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STRAUSS GROUP LTD.

BOARD OF DIRECTORS' REPORT

TO THE SHAREHOLDERS

AS AT JUNE 30, 2014

STRAUSS GROUP LTD.
BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS
FOR THE QUARTER ENDED JUNE 30, 2014

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 engaged mainly in the development, manufacture, sale and marketing of a variety of branded food and beverage products. The Group is also active in the development, marketing, sale and servicing of water filtration and purification products.

The center of the Group's activity is in Israel, where it is the second-largest company in the food and beverage market. In the first half of 2014 the Group held an 11.8% share of the domestic food and beverage market (in value terms[1]), and it has the highest sales turnover among Israeli food companies (according to the Company's non-GAAP sales turnover). The Group is also active mainly in Brazil (through Três Corações[2], a company jointly held by the Group (50%) and by a local São Miguel group (50%)), in the former USSR countries, in Central and Eastern European countries and in North America.

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

The 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 has five segments of activity and "Other Operations". For information on the activity segments, see Note 29 to the Annual Consolidated Financial Statements of the Company for the year 2013 (hereinafter: the **"Annual Financial Statements"**):

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

<u>Health & Wellness</u> – these products include yogurts, dairy desserts, soft cheeses, fresh milk products, milk beverages, refrigerated Mediterranean salads (hummus, tahini, eggplant, etc.), cut vegetables, fresh pasta products, cereal and granola bars, honey products, olive oil and fruit preserves, as well as other products (mainly natural fruit juices and long-life milk) which are exclusively sold and distributed by the Company.

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

Strauss Israel is active in two main business segments 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 successful response to these trends.

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1 According to StoreNext figures. StoreNext engages in the measurement of the regular everyday consumer goods market in the barcoded retail market (hereinafter: **"StoreNext"**).

2 Três Corações (3C) – Brazil – a company jointly held by the Group (50%) and by a local São Miguel group (50%) (data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

The coffee operation – Strauss Coffee: This business area comprises two segments of activity: Israel Coffee (which includes the Coffee Company's corporate center), and the International Coffee business. In this operation the Group develops, manufactures, sells, markets and distributes a variety of branded coffee products, chocolate drinking powders and other powdered drinks. Additionally, in the framework of its activity in Brazil Três Corações develops, processes, sells, markets and distributes a variety of branded coffee products, corn products, paper filters for filter coffee, instant coffee, cappuccino, liquid cappuccino, chocolate drinks and powdered juice drinks. Três Corações also sells green coffee, mainly to customers outside of Brazil.

Coffee activities are conducted in Brazil, in the former USSR countries, in Eastern and Central European countries, and in Israel. The Company's products are sold through various channels including retail channels for home consumption and different channels catering to away-from-home consumption (cafés, restaurants, institutions, workplaces, etc.).

The International Dips and Spreads activity: The Group develops, manufactures, sells, markets and distributes dips and spreads through ventures which are jointly controlled by the Group and PepsiCo – Sabra throughout the USA and Canada, and Obela in Mexico and Australia.

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" segment. The main activities among these operations are:

Strauss Water: The Group is active in the development, manufacture, marketing, sale and servicing of water filtration and purification products. The operation is carried out in three major markets: Israel, China, and England.

Max Brenner: The Group develops, manufactures and sells premium chocolate products under the Max Brenner brand, and operates, itself or through franchisees, a chain of "Chocolate Bars", which, at the date of publication of this report, includes fifty-five locations in Israel and abroad.

The Group has approximately 10,500 employees, excluding half of the employees of the jointly controlled companies (approximately13,500 employees are employed in all of the companies in the Group, about half of them in Israel).

The Group's business is conducted in four major geographical regions: **Israel**, where operations include the activity of Strauss Israel (the sale of a broad variety of fresh and dry food products), the coffee operation in Israel, Strauss Water's activity in Israel and Max Brenner in Israel; **Brazil**, where the activity is managed through Três Corações (as described above) and focuses mainly on roast and ground (R&G) coffee in the domestic market; **Europe**, where activity mainly includes the coffee business in Russia, Ukraine and Central and Eastern Europe; and **the USA and Canada**, where activity includes Sabra's operations and part of the Max Brenner business (excluding Max Brenner in Israel).

In 2012 the Group initiated activities in Australia and Mexico through Obela. The Group also operates in China and the UK through Strauss Water.

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

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

Sales of Fun & Indulgence and coffee products in Israel are characterized by seasonality and are generally higher in the first quarter of the year. Seasonality is affected mainly by the winter months, when greater consumption of chocolate products and hot beverages is typical, and by increased consumption of Fun & Indulgence products as Passover approaches.

In Health & Wellness products there is no distinct trend of seasonality, but income is generally relatively higher in the third quarter of the year – the hot summer months, which are characterized by greater consumption of dairy products.

International coffee sales are usually higher in the fourth quarter of the year, a period that is characterized by increased purchases of coffee products due to the timing of the Christian holidays and the end of the (Gregorian) year.

Income in the water business is also influenced by seasonality, as the demand for cold water solutions increases in the summer. Accordingly, the third quarter each year is characterized by greater activity volumes than the other quarters.

CHANGES IN THE ECONOMIC ENVIRONMENT

Compared to the corresponding period last year, the first half of 2014 was characterized by continuing volatility in the prices of the Company's raw materials, coupled with increases in the prices of some production inputs such as municipal rates and taxes. Green Arabica coffee prices in the first half of the year were higher than in the corresponding period last year, as were cocoa and sesame prices. In early July this year, the target price of raw cow's milk (the "target price") was raised by approximately NIS 0.14 per liter (an increase of 6.5%).

Additionally, in the half a mixed trend was noted in the impact of currencies in the countries where the Group is active in relation to the Shekel. In the first half of 2014 most of these currencies weakened versus the Shekel, led by the Ruble and the Ukrainian Hryvnia. An analysis of the impact on the Group's sales is presented below.

The changes in the exchange rates of the various currencies compared to the corresponding period last year led to changes in the Shekel value arising from the translation into Shekels of the Company's business results in some markets and to a decrease in the Group's shareholders' equity.

The Group is unable to predict future developments in commodities or currency markets, but is taking the steps it considers necessary in order to be prepared for the different scenarios and to deal with them in the optimum manner.

The political crisis in Ukraine – in the shadow of the crisis and in light of the complexity of Russia's relations with the West, the Ukrainian and Russian currencies have devalued significantly since the beginning of the year in relation to the major currencies and the Shekel (approximately 34% and 10%, respectively on or about the date of publication of the report). In an effort to stem the continued devaluation of the Ruble, the Central Bank of Russia raised the interest rate several times, from 5.5% to 8%. The Group continuously monitors macroeconomic developments and the markets in which it is active.

In July, after the date of the statement of financial condition, Operation Protective Edge began. Throughout the entire period, the Company made every effort so that production and sales operations in its plants and sites in southern Israel would not be adversely affected despite the situation in the region. The Company is reviewing the effect of the military campaign on its operations, and estimates that its business results are not expected to be materially impacted.

Price control

In late December 2013 the Ministry of Finance and the Ministry of Agriculture announced the adoption of the recommendations of the Price Committee under Section 3 of the Supervision of Essential Goods and Services Law (1996) with respect to dairy products which are subject to control. At the recommendation of the Price Committee and according to the decision of the Ministers of Finance and Agriculture, since January 2014 white cheese (5% fat, 250 g) and sweet cream (38% fat, 250 ml) have been subjected to control under Chapter 5 of the Supervision of Essential Goods and Services Law, and their retail price was lowered by over 20%.

At the end of March 2014 the Promotion of Competition in the Food Industry Law, 2014 was published in the Official Gazette. The goal of the law, which will enter into effect on January 15, 2015, is to increase competitiveness in the food and consumer goods market in order to lower the retail prices of products by imposing prohibitions and limitations on actions and arrangements between various parties operating in the market, by granting the Anti-Trust Commissioner enforcement powers and by imposing the obligation to publish prices. The law defines, *inter alia*, prohibitions and limitations on actions and arrangements between the food suppliers and retailers, including: large suppliers or parties acting on their behalf are prohibited from arranging the products in the stores of a large retailer; large suppliers are prohibited from intervening with retailers regarding retail prices changed by the retailer; prohibition against engagements between large suppliers and retailers regarding shelf space; prohibition against making purchases of one product conditional on purchases of another product; retailers are prohibited from cumulatively allocating very large vendors total shelf space in the store that exceeds 50%; the Anti-Trust Commissioner is granted the power to determine the shelf space a retailer will allocate to particular products of a particular supplier, and others. The law also defines arrangements aimed at promoting and ensuring competition in the retail market on the regional level, and the Anti-Trust Commissioner has been granted powers to approve or not to approve the opening of new stores by a retailer in a particular geographical region in certain circumstances. The law determines instructions for large retailers regarding the obligation to publish current information by electronic means on products sold in each of their stores (such as a list of the products, their prices, campaigns and their terms and conditions, etc.). As at the date of the report, the Company is reviewing the provisions of the law and is preparing for its implementation in the course of 2014. It is not possible at the present stage to assess the extent of the anticipated impact of the provisions of the law on the Company's business results in the year 2015 and thereafter.

In April, the Anti-Trust Authority published a manifesto on the subject "Prohibition against Excessive Pricing by Monopoly Owners". As at the date of publication of this report, the Company is reviewing the contents of the manifesto and its possible implications.

In August, after the date of the statement of financial condition, the Supervisor of Prices in the Ministry of Agriculture issued a clarification on the position of the Supervisor and that of the Price Committee with respect to "similar consumer goods" under the Supervision of Essential Goods and Services Law. The clarification determines that enriched products manufactured by the dairies, and in this context, the Yotvata Dairy (enriched Yotvata milk, enriched Yotvata cultured milk, enriched Yotvata sour cream), are not included in the scope of "similar consumer goods", as they offer a substantial supplemental benefit to the consumer. The exclusion is conditional upon prominently emphasizing this fact on the product packaging.

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 2013, 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, 2013.

ANALYSIS OF FINANCIAL RESULTS

Commencing in the first quarter of 2013 the Group has retroactively applied IFRS 11 – Joint Arrangements. The significance of the standard is that the statements of income and statements relating to financial condition, comprehensive income, changes in shareholders' equity and the cash flows of businesses which are jointly controlled by Strauss and a partner are no longer stated according to Strauss's relative holding in the entity as was the practice to date, but in a separate row ("Income of equity-accounted investees", and in other reports in the relevant section). The reporting method does not alter the Group's profit.

It is noted that this is a change in reporting method only and does not attest to any change in the scale of the businesses and in the ownership structure in the Group. Neither does this signify any managerial change in the jointly held businesses.

In view of the fact that the Group's non-GAAP reports and the manner in which Group Management measures the results of the subsidiaries and jointly-held companies have remained unchanged, the Group has continued to present the activity segments in the same manner in which they were presented in prior periods. For the sake of convenience, the next pages present the GAAP reports – which are reported in accordance with IFRS 11, the required adjustments to the non-GAAP reports, and the non-GAAP reports that express the Group's relative share in the operations of the companies as reported in the past.

Strauss Group has a number of jointly controlled companies: Três Corações (in Brazil)[1], Sabra Dipping Company (a subsidiary in North America), Strauss Frito-Lay Ltd. (the salty snack operation in Israel), PepsiCo Strauss Fresh Dips & Spreads International (the international dips and spreads company, Obela) and Haier Strauss Water (a Strauss Water subsidiary in China).

The next pages present the non-GAAP reports, the GAAP reports and the various adjustments made by Company Management in making the transition from the Company's GAAP reports to its non-GAAP reports:

(1) Três Corações (3C) – Brazil – a company jointly held by the Group (50%) and by a local São Miguel group (50%) (data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).

