	945	337

* Less than NIS 1 million.

Report on Aggregate of Liabilities According to Redemption Dates

See R-126, published in parallel to the Financial Statements.

Events during the Reported Period

1. Accounting changes

For information on the initial adoption of new accounting standards, see Note 1.2 to the Consolidated Interim Financial Statements as at June 30, 2011; for information on new standards and interpretations not yet adopted, see Note 1.3 to the Consolidated Interim Financial Statements as at June 30, 2011.

2. Grant of warrants to employees

For information on the grant of option warrants to senior officers pursuant to the approval of the Board of Directors, and to senior executives in the Group pursuant to the approval of the Compensation and Human Resources Committee of the Board of Directors, see Notes 5.1, 5.3, 5.5 and 5.6 to the Consolidated Interim Financial Statements as at June 30, 2011.

3. Option plan

For information on an amendment to the option plan for employees, approved by the Board of Directors of the Company on April 11, 2011, see Note 5.4 to the Consolidated Interim Financial Statements as at June 30, 2011.

4. Payment of a dividend

For information on the distribution of a dividend declared on January 6, 2011 and paid on February 6, 2011, see Note 4.1 to the Consolidated Interim Financial Statements as at June 30, 2011.

5. Real estate transaction

For information on an agreement of January 24, 2011 for the acquisition of vacant areas in Park Yanai, an area adjacent to the Group's office building in Petach Tikva, see Note 4.2 to the Consolidated Interim Financial Statements as at June 30, 2011.

6. Financing

- For information on a loan received on January 30, 2011 from several companies of the Harel Group, see Note 4.3 to the Consolidated Interim Financial Statements as at June 30, 2011.
- For information on the publication of a shelf prospectus on February 22, 2011, see Note 4.4 to the Consolidated Interim Financial Statements as at June 30, 2011.

7. Legal proceedings

For information on legal proceedings in the reported period, see Note 6 to the Consolidated Interim Financial Statements as at June 30, 2011.

8. Ratification of the Rating of Debentures

For information on the ratification of the rating of Debentures Series A, B and C in circulation by Standard & Poor's Maalot Ltd., see section 6 in the revision of the chapter "Description of the Corporation's Business" as at June 30, 2011.

9. The International Dips and Spreads operation

For information on understandings in principle reached with PepsiCo for the establishment of a jointly-held global company for the manufacture and marketing of refrigerated salads and spreads, see section 2 of the chapter "Description of the Corporation's Business" as at March 31, 2011.

10. The Coffee operation

- For information on a letter of intent of March 23, 2011 for the acquisition of the businesses of Café Fino Grão in Brazil, see Note 4.5 to the Consolidated Interim Financial Statements as at June 30, 2011.
- For information on an international option plan, see Note 5.2 to the Consolidated Interim Financial Statements as at June 30, 2011.
- For information on the signing of an agreement with the company Sucafina for the acquisition of the Ambassador brands, see Note 8.1 to the Consolidated Interim Financial Statements as at June 30, 2011.

Subsequent Events after the Date of Statement of Financial Position

For a review of events occurring after the date of the Statement of Financial Position, see Note 8 to the Consolidated Interim Financial Statements as at June 30, 2011.

Convenience Translation from Hebrew

Self-Acquisition

For information on treasury shares and the resolution of October 2002 regarding a framework for the acquisition of Company shares by the Company, see Note 28.2 to the Consolidated Financial Statements as at December 31, 2010. For information on the approval by the Board of Directors regarding a framework for the acquisition of Debentures (Series B) by the Company and/or a subsidiary, see Note 20.5 to the Consolidated Financial Statements as at December 31, 2010.

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

Ofra Strauss
Chairperson of the Board

Gadi Lesin
CEO

August 16, 2011

STRAUSS-GROUP LTD.
FINANCIAL STATEMENTS
AS AT JUNE 30, 2011

Strauss-Group Ltd.

**Financial Statements
As at June 30, 2011**

Financial Statements as at June 30, 2011

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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, 2011 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month and three-month 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 11.3% of the total consolidated assets as at June 30, 2011, and whose revenues constitute 2.2% and 2.5% of the total consolidated revenues for the six month and three month periods then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

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

Conclusion

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

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

Somekh Chaikin
Certified Public Accountants (Isr.)

August 16, 2011

Consolidated Interim Statements of Financial Position

	June 30 2011 (Unaudited)	June 30 2010 (Unaudited)	December 31 2010 (Audited)
	NIS Millions		
Current assets			
Cash and cash equivalents	399	742	729
Marketable securities and deposits	217	118	66
Trade receivables	1,077	954	1,017
Income tax receivables	87	81	79
Other receivables and debit balances	203	217	226
Inventory	864	677	682
Assets classified as held for sale	-	8	-
Total current assets	<u>2,847</u>	<u>2,797</u>	<u>2,799</u>
Investments and non-current assets			
Other investments and long-term debit balances	164	139	167
Assets designated for the payment of employee benefits, net	6	6	6
Fixed assets	1,576	1,438	**1,524
Intangible assets	1,728	1,544	**1,700
Deferred expenses	25	27	27
Investment property	24	5	24
Deferred tax assets	7	5	*10
Total investments and non-current assets	<u>3,530</u>	<u>3,164</u>	<u>3,458</u>
Total assets	<u><u>6,377</u></u>	<u><u>5,961</u></u>	<u><u>6,257</u></u>