Following are the condensed results of business operations (based on the Company's non-GAAP management reports) for the quarter and the half ended June 30, 2014 and 2013 (in NIS millions)*:

	First Half			Second Quarter		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Sales	**3,922**	**4,029**	***(2.7)***	**1,949**	**2,016**	***(3.3)***
Cost of sales	2,364	2,511	*(5.9)*	1,181	1,265	*(6.7)*
Gross profit – non-GAAP	**1,558**	**1,518**	***2.7***	**768**	**751**	***2.3***
% of sales	39.7%	37.7%		39.4%	37.2%	
Selling and marketing expenses	959	908	*5.6*	485	461	*5.4*
General and administrative expenses	223	211	*5.5*	111	105	*4.2*
Operating profit – non-GAAP	**376**	**399**	***(5.5)***	**172**	**185**	***(6.3)***
% of sales	9.6%	9.9%		8.9%	9.1%	
Financing expenses, net	(56)	(62)	*(9.4)*	(38)	(36)	*5.6*
Income before taxes on income	**320**	**337**	***(4.8)***	**134**	**149**	***(9.1)***
Taxes on income	(99)	(103)	*(3.8)*	(38)	(47)	*(15.7)*
Effective tax rate	31.0%	30.7%		29.4%	31.7%	
Income for the period – non-GAAP	**221**	**234**	***(5.3)***	**96**	**102**	***(6.1)***
Attributable to:						
The Company's shareholders	**168**	**178**	**(5.6)**	**69**	**75**	***(8.7)***
Non-controlling interests	53	56	*(4.4)*	27	27	*1.2*

Following are the condensed results of business operations (based on non-GAAP management reports) of the major business sectors for the quarter and the half ended June 30, 2014 and 2013 (in NIS millions)*:

	First Half			Second Quarter		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Israel						
Net sales	1,503	1,483	*1.4*	713	727	*(1.8)*
Operating profit	166	162	*2.5*	68	68	*0.2*
Coffee						
Net sales	1,774	1,981	*(10.4)*	908	992	*(8.5)*
Operating profit	179	210	*(14.5)*	89	99	*(9.1)*
International Dips and Spreads						
Net sales	320	293	*9.3*	170	159	*7.0*
Operating profit	32	24	*30.9*	18	17	*1.9*
Other						
Net sales	325	272	*19.0*	158	138	*13.7*
Operating profit	(1)	3		(3)	1	
Total						
Net sales	**3,922**	**4,029**	***(2.7)***	**1,949**	**2,016**	***(3.3)***
Operating profit	**376**	**399**	***(5.5)***	**172**	**185**	***(6.3)***

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

Following are the condensed financial accounting statements of income (GAAP) for the quarter and half ended June 30, 2014 and 2013 (in NIS millions)*:

	First Half			Second Quarter		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Sales	**2,636**	**2,752**	***(4.2)***	**1,266**	**1,334**	***(5.1)***
Cost of sales excluding impact of hedging transactions	1,560	1,675	*(6.9)*	751	821	*(8.7)*
Valuation of balance of commodity hedging transactions as at end of period	(9)	17		26	35	
Cost of sales	1,551	1,692	*(8.4)*	777	856	*(9.4)*
Gross profit	**1,085**	**1,060**	***2.4***	**489**	**478**	***2.5***
% of sales	41.2%	38.5%		38.7%	35.8%	
Selling and marketing expenses	664	650	*2.1*	328	331	*(0.9)*
General and administrative expenses	173	159	*8.9*	82	79	*4.2*
Total expenses	**837**	**809**		**410**	**410**	
Share in income of equity-accounted investees	104	87		48	56	
Operating profit before other expenses	**352**	**338**	***4.5***	**127**	**124**	***4.3***
% of sales	13.4%	12.2%		10.1%	9.2%	
Other expenses, net	(18)	(2)		(6)	(5)	
Operating profit after other expenses	**334**	**336**	***(0.5)***	**121**	**119**	***2.6***
Financing expenses, net	(52)	(50)	*5.0*	(36)	(29)	*28.1*
Income before taxes on income	**282**	**286**	***(1.4)***	**85**	**90**	***(5.3)***
Taxes on income	(88)	(86)	*(1.8)*	(34)	(30)	*12.2*
Effective tax rate	31.2%	30.2%		40.2%	33.9%	
Income for the period	**194**	**200**	***(2.6)***	**51**	**60**	***(13.7)***
Attributable to: **The Company's shareholders**	**140**	**151**	***(6.5)***	**29**	**43**	***(32.4)***
Non-controlling interests	54	49	*9.5*	22	17	*22.3*

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

<u>Following are the adjustments to the Company's non-GAAP management reports (NIS millions)*</u>:

- Adjustments for IFRS 11 – change from the equity method in the GAAP report to the proportionate consolidation method (according to the segmental information based on the Group's management accounting (non-GAAP) and internal reports):

	First Half 2014			**First Half 2013**			**Second Quarter 2014**			**Second Quarter 2013**		
	Equity method	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**	**Equity method**	**Change**	**Proportionate consolidation method (formerly applied)**
Sales	**2,636**	**1,286**	**3,922**	**2,752**	**1,277**	**4,029**	**1,266**	**683**	**1,949**	**1,334**	**682**	**2,016**
Cost of sales excluding impact of hedging transactions	1,560	804	2,364	1,675	836	2,511	751	430	1,181	821	444	1,265
Valuation of balance of commodity hedging transactions as at end of period	(9)	-	(9)	17	-	17	26	3	29	35	-	35
Cost of sales	1,551	804	2,355	1,692	836	2,528	777	433	1,210	856	444	1,300
Gross profit	**1,085**	**482**	**1,567**	**1,060**	**441**	**1,501**	**489**	**250**	**739**	**478**	**238**	**716**
% of sales	41.2%	(1.2%)	40.0%	38.5%		37.3%	38.7%	0.3%	37.9%	35.8%		35.5%
Selling and marketing expenses	664	295	959	650	258	908	328	157	485	331	130	461
General and administrative expenses	173	60	233	159	62	221	82	35	117	79	31	110
Share in income of equity-accounted investees	104	(104)	-	87	(87)	-	48	(48)	-	56	(56)	-
Operating profit before other expenses	**352**	**23**	**375**	**338**	**34**	**372**	**127**	**10**	**137**	**124**	**21**	**145**
% of sales	13.4%		9.6%	12.2%		9.2%	10.1%		7.1%	9.2%		7.2%
Other expenses, net	(18)	(1)	(19)	(2)	(1)	(3)	(6)	(1)	(7)	(5)	(1)	(6)
Operating profit after other expenses	**334**	**22**	**356**	**336**	**33**	**369**	**121**	**9**	**130**	**119**	**20**	**139**
Financing expenses, net	(52)	(4)	(56)	(50)	(12)	(62)	(36)	(2)	(38)	(29)	(7)	(36)
Income before taxes on income	**282**	**18**	**300**	**286**	**21**	**307**	**85**	**7**	**92**	**90**	**13**	**103**
Taxes on income	(88)	(18)	(106)	(86)	(21)	(107)	(34)	(7)	(41)	(30)	(13)	(43)
Effective tax rate	31.2%	4.2%	35.4%	30.2%	4.8%	35.0%	40.2%	5.0%	45.2%	33.9%	8.7%	42.6%
Income for the period	**194**	**-**	**194**	**200**	**-**	**200**	**51**	**-**	**51**	**60**	**-**	**60**
Attributable to: The Company's shareholders	**140**	**-**	**140**	**151**	**-**	**151**	**29**	**-**	**29**	**43**	**-**	**43**
Non-controlling interests	54	-	54	49	-	49	22	-	22	17	-	17
Income for the period	194	-	194	200	-	200	51	-	51	60	-	60

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

- ***Additional adjustments to the non-GAAP management reports (share-based payment, valuation of hedging transactions, other expenses and taxes referring to these adjustments)*:***

	First Half			Second Quarter		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Operating profit – according to proportionate consolidation method – after other expenses	**356**	**369**	***(3.3)***	**130**	**139**	***(6.4)***
Share-based payment	10	10		6	5	
Valuation of balance of commodity hedging transactions as at end of period	(9)	17		29	35	
Other expenses	19	3		7	6	
Operating profit – non-GAAP management reports	**376**	**399**	***(5.5)***	**172**	**185**	***(6.3)***
Financing expenses, net	(56)	(62)		(38)	(36)	
Taxes on income	(106)	(107)		(41)	(43)	
Taxes in respect of adjustments to the above non-GAAP operating profit	**7	4		**3	(4)	
Income for the period – non-GAAP	**221**	**234**	***(5.3)***	**96**	**102**	***(6.1)***
Attributable to: The Company's shareholders	**168**	**178**	***(5.6)***	**69**	**75**	***(8.7)***
Non-controlling interests	53	56	*(4.4)*	27	27	*1.2*

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

*** In 2014, includes tax expenses in respect to the influence of possible capital restructuring in Strauss Coffee due to the TPG's exit alternatives from Strauss Coffee.*

ANALYSIS OF THE BUSINESSS RESULTS OF THE GROUP

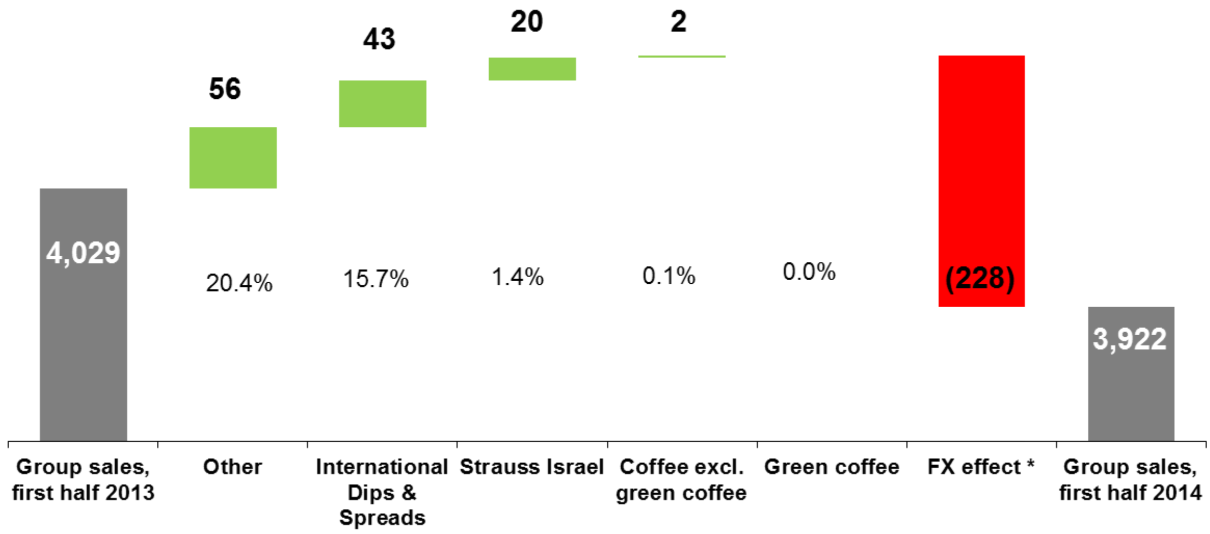
General

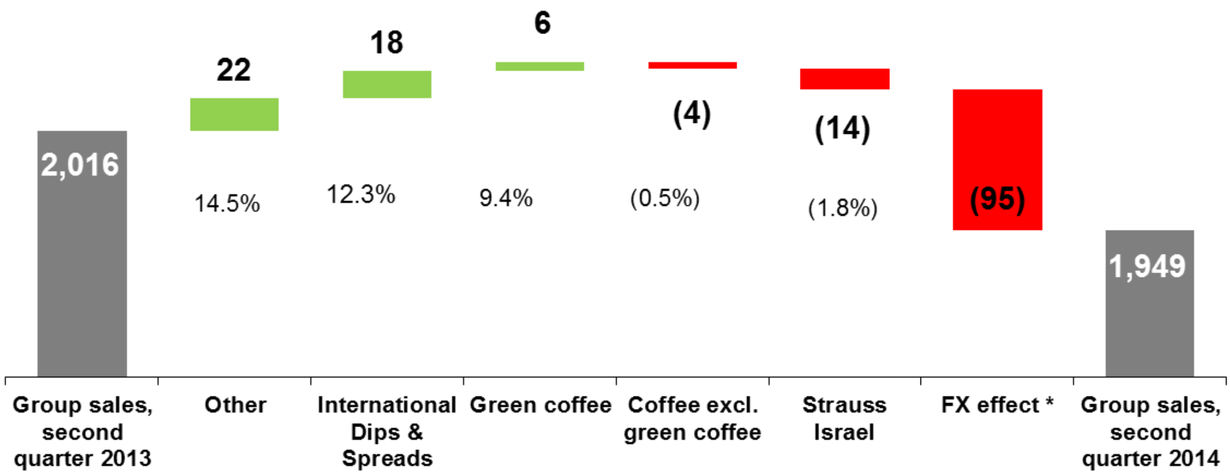
The first half in Strauss Group was marked by a trend of growth in sales by the Group's operations in Israel, in North America (primarily Sabra) and in Strauss Water. By contrast, sales by the coffee operation decreased compared to the corresponding period last year, mainly as a result of the currency impact. In total, in the first half of 2014 organic growth excluding the currency impact amounted to approximately 3.3%, while the Group's sales dropped by 2.7% compared to the corresponding half last year. The Group posts an improvement in the non-GAAP gross profit (approximately 2.7%) which is mainly due to the effect of the mix, of streamlining steps applied by the Group across the organization, and the beneficial impact of the prices of part of the Group's raw materials consumed in the current half. The non-GAAP operating profit in the first half decreased by approximately 5.5% compared to the corresponding period last year, mainly as a result of a significant increase in selling and marketing expenses.

Sales – non-GAAP

	First Half		Second Quarter	
	2014	**2013**	**2014**	**2013**
Sales	3,922	4,029	1,949	2,016
Growth	(2.7%)	0.7%	(3.3%)	4.2%
Organic growth excluding currency impact	3.3%	4.3%	1.7%	8.2%

In the first half and in the second quarter of 2014 the Group's sales decreased by approximately NIS 107 million and NIS 67 million, respectively. Following are the components of the change in sales in these periods in local currency and the rates of increase (decrease) according to the Company's major activity segments in local currency, as well as the overall impact of translation differences (the currency impact) on the Group's sales:





(*) The currency impact is calculated according to the average exchange rates in the relevant period.

Similar to prior periods, the Group's sales in the first half and second quarter of 2014, and Strauss Coffee's sales in particular, were impacted by translation differences into Shekels, which amounted to approximately NIS 228 million and NIS 95 million, respectively, on the Group level. Of these sums, approximately NIS 138 million and NIS 55 million are due to the erosion of the average rate of the Brazilian Real versus the Shekel (approximately 16.1% and 11.6% in the half and in the second quarter, respectively ,compared to the average rate of the Real in the corresponding periods last year).

Excluding the currency impact, the Group's sales grew in the first half by approximately NIS 121 million compared to the corresponding period last year. In the second quarter sales growth in the Group amounted to approximately NIS 28 million compared to the corresponding period last year. Sales growth in local currency was reflected in most of the Company's business segments and was the result of the following factors:

- Growth in sales by the "Other" segment (in the first half and in the second quarter, approximately NIS 56 million and NIS 22 million, respectively), which is mainly due to growth in Strauss Water following growth in the local market and in international operations while expanding the customer base, particularly in the private sector;
- Growth in sales by the International Dips and Spreads operation (in the first half and in the second quarter, approximately NIS 43 million and NIS 18 million, respectively), which is mainly the result of growth in sales by Sabra and reflects continuing significant volume growth in hummus sales as well as strong growth in guacamole sales;
- Growth in sales by Strauss Israel (in the first half, an increase of approximately NIS 20 million as opposed to a decrease in the second quarter, of approximately NIS 14 million). Growth in the half is mainly due to growth in sales volumes and to an improvement in the Company's product mix. Most of the decrease in the second quarter is the result of the timing of the Passover holiday this year, which positively impacted sales in the first quarter;

- A slight growth in sales by the coffee business, excluding green coffee, excluding the currency impact in the first half (approximately NIS 2 million), as opposed to a decrease in the current quarter compared to the corresponding quarter last year (approximately NIS 4 million). On the one hand, the increase in coffee sales in the first half is due to the growth in sales by Três Corações[1] and reflects Strauss Coffee's share (50%), which grew in local currency by approximately 13.8% in the current half compared to the corresponding half last year (Três Corações' sales in local currency, including green coffee, increased by 11.7%). On the other hand, coffee sales in the CEE countries and former USSR companies decreased following the adverse impact of price erosion caused by the growing harshness of the competitive and macroeconomic environment and were also affected by a drop in coffee sales volumes in Poland.
- Green coffee export sales by Três Corações in Brazil remained unchanged in the first half of the year compared to the corresponding period last year, reflecting Strauss Coffee's share (50%), compared to an increase in the second quarter of approximately NIS 6 million compared to the corresponding quarter last year. Growth was influenced by an increase in green coffee prices compared to the corresponding period last year.

Further explanations on the Group's sales are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Gross Profit – Non-GAAP

	First Half			Second Quarter		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Gross profit	1,558	1,518	*2.7*	768	751	*2.3*
Gross profit margin	39.7%	37.7%		39.4%	37.2%	

The Group's non-GAAP gross profit in the first half of 2014 grew by approximately NIS 40 million compared to the corresponding period last year. The gross profit of the Israel sector increased by approximately NIS 22 million, mainly thanks to growth in sales volumes as well as continued streamlining processes in production and an improvement in the Company's product mix. In the International Dips & Spreads operation the non-GAAP gross profit grew by approximately NIS 14 million, mainly as a result of growth in sales and in market share. In the "Other Operations" segment growth amounted to NIS 12 million, mainly due to a change in the sales mix. By contrast, in the coffee operation the gross profit decreased by approximately NIS 8 million, mainly as a result of the decrease in sales by this sector as described above.

The non-GAAP gross profit in the second quarter of 2014 grew by approximately NIS 17 million compared to the corresponding period last year. In the coffee operation the gross profit grew by approximately NIS 11 million as a result of improved profit margins in 3C (Brazil) and the beneficial effect of the cost of green coffee compared to the corresponding period last year. Growth of approximately NIS 11 million is explained by growth in the aggregate gross profit of the International Dips & Spread operation and of the "Other Operations" segment, mainly as a result of the expansion of Strauss Water's international operations. Conversely, the gross profit of the Israel sector decreased by approximately NIS 5 million, mainly as a result of the drop in sales as explained above.

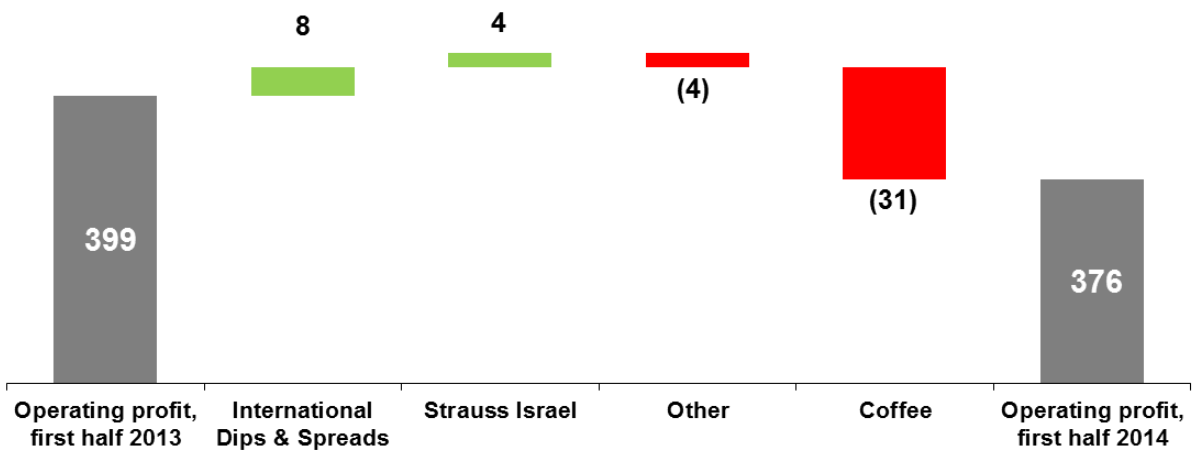
Further explanations on the Group's gross profit are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Operating Profit before Other Expenses – Non-GAAP

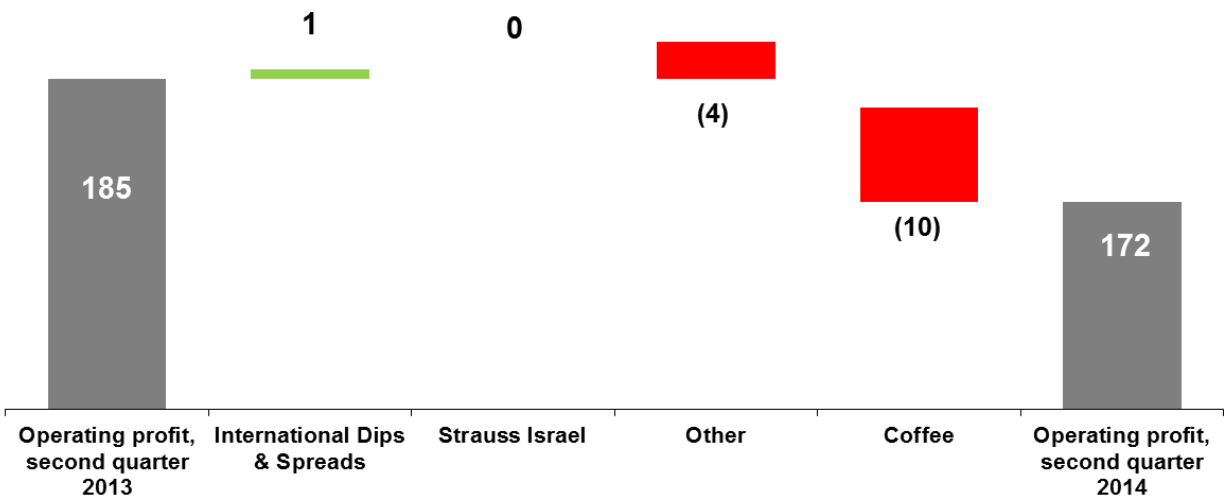
	First Half			Second Quarter		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Operating profit	376	399	*(5.5)*	172	185	*(6.3)*
Operating profit margin	9.6%	9.9%		8.9%	9.1%	

The non-GAAP operating profit in the first half of 2014 decreased by approximately NIS 23 million compared to last year. Following are the components of the change in the non-GAAP operating profit in the half compared to the corresponding period in 2013, according to the Company's major activity sectors:

[1] Três Corações (3C) – Brazil – a company jointly held by the Group (50%) and by a local São Miguel group (50%) (data reflect Strauss Coffee's share (50%) unless expressly stated otherwise).