Ofra Strauss
Chairperson of the Board of Directors

Gadi Lesin
Chief Executive Officer

Shahar Florence
Chief Financial Officer

Date of approval of the interim financial statements: August 16, 2011

Consolidated Interim Statements of Financial Position

	June 30 2011 (Unaudited)	June 30 2010 (Unaudited)	December 31 2010 (Audited)
	NIS Millions		
Current liabilities			
Current maturities of debentures	264	258	260
Short terms loans and credit	389	192	246
Trade payables	689	641	793
Income tax payables	27	43	36
Other payables and credit balances	484	524	534
Provisions	39	39	36
Total current liabilities	1,892	1,697	1,905
Non-current liabilities			
Debentures	1,029	1,253	1,177
Long-term loans and credit	588	153	268
Long-term payables and credit balances	23	33	27
Employee benefits, net	33	28	28
Deferred taxes	132	133	*134
Total non-current liabilities	1,805	1,600	1,634
Equity			
Share capital	243	243	243
Share premium	622	622	622
Translation reserve	(191)	(198)	(239)
Treasury stock	(20)	(20)	(20)
Reserve for available for sale financial assets	3	1	4
Retained earnings	1,118	1,152	1,231
Total equity attributable to the Company's shareholders	1,775	1,800	1,841
Non-Controlling interests	905	864	**877
Total equity	2,680	2,664	2,718
Total liabilities and equity	6,377	5,961	6,257

* Reclassified, see Note 1.4.

** Retrospective adjustment, see Note 1.5.

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

Consolidated Interim Statements of Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2011	June 30 2010	June 30 2011	June 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
Sales	3,614	3,276	1,841	1,580	6,855
Cost of sales					
Valuation of balance of commodities hedging transactions as at end of period	14	(10)	(2)	(11)	(5)
Other costs	2,285	1,977	1,192	965	4,267
Total cost of sales	2,299	1,967	1,190	954	4,262
Gross profit	1,315	1,309	651	626	2,593
Selling and marketing expenses	846	786	421	385	1,597
General and administrative expenses	221	201	115	96	410
	1,067	987	536	481	2,007
Operating profit before other income (expenses)	248	322	115	145	586
Other income	4	4	2	3	3
Other expenses	(10)	(31)	(6)	(23)	(48)
Other expenses, net	(6)	(27)	(4)	(20)	(45)
Operating profit	242	295	111	125	541
Financing income	23	23	10	11	30
Financing expenses	(91)	(52)	(52)	(32)	(122)
Financing expenses, net	(68)	(29)	(42)	(21)	(92)
Profit before income taxes	174	266	69	104	449
Income taxes	(57)	(82)	(26)	(29)	(147)
Profit for the period	117	184	43	75	302
Attributable to:					
The Company's shareholders	81	136	26	52	211
Minority interest	36	48	17	23	91
Profit for the period	117	184	43	75	302
Earnings per share of the Company's shareholders					
Basic earnings per share (in NIS)	0.76	1.28	0.24	0.49	1.99
Diluted earnings per share (in NIS)	0.76	1.27	0.24	0.49	1.98

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 2011	June 30 2010	June 30 2011	June 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
Profit for the period	117	184	43	75	302
Other comprehensive income:					
Foreign currency translation differences	72	(177)	-	(55)	(227)
Changes in fair value of available for sale financial assets, net of tax	(2)	-*	(2)	(5)	6
Other comprehensive income (loss), net of tax	70	(177)	(2)	(60)	(221)
Comprehensive income for the period	187	7	41	15	81
Attributable to:					
The Company's shareholders	128	9	23	13	46
Minority interest	59	(2)	18	2	35
Comprehensive income for the period	187	7	41	15	81

* Less than NIS 1 million.

The accompanying notes are an integral part of the interim 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								
Balance as at January 1, 2011 – audited	243	622	(239)	(20)	4	1,231	1,841	877**	2,718
Changes during the six-month period ended June 30, 2011 - unaudited:									
Comprehensive income for the period									
<i>Profit for the period</i>	-	-	-	-	-	81	81	36	117
<i>Components of comprehensive income for the period:</i>									
Foreign currency translation differences	-	-	48	-	-	-	48	24	72
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	(1)	-	(1)	(1)	(2)
<i>Other comprehensive income (loss) for the period, net of tax</i>	-	-	48	-	(1)	-	47	23	70
Comprehensive income (loss) for the period	-	-	48	-	(1)	81	128	59	187
Exercise of employee share options	-*	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	6	6	-	6
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Non-Controlling interests in a business combination	-	-	-	-	-	-	-	1	1
Share-based payment in subsidiary	-	-	-	-	-	-	-	11	11
Dividend paid to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(43)	(43)
Balance as at June 30, 2011 – unaudited	243	622	(191)	(20)	3	1,118	1,775	905	2,680

* Less than NIS 1 million.