The non-GAAP operating profit in the second quarter of 2014 decreased by approximately NIS 13 million compared to last year. Following are the components of the change in the non-GAAP operating profit in the quarter compared to the corresponding period in 2013, according to the Company's major activity sectors:



The decrease in the Group's operating profit in the first half and second quarter of the year is due to the decrease in the operating profit of the Coffee sector, which reflects a drop in the operating profit of the CEE countries and former USSR countries that was partly offset by strong operating results in Três Corações (see Três Corações' Alimentos S.A. financial statements, which are attached to the financial statements of the Group this quarter). Additionally, marketing & sales expenses increased in most of the coffee companies, principally Três Corações, among other reasons due to Três Corações' marketing expenses relating to the launch of its TRES single portion multi-beverage system. Conversely, the improvement in the operating profit of the International Dips and Spreads activity is the result of sales volume growth coupled with continued streamlining measures applied in production. The improvement in the operating profit of Strauss Israel was achieved by the growth in gross profit in the half as described above, which was slightly offset by an increase in marketing expenses, particularly in the Fun & Indulgence segment, compared to the corresponding period last year. Further explanations on the Group's operating profit in the reported period are included in the chapter "Analysis of the Business Results of the Group's Major Business Units".

Financing Expenses, Net – Non-GAAP

Net financing expenses in the first half of 2014 totaled NIS 56 million compared to expenses of NIS 62 million last year. Most of the decrease in financing expenses is the result of a decrease in the Consumer Price Index ("CPI") and the revaluation of linked liabilities by 0.2% (on the basis of the known Index) as opposed to an increase of 0.7% in the corresponding half last year. In the first half of 2014 part of the decrease was offset by the recording of expenses from the revaluation of Index derivatives at a higher rate compared to the corresponding period last year.

Net financing expenses in the second quarter of 2014 totaled NIS 38 million compared to expenses of NIS 36 million in the corresponding quarter last year.

Net credit (according to the proportionate consolidation method) as at June 30, 2014 totaled NIS 1,720 million compared to NIS 1,403 million on June 30, 2013 and NIS 1,475 million on December 31, 2013.

Net credit (according to the equity method) as at June 30, 2014 totaled NIS 1,545 million compared to NIS 1,231 million on June 30, 2013 and NIS 1,364 million on December 31, 2013.

Taxes on Income – Non-GAAP

In the first half taxes on income (non-GAAP) amounted to approximately NIS 99 million, reflecting an effective tax rate of 31.0%, whereas last year taxes on income amounted to NIS 103 million and the effective tax rate was 30.7%. The increase in the effective tax rate in the first half is the result of an increase in the corporate tax rate in Israel effective commencing in January 2014, from 25% to 26.5%, which was offset against the profit mix for tax purposes among the companies in the various countries.

Taxes on income (non-GAAP) in the second quarter amounted to approximately NIS 38 million, reflecting an effective tax rate of 29.4%, compared to NIS 47 million last year and an effective tax rate of 31.7%. The decrease in the effective tax rate in the quarter is mainly due to the profit mix for tax purposes among the companies in the various countries, particularly in 3C (Brazil), and was offset by the increase in the corporate tax rate in Israel effective commencing in January 2014, from 25% to 26.5%.

Income for the Period Attributable to the Company's Shareholders – Non-GAAP

	First Half			Second Quarter		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Income attributable to the Company's shareholders	168	178	*(5.6)*	69	75	*(8.7)*
% of sales	4.3%	4.4%		3.5%	3.7%	

Non-GAAP income attributable to the Company's shareholders in the first half of 2014 decreased by approximately NIS 10 million compared to the corresponding period last year. In the second quarter income dropped by approximately NIS 6 million compared to the corresponding quarter in 2013. The decrease in non-GAAP income attributable to the Company's shareholders was the result of the decrease in the Group's non-GAAP operating profit and was offset against a decrease in tax expenses as described above.

Comprehensive Income for the Period (according to the GAAP report)

The GAAP comprehensive income in the first half amounted to approximately NIS 181 million, compared to comprehensive income of NIS 15 million in the corresponding period last year. In the reported period losses in respect of translation differences, which are the main component of the comprehensive income, amounted to NIS 16 million compared to losses of NIS 188 million from translation differences in the corresponding period last year.

The GAAP comprehensive income in the second quarter totaled approximately NIS 52 million, compared to a comprehensive loss of NIS 43 million in the corresponding period last year. In the reported period losses in respect of translation differences, which are the main component of the comprehensive income, amounted to NIS 4 million compared to losses of NIS 106 million from translation differences in the corresponding quarter last year.

These translation differences are the result of the weakening of part of the Group's functional currencies abroad in relation to the Shekel, which was expressed in the quarterly movement in the foreign currency translation reserve.

LIQUIDITY, SOURCES OF FINANCE AND FINANCIAL CONDITION (ACCORDING TO THE GAAP REPORT)

In the first half of 2014

Cash flows provided by operating activities amounted to a positive cash flow of approximately NIS 77 million, compared to NIS 135 million in the corresponding period last year. The decrease in cash flows provided by operating activities is mainly due to changes in working capital in the reported period versus the corresponding period.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 161 million compared to a negative cash flow of NIS 206 million last year. The difference is mainly due to the purchase of securities and deposits on a small scale in the reported period, compared to the purchase of securities in the corresponding period last year.

Cash flows provided by (used in) financing activities amounted to a negative cash flow of NIS 94 million compared to a positive cash flow of NIS 41 million provided by financing activities in the corresponding period last year. The change is primarily due to a dividend paid to the non-controlling interest holders in the first half of the year, and to a change in payables in jointly-held companies.

In the second quarter of 2014

Cash flows provided by operating activities amounted to a positive cash flow of approximately NIS 58 million, compared to NIS 158 million in the corresponding quarter last year. The decrease in cash flows provided by operating activities is mainly due to changes in working capital in the reported period versus the corresponding quarter last year.

Cash flows used in investing activities amounted to a negative cash flow of approximately NIS 240 million compared to a negative cash flow of NIS 145 million last year. The difference is mainly due to the purchase of securities and deposits on a large scale in the current period compared to the corresponding period last year.

Cash flows provided by (used in) financing activities amounted to a positive cash flow of NIS 113 million compared to a negative cash flow of NIS 185 million from financing activities in the corresponding period last year. The change is due to the expansion of Debentures Series D in the current quarter, compared to the redemption of debentures last year.

The Company's cash and cash equivalents as at June 30, 2014 totaled NIS 588 million, compared to NIS 772 million on December 31, 2013. In accordance with Company policy, these assets are invested mainly in deposits (most of them in Shekels and Dollars). Additionally, the Company has short-term investments in securities (financial funds, government bonds and highly rated corporate debentures).

The Company's liquidity ratio as at June 30, 2014 is 1.71 compared to 1.63 on December 31, 2013. On June 30, 2014 liabilities in respect of long-term loans and credit (including current maturities) amounted to NIS 2,431 million compared to NIS 2,382 million on December 31, 2013. On June 30, 2014 short-term credit (excluding current maturities) amounted to NIS 11 million; on December 31, 2013 the Company had no short-term credit (excluding current maturities). On June, 2014 supplier credit totaled NIS 678 million, compared to NIS 769 million on December 31, 2013.

Total assets in the Company's consolidated statement of financial condition as at June 30, 2014 amounted to NIS 6,660 million, compared to NIS 6,643 million on December 31, 2013.

Reportable credit – further to Note 22.3 to the Periodic Report – Financial Criteria – the ratio of equity attributable to the Company's shareholders to total assets in the Company's consolidated statement of financial condition as at June 30, 2014 is 28.2%, compared to 26.3% on December 31, 2013. The net financial debt-to-EBITDA ratio as at June 30, 2014 is 1.7, compared to 1.5 on December 31, 2013. The Company is in compliance with the required financial criteria.

On June 11, 2014 the Company expanded the Debentures Series D and listed them for trading on the Tel Aviv Stock Exchange. For further information, see Note 4.3 to the consolidated interim financial statements as at June 30, 2014.

Following IFRS 11 becoming effective on January 1, 2013 the Company elected to include a number of relevant data that correspond to the GAAP reporting method that was in practice prior thereto. The data below are in the proportionate consolidation method (as reported by the Company up to and including 2012). The Company reserves the right not to include this information in the future.

	First Half		**Second Quarter**		**Year Ended December 31**
	2014	**2013**	**2014**	**2013**	**2013**
Cash flow provided by operating activities (in the proportionate consolidation method)	128	240	113	240	716
Acquisition of fixed assets and investment in intangibles and deferred expenses (in the proportionate consolidation method)	257	201	125	109	482
Net debt balance as at the report date (in the proportionate consolidation method)	1,720	1,403	1,720	1,403	1,475
Depreciation and amortization (excluding impairment):	109	110	55	54	223
Strauss Israel:					
Health and Wellness	24	24	12	12	50
Fun and Indulgence	13	14	6	7	28
Strauss Coffee:					
Israel Coffee	5	6	2	2	14
International Coffee	30	31	15	15	59
International Dips & Spreads	9	10	4	5	19
Other	28	25	16	13	53

The Group's EBIDTA (non-GAAP) totaled approximately NIS 485 million in the first half of the year compared to NIS 509 million in the corresponding period last year, a decrease of 4.9%. EBITDA (non-GAAP) in the second quarter totaled approximately NIS 227 million compared to NIS 239 last year, a decrease of 5.4%

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

Strauss Coffee

On July 4, 2013 the Company announced that it was conducting a review together with TPG Capital, the non-controlling interest holder in Strauss Coffee, to review TPG's exit alternatives from Strauss Coffee. As at the date of the report, a non-binding document for the regulation of certain issues in the process has been signed.

Following are the condensed results of business operations based on non-GAAP management reports of the Coffee Company by reported segments for the quarters ended June 30, 2014 and 2013 (in NIS millions):

	First Half			**Second Quarter**		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Israel Coffee						
Net sales	356	362	*(1.7)*	151	155	*(2.8)*
Operating profit	54	54	*(1.3)*	13	16	*(19.1)*
% operating profit	15.0%	15.0%		8.4%	10.1%	
International Coffee						
Net sales	1,418	1,619	*(12.4)*	757	837	*(9.6)*
Operating profit	125	156	*(19.1)*	76	83	*(7.2)*
% operating profit	8.9%	9.6%		10.1%	9.9%	
Total Strauss Coffee						
Net sales	**1,774**	**1,981**	***(10.4)***	**908**	**992**	***(8.5)***
Organic growth excluding currency impact	**0.1%**	**3.8%**		**0.2%**	**7.4%**	
Gross profit	**650**	**658**	***(1.3)***	**330**	**319**	***3.5***
% gross profit	**36.6%**	**33.2%**		**36.4%**	**32.2%**	
Operating profit	**179**	**210**	***(14.5)***	**89**	**99**	***(9.1)***
% operating profit	**10.1%**	**10.6%**		**9.8%**	**9.9%**	

Sales

In the first half of 2014 Strauss Coffee's sales decreased by approximately NIS 207 million. Translation differences into Shekels in the coffee business amounted to NIS 209 million in the period, of which NIS 138 million were the result of the erosion of the average exchange rate of the Brazilian Real versus the Shekel (approximately 16.1% erosion compared to the average exchange rate in the corresponding period last year) and NIS 61 were the result of the currency erosion in Russia and Ukraine.

In the second quarter of 2014 Strauss Coffee's sales decreased by approximately NIS 84 million. Translation differences into Shekels in the coffee business amounted to NIS 86 million in the period, of which NIS 55 million were the result of the erosion of the average exchange rate of the Brazilian Real versus the Shekel (approximately 11.6% compared to the average exchange rate in the corresponding period last year) and NIS 30 were the result of the currency erosion in Russia and Ukraine.

Coffee sales reflect growth in sales by Três Corações, which increased by 11.7% in local currency in the current half compared to the corresponding period last year (sales include green coffee export sales and reflect Strauss Coffee's share (50%)). Conversely, coffee sales in the CEE countries and former USSR companies decreased following the adverse impact of price erosion caused by the growing harshness of the competitive and macroeconomic environment and were also affected by a drop in sales volumes in Poland.

Organic growth of the entire Coffee sector, excluding the currency impact and the decrease in green coffee export sales from 3C (Brazil), amounted to 0.1% in the first half of the year compared to the corresponding period in 2013.

Gross profit

In the first half of 2014 the gross profit decreased by NIS 8 million compared to the corresponding period last year. Gross profit margins improved by 3.4%, amounting to 36.6% in the half.

In the second quarter of the year the gross profit increased by NIS 11 million compared to the corresponding quarter last year. Gross profit margins improved by 4.2%, amounting to 36.4%. The increase in the gross profit is mainly the result of the improvement in profit margins in Brazil and of the beneficial effect of the cost of green coffee compared to the corresponding period, and was partly offset by the erosion of the exchange rates of the Brazilian Real, the Russian Ruble and the Ukrainian Hryvnia versus the Dollar and by an increase in commercial discounts.

Operating profit

In the first half of 2014 the operating profit of the Coffee sector decreased by NIS 31 million. The operating profit margin dropped by 0.5% and amounted to 10.1% in the half.

In the second quarter of the year the operating profit of the Coffee sector decreased by NIS 10 million. The operating profit margin dropped by 0.1% and amounted to 9.8% in the second quarter of 2014.

The decrease in the operating profit is mainly due to an increase in marketing expenses in most of the coffee companies, particularly in Três Corações (due mainly to the launch of its TRES single portion multi-beverage system), and is partly offset by an increase in gross profit margins.

Strauss Coffee sales by major geographical regions

Following is the scope of sales by the Coffee sector in the major geographical regions (excluding intercompany sales), and growth rates for the quarters ended June 30, 2014 and 2013 (in NIS millions):

	First Half				Second Quarter			
Geographical region	**2014**	**2013**	**% chg**	**% change in local currency***	**2014**	**2013**	**% chg**	**% change in local currency***
Israel Coffee	**356**	**362**	***(1.7)***	***(1.7)***	**151**	**155**	***(2.8)***	***(2.8)***
International Coffee								
Três Corações (Brazil)(1)(2)(3) 50%	822	874	*(6.0)*	*11.7*	443	467	*(5.1)*	*7.5*
Former USSR countries	271	340	*(19.7)*	*(2.0)*	140	165	*(15.0)*	*3.9*
Poland	135	188	*(28.2)*	*(27.6)*	68	92	*(26.0)*	*(26.8)*
Romania	107	114	*(6.0)*	*(3.6)*	59	59	*1.4*	*1.7*
Serbia	83	103	*(19.6)*	*(15.8)*	47	54	*(13.3)*	*(10.4)*
Total International Coffee	**1,418**	**1,619**	***(12.4)***	***0.9***	**757**	**837**	***(9.6)***	***1.1***
Total Coffee	**1,774**	**1,981**	***(10.4)***	***0.1***	**908**	**992**	***(8.5)***	***0.2***

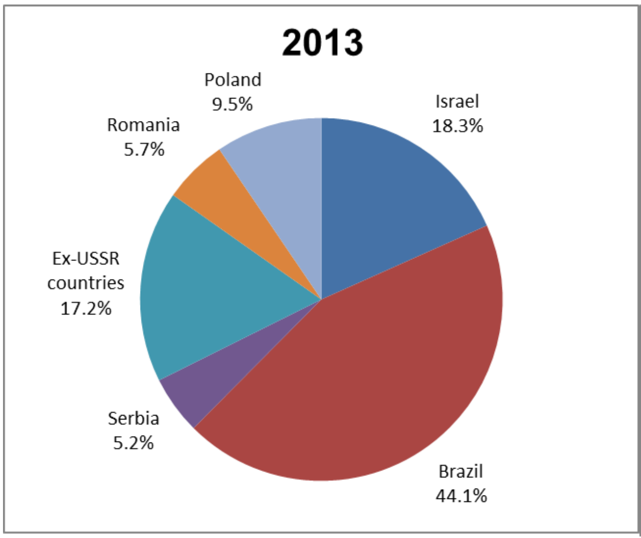
* The growth rate in local currency neutralizes the impact of changes in exchange rates in the different countries in relation to the Shekel on the growth in the countries' sales.

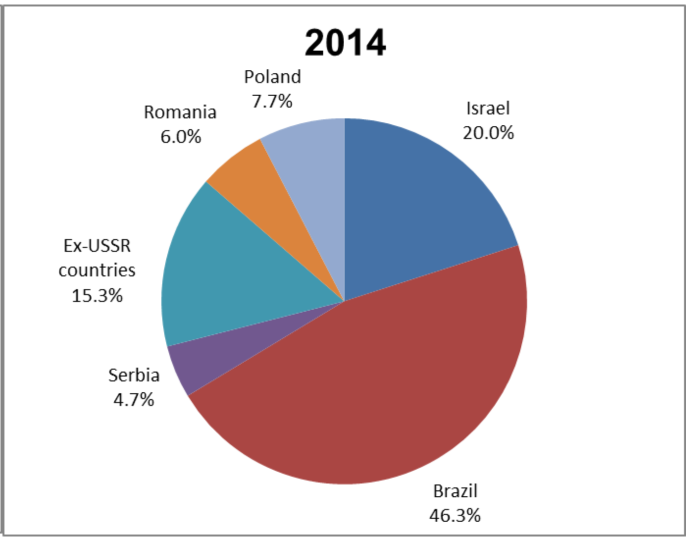
(1) Brazil sales in the first half of 2014 include sales amounting to NIS 112 million of green coffee and NIS 31 million of corn. In the first half of 2013 sales of green coffee amounting to NIS 132 million and corn amounting to NIS 37 million were included.

(2) Brazil sales in the second quarter of 2014 include sales amounting to NIS 67 million of green coffee and NIS 16 million of corn. In the second quarter of 2013 sales of green coffee amounting to NIS 69 million and corn amounting to NIS 19 million were included.

(3) Brazil (Três Corações) – a company jointly held by the Group (50%) and by a local São Miguel group (50%) (data reflect Strauss Coffee's share (50%).

Distribution of coffee sales by geographical region in the first half of 2014 and 2013:





3C – Brazil (Três Corações) – a company jointly held by the Group (50%) and by a local São Miguel group (50%) (data reflect Strauss Coffee's share (50%))

Três Corações' average market share in roast and ground (R&G) coffee in the first half of 2014 reached approximately 21.9% (value market share according to A.C. Nielsen), compared to 21.1% in the corresponding period last year (market share reflects 100% of Três Corações' sales).

Três Corações' sales in local currency increased by 11.7%; data reflect Strauss Coffee's share (50%). Most of the growth originates in R&G sales. The growth in Três Corações' sales reflects volume growth as well as price increases introduced in April this year in light of the increase in green coffee prices in Brazil.

Following 3C (Brazil) Management's continuing focus on improving R&G margins and as a result of the continuing growth in sales, Três Corações's gross profit continued to improve considerably compared to the corresponding period last year. Accordingly, the operating profit in local currency also grew (see Três Corações' Alimentos S.A. financial statements, which this quarter are attached to the financial statements of the Group). The improvement in the operating profit was achieved despite an increase in the company's marketing expenses, which included marketing effort in respect of the single portion coffee and other beverages segment.

The former USSR countries

The Company's sales in the region decreased by NIS 69 million and NIS 25 million in the first half and second quarter of 2014, respectively, compared to the corresponding periods last year. Excluding the impact of translation differences into Shekels, there was decrease in the half of approximately NIS 8 million and an increase of NIS 5 million in the second quarter of this year (16.0% and 13.6% erosion, respectively, compared to the average exchange rate of the Ruble in the first half and second quarter last year). Additionally, the decrease in sales was influenced mainly by the erosion of prices against the backdrop of a challenging competitive environment and exacerbation of the macroeconomic environment.

Poland

The Company's sales in Poland dropped by approximately NIS 53 million and NIS 24 million in the first half and second quarter of 2014, respectively, compared to the corresponding periods last year. Sales were mainly impacted by a decrease in sales volumes in Poland and by price erosion due to the exacerbation of the competitive environment. Additionally, Shekel sales were affected by the erosion of the average exchange rate of the Zloty versus the Shekel in the first half of 2014 (0.9% erosion compared to the average exchange rate of the Zloty in the first half of 2013).

Romania

The Company's sales in Romania decreased by approximately NIS 7 million in the first half of 2014 compared to the corresponding period last year. In the second quarter sales totaled NIS 59 million, similar to last year. Sales were mainly influenced by the growing harshness of the competitive environment compared to the corresponding period last year and by the erosion of the average exchange rate of the Romanian Lei in the first half of 2014 (2.6% erosion compared to the average exchange rate of the Lei in the first half last year).

Serbia

The Company's sales in Serbia decreased by approximately NIS 20 million and NIS 7 million in the first half and second quarter of 2014, respectively, compared to the corresponding periods last year. Sales were impacted mainly by a consumer trend of preferring cheaper coffee, price erosion due to the exacerbation of the competitive environment, and erosion of the exchange rate of the Serbian Dinar versus the Shekel (4.7% and 3.3% erosion, respectively, compared to the corresponding periods last year).

Israel

The Company's sales in Israel decreased by NIS 6 million and NIS 4 million in the first half and second quarter of 2014, respectively, compared to the corresponding periods last year, mainly due to the sales mix, a certain decrease in sales volumes and effective price decreases.

The operating profit of Israel Coffee remained unchanged in the first half of 2014 and decreased by approximately NIS 4 million in the second quarter compared to the corresponding period last year, mainly as a result of the drop in sales as well as an increase in green coffee prices compared to the corresponding periods last year.

The Group's Activity in Israel

The Strauss Group is the second-largest company in the Israeli food industry, and in the second quarter of 2014 according to StoreNext figures held an 11.8% share of the total retail domestic food and beverage market in financial value terms. The Israeli market is the Group's home market, where it is active in various categories. According to StoreNext, in the first half of 2014 the Israeli food and beverage market dropped by 0.8% in financial value.

Sales by Strauss Group's entire operation in Israel include the Health & Wellness and Fun & Indulgence divisions, the coffee operation in Israel, Max Brenner in Israel and Strauss Water Israel (Tami4).

In the first half sales by the Strauss Group's entire activity in Israel totaled approximately NIS 2,077 million compared to NIS 2,049 million last year, an increase of 1.4%. In the second quarter total Israel sales amounted to NIS 971 million compared to NIS 986 million last year, a decrease of 1.5%.