** Retrospective adjustment, see Note 1.5.

The accompanying notes are an integral part of the interim 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								
Balance as at January 1, 2010 – audited	243	622	(71)	(20)	1	1,210	1,985	901	2,886
Changes during the six-month period ended June 30, 2010 - unaudited:									
Comprehensive income the period									
<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)
Comprehensive income (loss) for the period	-	-	(127)	-	-*	136	9	(2)	7
Exercise of employee share options	-*	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	6	6	-	6
Share-based payment in subsidiary	-	-	-	-	-	-	-	-*	-
Dividend paid to non-controlling interests in subsidiary	-	-	-	-	-	-	-	(21)	(21)
Dividend declared to non-controlling interests in subsidiary	-	-	-	-	-	-	-	(14)	(14)
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Balance as at June 30, 2010 – unaudited	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								
Balance as at April 1, 2011 – unaudited	243	622	(189)	(20)	4	1,089	1,749	901*	2,650
Changes during the three-month period ended June 30, 2011 - unaudited:									
Comprehensive income for the period									
<i>Profit for the period</i>	-	-	-	-	-	26	26	17	43
<i>Components of comprehensive income for the period:</i>									
Foreign currency translation differences	-	-	(2)	-	-	-	(2)	2	-
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	(1)	-	(1)	(1)	(2)
<i>Other comprehensive income (loss) for the period, net of tax</i>	-	-	(2)	-	(1)	-	(3)	1	(2)
Comprehensive income (loss) for the period	-	-	(2)	-	(1)	26	23	18	41
Share-based payment	-	-	-	-	-	3	3	-	3
Non-Controlling interests in a business combination	-	-	-	-	-	-	-	1	1
Share-based payment to Non-Controlling interests in subsidiary	-	-	-	-	-	-	-	9	9
Dividend paid to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(24)	(24)
Balance as at June 30, 2011 – unaudited	243	622	(191)	(20)	3	1,118	1,775	905	2,680

* Retrospective adjustment, see Note 1.5.

The accompanying notes are an integral part of the interim 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								
Balance as at April 1, 2010 – audited	243	622	(161)	(20)	3	1,097	1,784	897	2,681
Changes during the three-month period ended June 30, 2010 – unaudited:									
Comprehensive income the period									
<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 loss for the period, net of tax</i>	-	-	(37)	-	(2)	-	(39)	(21)	(60)
Comprehensive income (loss) for the period	-	-	(37)	-	(2)	52	13	2	15
Exercise of employee share options	-*	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	3	3	-	3
Share-based payment in subsidiary	-	-	-	-	-	-	-	-*	-
Dividend paid to non-controlling interests in subsidiary	-	-	-	-	-	-	-	(21)	(21)
Dividend declared to non-controlling interests in subsidiary	-	-	-	-	-	-	-	(14)	(14)
Balance as at June 30, 2010 – unaudited	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								
Balance as at January 1, 2010 – audited	243	622	(71)	(20)	1	1,210	1,985	901	2,886
Changes in 2010 – audited:									
Comprehensive income for the period									
<i>Profit for the period</i>	-	-	-	-	-	211	211	91	302
<i>Components of comprehensive income for the period:</i>									
Foreign currency translation differences	-	-	(168)	-	-	-	(168)	(59)	(227)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	3	-	3	3	6
<i>Other comprehensive Income for the period, net of tax</i>	-	-	(168)	-	3	-	(165)	(56)	(221)
Comprehensive income for the period	-	-	(168)	-	3	211	46	35	81
Share-based payment	-	-	-	-	-	10	10	-	10
Share-based payment in a subsidiary	-	-	-	-	-	-	-	9	9
Dividend paid	-	-	-	-	-	(200)	(200)	-	(200)
Dividend paid to Non-Controlling interests in subsidiary	-	-	-	-	-	-	-	(80)	(80)
Non-Controlling interests in a business combination	-	-	-	-	-	-	-	12*	12
Balance as at December 31, 2010 – audited	243	622	(239)	(20)	4	1,231	1,841	877	2,718

* Retrospective adjustment, see note 1.5.

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

Consolidated Interim Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2011	June 30 2010	June 30 2011	June 30 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
Cash flows from operating activities					
Income for the period	117	184	43	75	302
Adjustments:					
Depreciation	88	82	48	42	164
Amortization of intangible assets and deferred expenses	27	28	13	11	52
Impairment provision of fixed assets	-	-	-	-	10
Other expenses, net	1	9	1	9	5
Expenses in respect of share based payment	17	6	12	3	20
Financing expenses, net	68	29	42	21	92
Income tax expenses	57	82	26	29	147
Change in inventory	(178)	(40)	(89)	(66)	(57)
Change in trade and other receivables	(38)	(21)	32	67	(95)
Change in long-term trade receivables	2	12	4	-	17
Change in trade and other payables	(161)	(57)	(104)	(9)	83
Change in provisions and employee benefits	5	(1)	2	(1)	(1)
Interest paid	(42)	(33)	(16)	(11)	(70)
Interest received	16	11	7	6	19
Income tax paid, net	(67)	(105)	(50)	(63)	(187)
Net cash flows (used in) provided by operating activities	(88)	186	(29)	113	501
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	(150)	(37)	(42)	(47)	19
Proceeds from sale of fixed assets and intangible assets	16	6	4	3	14
Acquisition of subsidiary, net of cash acquired	-	-	-	-	(215)
Acquisition of fixed assets	(164)	(176)	(71)	(64)	(310)
Investment grants received	-	1	-	-	2
Investments in intangible assets and deferred expenses	(14)	(18)	(5)	(13)	(37)
Repayment of deposits and loans granted	10	12	3	4	15
Long-term loans granted	(10)	(5)	(7)	(4)	(46)
Net cash flows used in investing activities	(312)	(217)	(118)	(121)	(558)