Strauss Israel

Following are the condensed results of business operations based on non-GAAP management reports of Strauss Israel by activity segments, for the quarters ended June 30, 2014 and 2013 (in NIS millions):

	First Half			**Second Quarter**		
	2014	**2013**	**% Chg**	**2014**	**2013**	**% Chg**
Health & Wellness segment						
Net sales	979	958	*2.2*	500	504	*(0.7)*
Operating profit	100	86	*15.5*	51	47	*7.0*
% operating profit	10.1%	9.0%		10.1%	9.4%	
Fun & Indulgence segment						
Net sales	524	525	*(0.1)*	213	223	*(4.2)*
Operating profit	66	76	*(12.2)*	17	21	*(15.5)*
% operating profit	12.6%	14.4%		8.0%	9.0%	
Total Strauss Israel						
Net sales	**1,503**	**1,483**	***1.4***	**713**	**727**	***(1.8)***
Gross profit	**613**	**591**	***3.8***	**286**	**291**	***(1.6)***
% gross profit	**40.8%**	**39.8%**		**40.2%**	**40.1%**	
Operating profit	**166**	**162**	***2.5***	**68**	**68**	***0.2***
% operating profit	**11.0%**	**10.9%**		**9.5%**	**9.3%**	

In the first half of 2014 Strauss Israel posted a growth in sales coupled with an improvement in the gross profit margin attributed mainly to growth in sales volumes, which was reflected in the Group's market share, along with the implementation of streamlining processes, product innovation and an improvement in the sales mix.

<u>Sales</u>

In the first half of 2014 Strauss Israel's sales grew by approximately NIS 20 million. In the Health & Wellness segment growth amounted to 2.2% (approximately NIS 21 million), and in Fun & Indulgence decreased by 0.1% (NIS 1 million). The growth in Health & Wellness is the result of growth in sales volumes and an improvement in the Company's product mix.

In the second quarter Strauss Israel's sales dropped by approximately NIS 14 million. In Health & Wellness sales decreased by 0.7% (approximately NIS 4 million), and in Fun & Indulgence the decrease amounted to 4.2% (NIS 10 million). The drop in Fun & Indulgence sales is due, among other things, to the reduced number of distribution days due to the timing of Passover this year, which fell in the first quarter, as opposed to the corresponding quarter last year.

<u>Gross profit</u>

In the first half of 2014 Strauss Israel's gross profit increased by approximately NIS 22 million, with a 1.0% improvement in the gross profit margin, compared to the corresponding half last year. The growth in the gross profit in the half mainly reflects growth in sales volumes, an improvement in the Company's product mix and the continued assimilation of streamlining processes in production.

Strauss Israel's gross profit in the second quarter of this year dropped by approximately NIS 5 million, compared to the corresponding quarter last year. The decrease in profit was a result in the decrease in sales volumes.

Operating profit

In the first half of 2014 Strauss Israel's operating profit increased by approximately NIS 4 million, while the operating profit margin rose by about 0.1% and amounted to 11.0% of sales. The operating profit grew following the growth in gross profit, but was slightly eroded by an increase in marketing expenses, mainly in the Fun & Indulgence segment, compared to the corresponding period last year.

Strauss Israel's operating profit in the second quarter of 2014 amounted to approximately NIS 68 million, similar to the corresponding quarter last year, and the operating profit margin rose by 0.2%, amounting to 9.5% of sales.

The International Dips and Spreads Activity

The Group develops, manufactures, sells, markets and distributes dips and spreads through Sabra in the USA and Canada, and through Obela in Mexico and Australia. The activities of Sabra and Obela are each carried out through joint ventures between the Group and PepsiCo (each party holds 50%). The Group's holdings in Sabra and Obela are treated in the equity method.

Sabra

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

	First Half		Second Quarter	
	2014	2013	2014	2013
Sales	608	554	324	306
Growth	9.9%	15.8%	6.1%	20.3%
Organic growth excluding currency impact	15.7%	20.2%	11.1%	27.1%
Operating profit before other expenses	84	68	46	45
% operating profit	13.8%	12.2%	14.3%	14.7%

According to IRI, Sabra's value market share of the total refrigerated flavored spreads category in the 24 weeks ended on June 15, 2014 was 28.7% (Number 1 in the market), compared to 28.6% in the corresponding period last year. Sabra's value market share of the hummus category in the same period was 64.3%, compared to 63.2% last year. In the third quarter of 2013 IRI changed its market share calculation method, and the comparative figures for the corresponding quarter were amended accordingly.

In the same period, according to IRI, Sabra led approximately 43% of the growth of the refrigerated flavored spreads category and approximately 70% of the growth of the hummus category.

Sales

Sabra's sales grew by approximately NIS 54 million in the first half of 2014 compared to the corresponding period last year. Shekel sales were adversely impacted by the erosion of the average exchange rate of the US Dollar versus the Shekel (5.1%) in the first quarter of 2014. Sales growth in the half excluding the currency impact amounted to 15.7% compared to last year.

In the second quarter sales increased by approximately NIS 18 million compared to the corresponding quarter last year. Shekel sales were adversely impacted by the erosion of the average exchange rate of the US Dollar versus the Shekel (4.5%) in the second quarter of 2014. Sales growth in the quarter excluding the currency impact amounted to 11.1% compared to last year.

Most of the growth in sales in the first half and second quarter was due to significant volume growth in hummus sales, including single portion packs ("Grab & Go"). Strong growth was also posted in guacamole sales.

Operating profit before other expenses

In the first half the operating profit before other expenses increased by NIS 16 million, with a 1.6% improvement in the operating profit margin compared to the corresponding period last year.

In the second quarter of 2014 the operating profit before other expenses increased by NIS 1 million, with 0.4% erosion of the operating profit margin compared to the corresponding quarter last year.

The growth in the operating profit was mainly due to the growth in sales volumes, as well as to various continuing streamlining processes in production, which were partly offset by the increase in sesame prices.

Obela

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

Sales

Obela's sales in the first half of 2014 amounted to NIS 32 million, similar to the corresponding period last year. Sales growth in the half excluding the currency impact amounted to 15.4% compared to last year.

In the second quarter Obela's sales amounted to NIS 18 million, compared to NIS 13 million in the corresponding quarter last year. Sales growth in the quarter excluding the currency impact amounted to 41.9% compared to last year.

The non-GAAP operating loss totaled NIS 20 million in the first half, compared to NIS 19 million in the corresponding period last year.

The non-GAAP operating loss in the second quarter amounted to approximately NIS 10 million, compared to approximately NIS 10 million last year.

Other Operations

The Group has activities which are included in the financial statements as the "Other Operations" segment. The main activities in this segment are Strauss Water and Max Brenner.

Strauss Water

Strauss Water China continues to implement its expansion strategy in the Chinese market. As at the date of publication of this report, the company sells a variety of Strauss Water products in over thirty-five cities in China.

In November 2013 Strauss Water launched another innovative appliance in the Israeli market, the Tami4 Bubble Bar, which, besides hot and cold water, also dispenses carbonated water. The appliance is a technological breakthrough in the water bar category and is the only one of its kind which dispenses a single-press serving of carbonated water. In January 2014 the full launch of the appliance in the domestic market was initiated, in addition to the Tami4 Primo and Tami4 Family models, which complement the product line for the Israeli market.

In the first half of 2014 Strauss Water's sales amounted to approximately NIS 273 million compared to NIS 217 million in the corresponding period last year, an increase of 25.4%.

In the second quarter of the year Strauss Water's sales totaled approximately NIS 135 million compared to NIS 113 million in the corresponding quarter last year, an increase of 18.7%.

The growth in the first half and the second quarter originated in the domestic market and the international operation while expanding the customer base, particularly in the private sector.

The Company is presently reviewing a change in the structure of the operation in China. If the change were implemented at the first half of 2014, the Group's sales in its non-GAAP reports would decreased by approximately NIS 38.5 million. The impact on the Group income and on its GAAP reports would be negligible.

Max Brenner

At the date of this report, fifty-five Max Brenner Chocolate Bars are in operation in Israel and around the world: fifty under franchise and five owned by the Company (in the USA: New York, Philadelphia, New Jersey, Boston and Maryland). The Max Brenner locations are spread throughout Australia (37), Israel (6), the USA (5), Singapore (3), Japan (2), the Philippines (1) and Russia (1).

In the first half of 2014 Max Brenner's sales totaled approximately NIS 52 million compared to NIS 56 million last year, a decrease of 5.9%. Shekel sales were adversely impacted by the erosion of the average exchange rate of the US Dollar versus the Shekel in the half (5.1%). Excluding the currency impact and the closing of the Las Vegas location in the reported period, Max Brenner's sales grew by 5.4% compared to the corresponding period in 2013.

In the second quarter Max Brenner's sales totaled approximately NIS 23 million compared to NIS 26 million in the corresponding period last year, a decrease of 11.4%. Shekel sales were adversely impacted by the erosion of the average exchange rate of the US Dollar versus the Shekel in the quarter (4.5%). Excluding the currency impact and the closing of the Las Vegas location in the reported period, Max Brenner's sales grew by 8.5% compared to the corresponding quarter last year.

EXPOSURE TO MARKET RISKS AND THE MEANS FOR THEIR MANAGEMENT

Description of the market risks to which the Company is exposed

The Company operates in categories that are by nature basic and stable; however, there are several factors and trends that are liable to influence both the scope and profitability of the Company's business. For a description of the market risks to which the Group is exposed, see section 30 in the Description of the Corporation's Business as at December 31, 2013 (Discussion on Risk Factors), and the section "Changes in the Economic Environment" in this chapter.

The Company's policy for managing market risks, those responsible for their management, supervision and realization of policy

Commodities procurement

The Company's green coffee procurement center in Switzerland provides for all companies in the Group except for 3C in Brazil. In order to manage exposure to market risks, the Company uses transactions in derivatives and in securities traded on the financial markets in New York and London. The use of these instruments is the responsibility of the manager of the procurement office in Switzerland in the framework of guidelines defined from time to time by the corporate green coffee procurement committee, which is managed by the CFO of Strauss Coffee and convenes from time to time according to established procedures.

The procurement of green coffee in Brazil is carried out by the local management of Três Corações according to internal procedures determined by Três Corações' board of directors, and is the responsibility of the procurement, export and financial managers of Três Corações.

The Group also has a committee for the management of commodities exposure for its operation in Israel. The committee is managed by the EVP Finance, Israel.

Financial liabilities, financial investments, currency, Index and interest exposure

As mentioned, the Company has long-term liabilities, primarily in Shekels, partly Index-linked and partly at fixed interest rates, loans denominated in foreign currency – part of which at varying interest rates, and is exposed to future cash flows in currencies that differ from the functional currencies of the subsidiaries. To protect the Company from exposure to fluctuations in foreign currency exchange rates, Index and interest rates, the Company occasionally executes hedging transactions for partial coverage using forward contracts, futures contracts on Index rates, and futures contracts and option contracts on interest rates and the various currency exchange rates.

The Company's policy is to match, to the greatest extent possible, assets and liabilities in the same currency, using financial derivatives when they are available and advantageous.

In its international activity the Company does not regularly hedge the measurement basis of the results of its operations or its statement of financial condition against changes arising from the various currency exchange rates in relation to the Shekel.

The Company has committees that manage the risks relating to interest rates, currency exposures, financial investments etc., in which all the relevant professional people in the Company participate.

The hedging and investment activities are executed by the Group's Financial Department in Group Corporate Center and are the responsibility of Strauss Coffee's CFO in all aspects relating to the coffee business, and of the Group EVP Finance in regard to the business of the Group as a whole.

Customer credit

With respect to its activity in Israel, the Company has credit committees that convene periodically to determine the amount of credit recommended for its various customers and the required level of their collateral, including the necessity of purchasing external credit insurance. The Company also monitors the implementation of these recommendations. The credit committees are managed by the CFO and VP Sales of Strauss Israel and include the participation of the Group CFO and the Manager of its Financing and Risk Management Department. In the coffee business credit committees convene periodically, and credit control is carried out by the CFOs and CEOs in the various countries and is their responsibility, under the master control of Strauss Coffee's CFO and the Manager of the Group's Financing and Risk Management Department, who sits on the credit committees of the coffee companies from time to time. In 3C (Brazil) the risks are controlled by 3c management under the policy approved by the 3C board.

ATTACHMENT OF THE FINANCIAL STATEMENTS OF AN INCLUDED COMPANY PURSUANT TO REGULATION 44 OF THE SECURITIES REGULATIONS, 1970

Further to Note 7.1 to the consolidated interim financial statements, the condensed interim financial statements of the jointly controlled venture Sabra Dipping Company were not attached to the financial statements of the Group, despite the sum included in the statements of income for the three-month period ended June 30, 2014 in respect of the Group's investment in that company being higher than 20% of the income attributable to the shareholders of the Company. The said income percentage in the six-month period ended June 30, 2014 and in the year ended December 31, 2013 does not exceed 20% of the income attributable to the Company's shareholders. Additionally, in the Company's estimate this percentage is not expected to exceed 20% of the income attributable to the Company's shareholders in 2014, and on the basis of prior assessments by the Company this rate is not expected to exceed 20% of the income attributable to the Company's shareholders in 2015.

In the Company's opinion, the criterion for the attachment of the financial statements of an included company should be applied over a period of one year and not only on the basis of a quarterly examination, in light of the fact that a quarterly review may not represent the materiality of the included company in relation to the overall operations of the Company in view of the occurrence of one-time events. Additionally, pursuant to the proposal for the amendment of Regulation 44(a), the test mentioned in section 23(a) (2) shall be amended in such manner that it shall refer to the profit or loss of the included company over the four quarters ended on the date of the interim statement of financial condition, rather than to the profit in the reported period, as required today. Consequently, the Company approached the Securities Authority with a request that it apply its powers, *inter alia* pursuant to Regulation 23(j) of the Securities Regulations, Annual Financial Statements, 2010, and exempt the Company from the attachment of the financial statements of the investee company to its financial statements, as required in Regulation 23 of the above Regulations. The ISA acceded to the Company's request.

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 these recommendations. For further information, see the Quarterly Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 38 C (a).

MASTER CONTROL IN THE PROCESS OF PREPARING AND APPROVING THE FINANCIAL STATEMENTS

The Company organ responsible for master control is the Financial Statements Review Committee established by the Board of Directors of the Company, which comprises five members. The members of the Financial Statements Review Committee (which does not serve as an audit committee) are Professor Dafna Schwartz (Chairperson) (external director), Dalya Lev, CPA (independent director), Meir Shanie, Prof. Arie Ovadia and Dr. Michael Anghel (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 additional information on the qualifications, experience and education of the Committee members, see Regulation 26 in the chapter "Additional Information on the Company" in the 2013 Annual Report.

The Board of Directors of the Company and its Financial Statements Review 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 Financial Statements Review Committee. In this discussion, the EVP Finance extensively reviews the business activity and business results of the Company for the reported period. Additionally, the EVP Finance reviews the critical estimates applied, material issues that arose during the preparation of the financial statements, the internal controls relating to financial reporting, the completeness and fairness of the disclosure in the financial statements, holds a discussion on the effectiveness of internal control over financial reporting and disclosure in the Company, the accounting policy adopted and accounting treatment applied in the material affairs of the corporation. On August 14, 2014 the Financial Statements Review Committee held a discussion on the financial statements of the Company as described. The meeting was attended by all members of the Financial Statements Review Committee, Adi Strauss as observer, Gadi Lesin – the Company CEO, Shachar Florence – the Company EVP Finance, Michael Avner – CLO, the Company's financial team, the Company Auditor and the Internal Auditor. After the discussion was completed, the Committee recommended to the Board of Directors that the financial statements for the second quarter of 2014 be approved.

- At the meeting of the Board of Directors on August 19, 2014 the Board discussed the recommendation of the Financial Statements Review Committee to approve the financial statements of the Company as at June 30, 2014. The Board of Directors received an update from Company Management that no event or matter had occurred, which were able to alter the assessment of the effectiveness of internal control as presented in the latest Annual Report. In the opinion of the Board of Directors, the Committee's recommendations and the necessary materials were forwarded to the members of the Board a reasonable time before the abovementioned meeting. In this respect, the Board of Directors has determined that a reasonable time for forwarding materials prior to a Board meeting in which quarterly or annual financial statements are to be approved is at least four business days. All members of the Board of Directors were present at the meeting with the exception of Akiva Mozes, as well as the Company CEO, the Company EVP Finance, the CLO, the Company's financial team and the Company Auditor.
- The EVP Finance and the Corporate Center CFO hold meetings from time to time with the Chairperson of the Financial Statements Review Committee on subjects related to financial and accounting issues that are relevant to the Company. Before the financial statements as at June 30, 2014 were approved a meeting was held between the EVP Finance and the Corporate Center CFO with the Chairperson of the Financial Statements Review Committee to discuss material issues that arose during the preparation of the quarterly financial statements.
- 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 of Directors for their review. The draft financial statements of the Company were forwarded to the members of the Board for their review seven 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 about two business days prior to the date of approval of the quarterly financial statements of the Company.
- After the Board of Directors was satisfied that the financial statements accurately reflect the Company's condition and the results of its operations, the Board of Directors resolved to approve the financial statements of the Company for the second quarter of 2014.

INTERESTED PARTY TRANSACTIONS

Further to the contents of the Board of Directors' Report as at December 31, 2013, purchases from Ramat Hagolan Dairies in the reported period amounted to NIS 9.1 million (for the six months in 2013: NIS 9.5 million).

INFORMATION ON THE DEBENTURE SERIES

Following is information on the series of material capital notes with respect to the Company's liabilities as at June 30, 2014

		Debentures Series B	**Debentures Series D***
A.	Nominal/par value	595	465
B.	Par value linked to the Consumer Price Index	719	465
C.	Book value of Debentures	719	482
D.	Book value of interest payable	12	5
E.	Market value	792	516

* Including the expansion of Debentures Series D. For further information, see Note 4.3 to the consolidated interim financial statements as at June 30, 2014.

LIABILITY REPORT ACCORDING TO PAYMENT DATES

See Form T-126, published simultaneously with the financial statements.

MATERIAL EVENTS IN THE REPORTED PERIOD

For a review of material events occurring in the reported period, see Note 4 to the consolidated interim financial statements as at June 30, 2014.

POST STATEMENT OF FINANCIAL CONDITION DATE EVENTS

For a review of events occurring after the date of the statement of financial condition, see Note 9 to the consolidated interim financial statements as at June 30, 2014.

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

Ofra Strauss	Gadi Lesin
Chairperson of the Board	Chief Executive Officer

August 19, 2014

STRAUSS GROUP LTD.

FINANCIAL STATEMENTS

AS AT JUNE 30, 2014

Strauss Group Ltd.

Financial Statements
As at June 30, 2014

Financial Statements as at June 30, 2014

Contents

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, 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month and three-month period 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 10.1% of the total consolidated assets as at June 30, 2014, and whose revenues constitute 2.0% and 1.8% of the total consolidated revenues for the six and three month periods then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

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

Conclusion

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

In addition to the mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not 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 19, 2014

Consolidated Interim Statements of Financial Position

	June 30 2014 (Unaudited)	June 30 2013 (Unaudited)	December 31 2013 (Audited)
		NIS Millions	
Current assets			
Cash and cash equivalents	588	695	772
Marketable securities and deposits	309	306	246
Trade receivables	894	917*	893
Income tax receivables	25	49	44
Other receivables and debit balances	230	338	207
Inventory	706	635	661
Assets held for sale	8	-	-
Total current assets	2,760	2,940	2,823
Investments and non-current assets			
Investment in equity-accounted investees	945	865	887
Other investments and long-term debit balances	258	248	264
Fixed assets	1,533	1,390	1,490
Intangible assets	1,073	1,088	1,082
Deferred expenses	50	54	52
Investment property	19	25	25
Deferred tax assets	22	21	20
Total investments and non-current assets	3,900	3,691	3,820
Total assets	6,660	6,631	6,643

* Reclassified, see Note 1.2.

Ofra Strauss	Gadi Lesin	Shahar Florence
Chairperson of the Board of Directors	Chief Executive Officer	Chief Financial Officer

Date of approval of the interim financial statements: August 19, 2014

Consolidated Interim Statements of Financial Position

	June 30 2014 (Unaudited)	June 30 2013 (Unaudited)	December 31 2013 (Audited)
		NIS Millions	
Current liabilities			
Current maturities of debentures	179	178	180
Short terms loans and credit and current maturities of long term debt and liabilities	155	103	111
Trade payables	678	703	769
Income tax payables	9	18	8
Other payables and credit balances	548	674*	618
Provisions	47	34	48
Total current liabilities	1,616	1,710	1,734
Non-current liabilities			
Debentures	1,021	954	965
Long-term loans and credit	1,087	997	1,126
Long-term payables and credit balances	73	41	58
Employee benefits, net	58	46	55
Deferred taxes	158	149	154
Total non-current liabilities	2,397	2,187	2,358
Equity			
Share capital	243	243	243
Share premium	622	622	622
Translation reserve	(509)	(431)	(496)
Treasury stock	(20)	(20)	(20)
Reserve for available for sale financial assets	10	5	9
Retained earnings	1,535	1,484	1,387
Total equity attributable to the Company's shareholders	1,881	1,903	1,745
Non-Controlling interests	766	831	806
Total equity	2,647	2,734	2,551
Total liabilities and equity	6,660	6,631	6,643

* Reclassified, see Note 1.2.

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 2014	June 30 2013	June 30 2014	June 30 2013	December 31 2013
	(Unaudited)				(Audited)
	NIS millions				
Sales	2,636	2,752	1,266	1,334	5,605
Cost of sales	1,551	1,692	777	856	3,389
Gross profit	1,085	1,060	489	478	2,216
Selling and marketing expenses	664	650	328	331	1,341
General and administrative expenses	173	159	82	79	346
	837	809	410	410	1,687
Share of profit of equity accounted investees	104	87	48	56	175
Operating profit before other income (expenses)	352	338	127	124	704
Other income	4	24*	3	1	25
Other expenses	(22)	(26)*	(9)	(6)	(119)
Other expenses, net	(18)	(2)	(6)	(5)	(94)
Operating profit	334	336	121	119	610
Financing income	11	19	5	10	22
Financing expenses	(63)	(69)	(41)	(39)	(136)
Financing expenses, net	(52)	(50)	(36)	(29)	(114)
Profit before income taxes	282	286	85	90	496
Income taxes	(88)	(86)	(34)	(30)	(165)
Profit for the period	194	200	51	60	331
Attributable to:					
The Company's shareholders	140	151	29	43	234
Non-Controlling interests	54	49	22	17	97
Profit for the period	194	200	51	60	331
Earnings per share for the Company's shareholders					
Basic earnings per share (in NIS)	1.31	1.41	0.27	0.39	2.19
Diluted earnings per share (in NIS)	1.30	1.41	0.27	0.39	2.17

* Reclassified, see Note 1.2.