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 2011	June 30 2010	June 30 2011	June 30 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
Cash flows from financing activities					
Short-term bank credit, net	124	14	105	(14)	48
Receipt of long-term loans	384	102	22	19	269
Repayment of long-term loans and debentures	(202)	(21)	(178)	(7)	(129)
Dividend paid	(200)	(200)	-	-	(200)
Dividend paid to non-controlling interests' holders in subsidiary	(43)	(21)	(43)	(21)	(80)
Net cash flows provided by (used in) financing activities	63	(126)	(94)	(23)	(92)
Decrease in cash and cash equivalents	(337)	(157)	(241)	(31)	(149)
Cash and cash equivalents as at beginning of period	729	957	649	790	957
Effect of exchange rate fluctuations on cash balances	7	(58)	(9)	(17)	(79)
Cash and cash equivalents as at end of period	399	742	399	742	729

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

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

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 1 - Reporting Principles and Accounting Policy

1.1 General

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

The Company and its subsidiaries are a group of industrial and commercial companies, which operates in Israel and abroad, in developing, manufacturing, marketing and selling a broad variety of branded food products and beverages. The consolidated interim financial statements as at June 30, 2011 and for the six and three month periods then ended (hereinafter - the "Interim Statements") comprise the Company and its subsidiaries and the Group's interest in jointly controlled companies.

The Company's controlling shareholders are Mr. Michael Strauss through his holdings in Strauss Holdings Ltd. (hereinafter – "the parent company" or "Strauss Holdings") and Ms. Ofra Strauss who is considered a joint-holder of the Company's shares together with him.

- 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, 2010 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 Note 1.2 hereunder. In addition, certain comparative figures have been reclassified and retroactive adjusted, see Notes 1.4 and 1.5, respectively.

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

- 1.1.4 These Interim Statements have been approved by the Company's Board of Directors on August 16, 2011.

1.2 Initial implementation of accounting standards

- 1.2.1 Commencing on January 1, 2011 the Company implements the amendment to IAS 34, Interim Financial Reporting, Significant events and transactions, which 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 did not have an effect on these interim financial statements.

- 1.2.2 Commencing January 1, 2011 the Company implements the amendment to IAS 24, Related Party Disclosures. The new standard includes changes in the definition of a related party. The Group reassessed its relationships with related parties and consequently, no new related parties have been identified.

Notes to the Consolidated Interim Financial Statements

Unaudited

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

- 1.3.1 In May 2011 the IASB issued a new suite of accounting standards on Consolidation, Joint Arrangements and Disclosure of Involvement with Other Entities. The new suite of standards replaces existing standards regarding consolidation of financial statements and joint arrangements and includes a number of changes with respect to investments in associates

Presented hereunder are the new standards that were issued:

1.3.1.1 IFRS 10, Consolidated Financial Statements (hereinafter – “IFRS 10”) –

IFRS 10 replaces the requirements of IAS 27 Consolidated and Separate Financial Statements and the requirements of SIC-12 Consolidation – Special Purpose Entities with respect to the consolidation of financial statements, so that the requirements of IAS 27 will continue to be valid only for separate financial statements.

IFRS 10 introduces a new single control model for determining whether an investor controls an investee and should therefore consolidate it. This model is implemented with respect to all investees. According to the model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and return.

Presented hereunder are certain key changes from the current consolidation guidance:

- IFRS 10 introduces a model that requires applying judgment and analyzing all the relevant facts and circumstances for determining who has control and is required to consolidate the investee.
- IFRS 10 introduces a single control model that is to be applied to all investees, both those presently in the scope of IAS 27 and those presently in the scope of SIC-12.
- De facto power should be considered when assessing control. This means that the existence of de facto control could require consolidation.
- When assessing control, all “substantive” potential voting rights will be taken into account. The structure, reasons for existence and conditions of potential voting rights should be considered.
- IFRS 10 provides guidance on the determination of whether a decision maker is acting as an agent or as a principal when assessing whether an investor controls an investee.
- IFRS 10 provides guidance on when an investor would assess power over portion of the investee (silos), that is over specified assets of the investee.
- IFRS 10 provides a definition of protective rights, while there is no such definition in existing IFRS.
- The exposure to risk and rewards of an investee does not, on its own determine that the investor has control over an investee, rather it is one of the factor of control analysis.

The standard is applicable retrospectively for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided and that the entire consolidation suite is early adopted, meaning also the two additional standards that were issued, as detailed in Notes 1.3.1.2 and 1.3.1.3.

The Group has started the process of assessing the effects of adopting the standards in its financial statements.

Notes to the Consolidated Interim Financial Statements

Unaudited

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

1.3.1.2 IFRS 11, Joint Arrangements (hereinafter – “IFRS 11”) –

IFRS 11 replaces the requirements of IAS 31 Interests in Joint Ventures (hereinafter – IAS 31) and amends part of the requirements in IAS 28 Investments in Associates.

IFRS 11 defines a joint arrangement as an arrangement over which two or more parties have joint control (as defined in IFRS 10). Joint arrangements are divided into two types: a joint operation and a joint venture.

The key changes are as follows:

- Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- Joint operations – The parties with joint control have rights to the assets and obligations for the liabilities, relating to the arrangement, regardless of whether the joint arrangement is not structured in a separate vehicle, or is structured in a separate vehicle but the parties with joint control have rights to the assets and obligations for the liabilities, relating to the arrangement.
- The accounting treatment of joint operations is similar to the accounting treatment in IAS 31 for jointly controlled assets and operations. This means that assets, liabilities and transactions are recognized and accounted for according to the relevant standards.
- Joint ventures – All joint arrangements structured in a separate vehicle in which the parties with joint control have rights to the net assets of the joint arrangement.
- Joint ventures shall only be accounted for using the equity method (the option to apply the proportionate consolidation method has been removed).
- Accounting treatment for transition from significant influence to joint control, or vice versa – IAS 28 (2011) eliminates the existing requirement to remeasure the existing or retained interest in the investment to fair value.
- According to IAS 28 (2011), IFRS 5 applies on an investment, or a portion of an investment, in an associate or a joint venture, that meets the criteria to be classified as held for sale. Until the disposal of the portion of the investment that has been classified as held for sale, the equity method continues to be applied on the portion of the investment that has not been classified as held for sale.

IFRS 11 is applicable retrospectively for annual periods beginning on or after January 1, 2013, but there are specific requirements for retrospective implementation in certain cases. Early adoption is permitted providing that disclosure is provided and that the entire consolidation suite is adopted at the same time, meaning also the two additional standards published, as detailed in Notes 1.3.1.1 and 1.3.1.3.

The Group has started the process of assessing the effects of adopting the standard in its financial statements.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 1 - Reporting Principles and Accounting Policy (cont'd)**1.3 New standards and interpretations not yet adopted (cont'd)****1.3.1.3 IFRS 12, Disclosure of Interests in Other Entities (hereinafter – “IFRS 12”) –**

IFRS 12 contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and unconsolidated structured entities.

IFRS 12 is applicable for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that the entire consolidation suite is adopted at the same time, meaning also the two additional standards published, as detailed in Notes 1.3.1.1 and 1.3.1.2. Nevertheless, it is permitted to voluntarily provide the additional disclosures required by IFRS 12 prior to its adoption without early adopting the other standards.

The Group has started the process of assessing the effects of adopting the standard in its financial statements.

1.3.2 IFRS 13, Fair Value Measurement (hereinafter – “IFRS 13”) –

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value.

IFRS 13 applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Nevertheless, IFRS 13 does not apply to share based payment transactions within the scope of IFRS 2 Share-Based Payment and leasing transactions within the scope of IAS 17 Leases. IFRS 13 does not apply to measurements that are similar to but are not fair value (such as the measurement of the net realizable value of inventory, in accordance with IAS 2 Inventories, and the measurement of value in use, in accordance with IAS 36 Impairment of Assets).

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

The Group has started the process of assessing the effects of adopting the standard in its financial statements.

1.3.3 Amendments to IAS 1, Presentation of Financial Statements, Presentation of Items of Other Comprehensive Income (hereinafter – “the amendment”) –

The amendment changes the presentation of items of other comprehensive income (hereinafter – “OCI”) in the financial statements, so that items of OCI that may be reclassified to profit or loss in the future, would be presented separately from those that would never be reclassified to profit or loss. Additionally, the amendment changes the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income. However, entities are still allowed to use other titles. The amendment is effective for annual periods beginning on or after July 1, 2012. The amendment will be applied retrospectively. Early adoption is permitted providing that disclosure is provided.

The Group has started the process of assessing the effects of adopting the amendment in its financial statements.

Notes to the Consolidated Interim Financial Statements

Unaudited

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

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

1.3.4 Amendment to IAS 19, Employee benefits (hereinafter – “the amendment”) –

The amendment introduces a number of changes to the accounting treatment of employee benefits.

The key changes are as follows:

- The amendment eliminates the possibility of postponing recognition of actuarial gains and losses, known as the "corridor method" and, in addition, eliminates the option of recognizing actuarial gains and losses directly in profit or loss. As a result, all actuarial gains and losses will be recognized immediately in equity through other comprehensive income.
- The amendment requires immediate recognition of past service costs regardless of whether the benefits have vested or not.
- The calculation of net interest income or expense will be determined by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset). Accordingly, calculation of actuarial gains or losses will also change.
- The amendment changes the definitions of short-term employee benefits and of other long term employee benefits, so that the distinction between the two will depend on when the entity expects the benefits to be wholly settled, rather than when settlement is due.
- The amendment enhances the disclosure requirements for defined benefit plans, in an effort to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.
- The definition of termination benefits has been clarified so that termination benefits are recognized at the earlier of when the entity recognizes, in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, costs for a restructuring that includes the payment of termination benefits, and when the entity can no longer withdraw the offer of the termination benefits.

The amendment is applicable retrospectively (excluding certain exceptions stated in the standard) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided.

The Group has started the process of assessing the effects of adopting the amendment in its financial statements.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 1 - Reporting Principles and Accounting Policy (cont'd)**1.4 Reclassification**

Reclassified an amount of NIS 9 million as of 31 December, 2010, which reduces the deferred tax assets and deferred tax liabilities. This reclassification did not have an effect on equity and statement of income.

1.5 Retrospective Adjustment

Further to Note 6.7 to the Annual Financial Statements in regard to the purchase of LeCafe, during the period the Company updated the PPA to the identified assets and liabilities purchased. The PPA has not been completed yet.

The impact of the PPA update on these interim statements is as follows:

	Le Café		
	Initial Allocation	Adjustments to PPA	Adjusted Allocation
	NIS millions		
Fixed assets	38	(8)	30
Intangible assets (1)	138	4	142
Non-controlling interests	(16)	4	(12)
		-	

(1) Include goodwill and a brand at the amount of NIS 101 million and NIS 41 million, respectively.

The adjustment did not have an effect on statement of income.

Note 2 - Seasonality

The sales of Fun & Indulgence products and coffee in Israel are characterized by seasonality, and they are usually higher in the first quarter of the year. The seasonality is mainly affected by the winter, being characterized by a higher consumption of chocolate products hot beverages, as well as by higher consumption before Passover.

There is no distinct trend of seasonality in Health & Wellness products; however, the volume of income is generally (relatively) higher in the third quarter of the year, when the hot summer months fall – these are characterized by increased consumption of dairy products.

The international coffee sales are usually higher in the fourth 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.

The income from the sale of products in the International Coffee segment is usually (relatively) higher in the fourth quarter of the year. 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.

The income from Water products is also influenced by seasonality, with increased demand for cold water solutions occurring in summer. Accordingly, the third quarter of each year is characterized by a higher volume of operations compared to other quarters.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 3 - Segments

	For the six months ended		For the three months ended		For the year ended
	June 30 2011	June 30 2010	June 30 2011	June 30 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	915	873	474	448	1,811
Fun & Indulgence	496	451	209	179	872
Total Israel	<u>1,411</u>	<u>1,324</u>	<u>683</u>	<u>627</u>	<u>2,683</u>
Coffee Israel	334	299	154	123	592
Coffee Abroad	1,421	1,298	770	647	2,794
Total Coffee	<u>1,755</u>	<u>1,597</u>	<u>924</u>	<u>770</u>	<u>3,386</u>
International dips and spreads	186	135	100	72	297
Other	262	220	134	111	489
Sales to other segments:					
Health & Wellness	2	2	1	1	7
Fun & Indulgence	13	16	5	7	28
Total Israel	<u>15</u>	<u>18</u>	<u>6</u>	<u>8</u>	<u>35</u>
Coffee Israel	13	10	7	3	22
Coffee Abroad	-	-	-	-	-
Total Coffee	<u>13</u>	<u>10</u>	<u>7</u>	<u>3</u>	<u>22</u>
International dips and spreads	-	-	-	-	-
Other	-	1	-	1	1
Total revenues of the segments	<u>3,642</u>	<u>3,305</u>	<u>1,854</u>	<u>1,592</u>	<u>6,913</u>
Elimination of inter-segment sales	(28)	(29)	(13)	(12)	(58)
Total consolidated revenues	<u><u>3,614</u></u>	<u><u>3,276</u></u>	<u><u>1,841</u></u>	<u><u>1,580</u></u>	<u><u>6,855</u></u>

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 3 – Segments (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2011	June 30 2010	June 30 2011	June 30 2010	December 31, 2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS millions				
Profit					
Health & Wellness	98	102	56	60	228
Fun & Indulgence	60	54	12	7	77
Total Israel	<u>158</u>	<u>156</u>	<u>68</u>	<u>67</u>	<u>305</u>
Coffee Israel	41	47	17	9	75
Coffee Abroad	78	94	35	54	182
Total Coffee	<u>119</u>	<u>141</u>	<u>52</u>	<u>63</u>	<u>257</u>
International dips and spreads	15	16	13	8	26
Other	(13)	5	(8)	(1)	13
Total profit of the segments	<u>279</u>	<u>318</u>	<u>125</u>	<u>137</u>	<u>601</u>
<u>Unallocated income (expenses):</u>					
Valuation of commodities hedging transactions as at the end of the year	(14)	10	2	11	5
Other expenses, net (1)	(6)	(27)	(4)	(20)	(45)
Share based payment and non-recurring grant	(17)	(6)	(12)	(3)	(20)
Total operating profit	<u>242</u>	<u>295</u>	<u>111</u>	<u>125</u>	<u>541</u>
Financing expenses, net	(68)	(29)	(42)	(21)	(92)
Income before taxes on income	<u>174</u>	<u>266</u>	<u>69</u>	<u>104</u>	<u>449</u>

- (1) In the six and three months period include expenses at the amount of approximately NIS 4 million related to restructuring in the subsidiary Strauss B-H DOO.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 4 - Material Events during the Reported Period

- 4.1** On January 6, 2011 the Company declared a cash dividend distribution at the amount of approximately NIS 1.88 per 1 par value share, totaled to approximately NIS 200 million. The dividend was paid on February 6, 2011.
- 4.2** On January 24, 2011 the Company signed an agreement for the purchase of available lands having an area of 3,000 square meters in Yanai Park, next to the Group's office building on 49 Hasivim St. in Petach Tikva, and for the construction of a building surround for an office building. The Company will pay the seller an amount of NIS 101 million in consideration for the property rights and construction of the building surround. The building's construction rights include 2,500 square meters of public areas and 10,000 square meters of offices. The office areas and part of the commercial areas are intended, inter alia, for the use of the Group. The transaction will be financed by the Company's own resources. The consideration is paid in accordance with the constructing progressing.
- 4.3** On January 30, 2011 the Company received a loan in the amount of NIS 300 million from Harel Insurance Group. The loan principal and the interest are payable in 22 consecutive semi-annual payments beginning from July 1, 2011. Under certain circumstances the Company has the right to early repay the loan five years from the date of its receipt. The loan bears fixed annual interest 5.82%. The Company is subject to a negative pledge requirement and to financial covenants similar to the financial covenants of banks described in Note 22.3 to the Annual Financial Statements. The receipt of the loan has no effect on the rating of the Company's debentures. The loan agreement provides that one of the causes for an early repayment is any event in which the Strauss family directly or indirectly ceases to be the Company's controlling shareholder. The Company's right to make an early repayment five years after the date the loan was received is contingent upon providing an advance notice and, under certain circumstances, the payment of an early repayment fee according to a calculation formula provided in the agreement. As at the reporting date, the Company is in compliance with the aforementioned covenants.
- 4.4** On February 22, 2011 the Company issued a prospectus, following the principal approval of the Stock Exchange, Israel Securities Authority and the Board of Directors of the Company.
- 4.5** On March 23, 2011 Tres Coracoes Alimentos S.A. ("Tres Coracoes"), a joint venture equally held (50%) by Strauss Coffee BV (74.9%) and Sao Miguel, signed a letter of intent for the acquisition of the businesses of the coffee company Café Fino Grao, which is active mainly in the state of Minas Gerais and its capital, Belo Horizonte, in Brazil.
- Café Fino Grao's sales is specialized in roast and ground coffee, as well as cappuccino and espresso products. In consideration for Café Fino Grao's coffee businesses, including trademarks, fixed assets and customers, excluding liabilities, Tres Coracoes will pay approximately NIS 70 million.
- The transaction, which is planned to be closed by August 31, 2011, is conditional, inter alia, on the receipt of all approvals required from the authorities in Brazil. The transaction will be funded through independent sources and bank credit. No additional significant investments are expected in the acquired activity will be required.
- 4.6** Further to Note 37.7 to the Annual Financial Statements, during March 2011 the Company and a number of subsidiaries in Israel were issued with final tax assessments for the years 2006-2007. The final tax assessments did not have an effect on the tax results in the reported period.
- 4.7** On June 23, 2011 a subsidiary distributed a cash dividend to its shareholders at the amount of NIS 120 million. The portion of non-controlling interests holders in the dividend is NIS 24 million.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 5 – Share-based payment

- 5.1** On February 2, 2011, the Compensation and Human Resources Committee of the Board of Directors of the Company approved the grant of 44,000 options to two managers in the Group (22,000 options each), according to the terms and conditions of the compensation plan for senior employees in the Group, described in Note 25.1 to the Annual Financial Statements (hereinafter: "compensation plan"). Each of the options shall be exercisable into one Ordinary Share of NIS 1 par value of the Company.

The entitlement of each manager to exercise the warrants shall be created in three equal portions, on February 2 of each of the years 2013-2015. The fair value of the benefit in the framework of this grant, calculated as at February 2, 2011, is approximately NIS 0.6 million. The main assumptions that served in determining the fair value are the following: share price – NIS 53.4; annualized standard deviation – 26.49%-26.83%; risk-free interest rate – 1.07%-1.77%; exercise price – NIS 55.86; and life of the option – 3.2-5.9 years. The benefit arising from this grant is charged as an expense in the Financial Statements for the periods commencing on January 1, 2011 and ending on March 31, 2015.

- 5.2** Further to Notes 25.7.3 and 40.7 to the Annual Financial Statements, on February 2, 2011 and March 15, 2011 the Board of Directors of Strauss Coffee, as well as the Board of Directors of the Company and the general meeting of the shareholders of Strauss Coffee, respectively, approved a plan for the grant of non-marketable options to senior employees of Strauss Coffee, which reflect (in full dilution) 2.5% of the share capital of Strauss Coffee. In case of a sale of 65% or more of the investments fund TPG shares (which holds 25.1% of Strauss Coffee shares) to the Company, the plan enables the offerees to receive, in place of unvested options, options of the Company in equal value.

As at the date of this Report, out of the total plan, the Strauss Coffee granted 3,430 options to senior managers. The options will vest in five equal portions. 20% of the options were vested as of the grant day and the remainder will vest in four equal tranches on January 1st on each of the years 2011-2014. For part of the offerees, immediate vesting of 40% of the options granted to them has been approved. The net fair value of the benefit is NIS 23.1 million calculated on the basis of the Black-Scholes model. The expected average life of the options is 6.5 years, the discount rate used is 3.36% and the annual standard deviation is 34.3%. The nominal exercise price used is Euro 3,759 per option. The benefit arising from this grant is charged as an expense in the Financial Statements commencing on the fourth quarter of 2010 until the Financial Statements for the periods ending on December 31, 2013.

In addition, on June 15, 2011 Strauss Coffee granted 1,912 options to the CEO of Strauss Coffee, which reflect additional 1% of the share capital of Strauss Coffee. 20% of the options were vested as of the grant day and the remainder will vest in four equal tranches on June 15 on each of the years 2012-2015. The net fair value of the benefit is NIS approximately 14 million, calculated on the basis of the aforementioned model and assumptions. The benefit arising from this grant is charged as an expense in the Financial Statements for the periods commencing on April 1, 2011 and ending on June 30, 2015.

- 5.3** On March 13, 2011 the Compensation and Human Resources Committee of the Board of Directors of the Company approved a grant of 66,000 options to three managers in the Group (22,000 options each), according to the terms and conditions of the compensation plan. Each of the options shall be exercisable into one Ordinary Share of NIS 1 par value of the Company.

The entitlement of each manager to exercise the warrants shall be created in three equal tranches, on March 13 of each of the years 2013-2015. The fair value of the benefit in the framework of this grant, calculated as at March 13, 2011, is approximately NIS 1 million. The main assumptions that served in determining the fair value are the following: share price – NIS 54.34; annualized standard deviation – 26.29%-26.61%; risk-free interest rate – 1.25%-1.92%; exercise price – NIS 52.85; and life of the option – 3.2-5.9 years. The benefit arising from this grant is charged as an expense in the Financial Statements for the periods commencing on January 1, 2011 and ending on March 31, 2015.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 5 – Share-based payment (Cont'd)

5.4 On April 11, 2011 the Board of Directors of the Company, based on the recommendation of the Compensation and Human Resources Committee dated March 13, 2011, approved an amendment to the compensation plan. In accordance with the amendment, the vesting period of the options will be shortened to three years, so that the options will be exercisable in two equal portions commencing the grant date. The amendment will apply to new awards.

5.5 On April 11, 2011 the Board of Directors of the Company, based on the recommendation of the Compensation and Human Resources Committee, approved a grant of 330,000 options to three senior managers in the Group (110,000 options each), according to the terms and conditions of the compensation plan and according to the amendment described in Note 5.4 above. Each of the options shall be exercisable into one Ordinary Share of NIS 1 par value of the Company.

The entitlement of each manager to exercise the warrants shall be created in two equal portions, on April 11 of each of the years 2013-2014. The fair value of the benefit in the framework of this grant, calculated as at April 11, 2011, is approximately NIS 5.1 million. The main assumptions that served in determining the fair value are the following: share price – NIS 56.27; annualized standard deviation – 26.27%-26.68%; risk-free interest rate – 1.6%-1.85%; exercise price – NIS 54.52; and life duration of the option – 3.2-5.9 years. The benefit arising from this grant will be charged as an expense in the Financial Statements for the periods commencing on April 1, 2011 and ending on June 30, 2014.

5.6 On May 17, 2011 the Compensation and Human Resources Committee of the Board of Directors of the Company approved a grant of 44,000 options to three managers in the Group (22,000 options each), according to the terms and conditions of the compensation plan and according to the amendment described in Note 5.4 above. Each of the options shall be exercisable into one Ordinary Share of NIS 1 par value of the Company.

The entitlement of each manager to exercise the warrants shall be created in two equal portions, on May 17 of each of the years 2013-2014. The fair value of the benefit in the framework of this grant, calculated as at May 17, 2011, is approximately NIS 0.55 million. The main assumptions that served in determining the fair value are the following: share price – NIS 52.99; annualized standard deviation – 25.99%-26.48%; risk-free interest rate – 1.6%-1.85%; exercise price – NIS 55.78; and life duration of the option – 4.2-5.2 years. The benefit arising from this grant is charged as an expense in the Financial Statements for the periods commencing on April 1, 2011 and ending on June 30, 2014.

5.7 During the reported period, 91,555 share options that were granted to employees were exercised into 42,602 shares in consideration for their par value.

Notes to the Consolidated Interim Financial Statements

Unaudited

Note 6 – Contingent liabilities

- 6.1** Further to Note 26.1.1.1 to the Annual Financial Statements, on January 10, 2011 the District Court in Tel Aviv – Yafo approved the settlement agreement signed by and between the parties to a suit and to a motion for approval of the suit as a class action, relating to the marking of dairy products containing raw gelatin which had been imported from abroad.

According to the settlement agreement approved by the court as aforesaid, the Company undertook to award the public consumer benefits estimated by the Company at a total amount of eight and a half million Shekels. The benefit will be awarded in donations of the Company's products to the needy, the grant of discounts on a variety of the Company's dairy products, and a monetary donation to children's wards in hospitals in the periphery.

Additionally, the Company compensated the plaintiffs and their legal representatives for legal fees in an amount of NIS 0.8 million.

- 6.2** Further to Note 26.1.1.6 to the Annual Financial Statements, on April 17, 2011 the District Court, Center District, approved the removal of the personal and class action claims, which were files against the subsidiary Yad Mordechai Apiary – Strauss Ltd, in respect to the labels of one of its products, without charging for expenses.

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 month period ended June 30, 2011 and in the corresponding period of prior year, other than purchasing fixed and intangible assets on credit in the amount of NIS 34.5 million and NIS 40 million, respectively.

In the year ended December 31, 2010, the Company purchased fixed and intangible assets on credit in the amount of NIS 67 million.

Note 8 - Subsequent Events

- 8.1** On July 31, 2011 Strauss Coffee signed an agreement with the SUCAFINA Group to acquire the "Ambassador" brands of freeze-dried instant coffee and roast and ground coffee products, sold in Russia, Ukraine and Moldavia.

Strauss Coffee will pay USD 8 million in exchange for the brands, once the ownership transfer is completed, and will also pay USD 2.4 million in exchange for the acquired business and for the obligation of the sellers to non-competition. In addition, a subsidiary of Strauss Coffee will acquire stock and equipment in exchange for the lower between their net book value and their fair value.

The purchase will be financed by independent resources of Strauss Coffee B.V and its subsidiary. No additional material investments are expected to be required in relation to the acquired business.

- 8.2** On August 12, 2011 a subsidiary distributed a cash dividend to its shareholders at the amount of approximately NIS 86 million. The portion of non-controlling interests holders in the dividend is approximately NIS 21 million.