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

Consolidated Interim Statements of Comprehensive Income

	For the six months ended		For the three months ended		For the year ended
	June 30 2014	**June 30 2013**	**June 30 2014**	**June 30 2013**	**December 31 2013**
	(Unaudited)				(Audited)
	NIS millions				
Profit for the period	194	200	51	60	331
Other comprehensive income (loss) components that will be transferred in the future to the statement of income:					
Foreign currency translation differences	(48)	(119)	(11)	(45)	(133)
Changes in fair value of available for sale financial assets, net of tax	3	3	5	3	13
Other comprehensive income (loss) of joint ventures	32	(69)	7	(61)	(137)
Total other comprehensive loss components that will be transferred in the future to the statement of income	(13)	(185)	1	(103)	(257)
Other comprehensive income (loss) components that will not be transferred in the future to the statement of income, net of tax:					
Change in employee benefits, net	-	-	-	-	(1)
Total other comprehensive income (loss) components that will not be transferred in the future to the statement of income	-	-	-	-	(1)
Comprehensive income (loss) for the period*	181	15	52	(43)	73
Attributable to:					
The Company's shareholders	128	8	27	(37)	29
Non-controlling interests	53	7	25	(6)	44
Comprehensive income (loss) for the period*	181	15	52	(43)	73

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								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
Balance as at January 1, 2014 -Audited	243	622	(496)	(20)	9	1,387	1,745	806	2,551
Changes during the three-month period ended June 30, 2014 - unaudited:									
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	140	140	54	194
Components of comprehensive income (loss) for the period:									
Foreign currency translation differences	-	-	(36)	-	-	-	(36)	(12)	(48)
Other comprehensive income of joint ventures	-	-	23	-	-	-	23	9	32
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1	-	1	2	3
Other comprehensive loss for the period, net of tax	-	-	(13)	-	1	-	(12)	(1)	(13)
Comprehensive income (loss) for the period	-	-	(13)	-	1	140	128	53	181
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Share-based payment	-	-	-	-	-	8	8	-	8
Share-based payment to Non-Controlling interests in subsidiary	-	-	-	-	-	-	-	2	2
Dividend to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(95)	(95)
Balance as at June 30, 2014 – unaudited	243	622	(509)	(20)	10	1,535	1,881	766	2,647

* 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								
	Share capital	**Share premium**	**Translation reserve**	**Treasury stock**	**Reserve in respect of available for sale financial assets**	**Retained earnings**	**Total**	**Non-Controlling interests**	**Total equity**
	NIS millions								
Balance as at January 1, 2013 -Audited	243	622	(287)	(20)	4	1,325	1,887	850	2,737
Changes during the six-month period ended June 30, 2013 - unaudited:									
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	151	151	49	200
Components of comprehensive income for the period:									
Foreign currency translation differences	-	-	(89)	-	-	-	(89)	(30)	(119)
Other comprehensive income of joint ventures			(55)				(55)	(14)	(69)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1	-	1	2	3
Other comprehensive income (loss) for the period, net of tax	-	-	(144)	-	1	-	(143)	(42)	(185)
Comprehensive income (loss) for the period	-	-	(144)	-	1	151	8	7	15
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Share-based payment	-	-	-	-	-	8	8	-	8
Share-based payment to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	2	2
Dividend to Non-Controlling interests in subsidiaries	-	-	-	-	-	-	-	(28)	(28)
Balance as at June 30, 2013 – unaudited	243	622	(431)	(20)	5	1,484	1,903	831	2,734

* 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

	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
					NIS millions				
Balance as at April 1, 2014 – unaudited	243	622	(505)	(20)	8	1,502	1,850	820	2,670
Changes during the three-month period ended June 30, 2014 - unaudited:									
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	29	29	22	51
Components of comprehensive income (loss) for the period:									
Foreign currency translation differences	-	-	(8)	-	-	-	(8)	(3)	(11)
Other comprehensive income of joint ventures	-	-	4	-	-	-	4	3	7
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	2	-	2	3	5
Other comprehensive loss for the period, net of tax	-	-	(8)	-	2	-	(2)	3	1
Comprehensive income (loss) for the period	-	-	(4)	-	2	29	27	25	52
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Share-based payment	-	-	-	-	-	4	4	-	4
Share-based payment to Non-Controlling interests in subsidiary	-	-	-	-	-	-	-	1	1
Dividend to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	(80)	(80)
Balance as at June 30, 2014 – unaudited	243	622	(509)	(20)	10	1,535	1,881	766	2,647

* Less than NIS 1 million

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

Consolidated Interim Statements of Changes in Shareholders' Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury stock	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-Controlling interests	Total equity
	NIS millions								
Balance as at April 1, 2013 – unaudited	243	622	(350)	(20)	4	1,437	1,936	846	2,782
Changes during the three-month period ended June 30, 2013 - unaudited:									
Comprehensive income (loss) for the period									
Profit for the period	-	-	-	-	-	43	43	17	60
Components of comprehensive income for the period:									
Foreign currency translation differences	-	-	(34)	-	-	-	(34)	(11)	(45)
Other comprehensive income of joint ventures			(47)				(47)	(14)	(61)
Changes in fair value of available for sale financial assets, net of tax	-	-	-	-	1	-	1	2	3
Other comprehensive income (loss) for the period, net of tax	-	-	(81)	-	1	-	(80)	(23)	(103)
Comprehensive income (loss) for the period	-	-	(81)	-	1	43	(37)	(6)	(43)
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Share-based payment	-	-	-	-	-	4	4	-	4
Share-based payment to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	1	1
Dividend to Non-Controlling interests in a subsidiaries	-	-	-	-	-	-	-	(10)	(10)
Balance as at June 30, 2013 – unaudited	243	622	(431)	(20)	5	1,484	1,903	831	2,734

* Less than NIS 1 million

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders								
	Share capital	Share premium	Translation reserve	Treasury shares	Reserve in respect of available for sale financial assets	Retained earnings	Total	Non-controlling interests	Total equity
					NIS millions				
Balance as at January 1, 2013 -Audited	243	622	(287)	(20)	4	1,325	1,887	850	2,737
Changes in 2013 :									
Total Comprehensive Income (loss) for the year									
Income for the year	-	-	-	-	-	234	234	97	331
Components of other comprehensive Income (loss):									
Differences related to translation of foreign exchange, net of tax	-	-	(100)	-	-	-	(100)	(33)	(133)
Other comprehensive income of joint ventures	-	-	(109)				(109)	(28)	(137)
Changes in fair value of available for sale assets, net of tax	-	-	-	-	5	-	5	8	13
Change in employee benefits, net*	-	-	-	-	-	(1)	(1)	-*	(1)
Other comprehensive Income (loss) for the year, net of tax	-	-	(209)	-	5	(1)	(205)	(53)	(258)
Total Comprehensive Income (loss) for the year	-	-	(209)	-	5	233	29	44	73
Exercise of options granted to employees	-*	-	-	-	-	-	-*	-	-*
Share-based payment	-	-	-	-	-	13	13	-	13
Share-based payment to Non-Controlling interests in a subsidiary	-	-	-	-	-	-	-	5	5
Dividend paid	-	-	-	-	-	(157)	(157)	-	(157)
Dividend to Non-Controlling interests in subsidiaries	-	-	-	-	-	-	-	(73)	(73)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	(27)	(27)	(20)	(47)
Balance as at December 31, 2013-Audited	243	622	(496)	(20)	9	1,387	1,745	806	2,551

* Less than NIS 1 million.

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

Consolidated Interim Statements of Cash Flows

	For the six months ended		For the three months ended		For the year ended
	June 30 2014	**June 30 2013**	**June 30 2014**	**June 30 2013**	**December 31 2013**
	(Unaudited)				**(Audited)**
	NIS millions				
Cash flows from operating activities					
Income for the period	**194**	**200**	**51**	**60**	**331**
Adjustments:					
Depreciation	64	69	32	34	137
Amortization of intangible assets and deferred expenses	25	24	13	13	48
Impairment of fixed assets, intangible assets and investment property	-	-	-	-	43
Other expenses, net	6	(6)	1	1	13
Expenses in respect of share based payment	10	10	5	5	18
Financing expenses, net	52	50	36	29	114
Income tax expenses	88	86	34	30	165
Share of losses (profit) of equity accounted investees	(104)	(87)	(48)	(56)	(175)
Change in inventory	(57)	(51)	(27)	(31)	(86)
Change in trade and other receivables	(25)	(64)	119	62	(6)
Change in long-term trade receivables	(2)	(7)	2	(8)	(4)
Change in trade and other payables	(85)	(4)	(128)	46	54
Change in provisions and employee benefits	4	(3)	1	(2)	6
Interest paid	(44)	(43)*	(4)	(7)*	(84)
Interest received	12	16	7	10	26
Income tax paid, net	(61)	(55)	(36)	(28)	(120)
Net cash flows provided by operating activities	**77**	**135**	**58**	**158**	**480**
Cash flows from investing activities					
Sale (purchase) of marketable securities and deposits, net	(63)	(88)	(204)	(81)	(28)
Proceeds from sale of fixed assets, investment property and intangible assets	4	32	3	5	31
Acquisition of fixed assets	(149)	(144)*	(73)	(77)*	(336)
Investments in intangible assets and deferred expenses	(14)	(16)	(4)	(9)	(40)
Repayment of deposits and long-term loans granted	38	20	13	10	45
Investments in long-term deposits	-	-	-	-	(3)
Long-term loans granted	(20)	(28)	(11)	(11)	(70)
Taxes paid for the sale of investment property	-	(5)	-	(5)	(2)
Dividends from affiliates	42	23	36	23	88
Gain of control in a joint venture (see Note 4.1)	1	-	-	-	-
Net cash flows used in investing activities	**(161)**	**(206)**	**(240)**	**(145)**	**(315)**

* Reclassified, see Note 1.2.

Consolidated Interim Statements of Cash Flows (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2014	June 30 2013	June 30 2014	June 30 2013	December 31 2013
	(Unaudited)				(Audited)
	NIS millions				
Cash flows from financing activities					
Short-term bank credit, net	12	11	4	(5)	(4)
Proceed from issue of debentures	237	247	237	-	247
Receipt of long-term loans	28	10	19	10	203
Repayment of long-term loans and debentures	(212)	(193)	(14)	(179)	(235)
Purchase of non-controlling interests in a subsidiary	-	(10)	-	-	(47)
Change in accounts payable jointly controlled	(64)	9	(53)	17	(48)
Dividends paid	-	-	-	-	(157)
Dividend paid to non-controlling interests in subsidiary	(95)	(33)	(80)	(28)	(79)
Net cash flows provided by (used in) financing activities	**(94)**	**41**	**113**	**(185)**	**(120)**
Increase (Decrease) in cash and cash equivalents	**(178)**	**(30)**	**(69)**	**(172)**	**45**
Cash and cash equivalents as at beginning of period	772	735	663	868	735
Effect of exchange rate fluctuations on cash balances	(6)	(10)	(6)	(1)	(8)
Cash and cash equivalents as at end of period	588	695	588	695	772

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

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 abroad variety of branded food products and beverages. The consolidated interim financial statements as at June 30, 2014 and for the six and three month periods then ended (hereinafter - the “Interim Statements”) comprise the Company and its subsidiaries.

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, 2013 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.

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 19, 2014.

1.2 Reclassification

In statement of financial position reclassified as at June 30, 2013 an amount of NIS 72 million in respect of guarantees and deposits from Trade receivables to Other payables and credit balances.

Reclassified in the statement of income an immaterial amount to the period of six months ended June 30, 2013 from other income to other expenses.

Reclassified in the statement of cash flows an immaterial amounts to the periods of six and three months ended June 30, 2013 related to capitalized borrowing cost from interest paid in operating activities to purchase of fixed assets in investing activities.

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These reclassifications did not have an effect on income and equity.

1.3 New standards not yet adopted

Further to Note 3.20 to the Annual Financial Statements**,** hereinafter are details of ta new standard approved during the reporting period:

IFRS 15, Revenue from Contracts with Customers-
IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers.

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

1.3 New standards not yet adopted (cont'd)

IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount.

Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2017 and earlier application is permitted. IFRS 15 includes various alternative transitional provisions.

The Group is examining the effects of IFRS 15 on the financial statements

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 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.

Note 3 - Segments

Details by operating segments and reconciliation to the consolidated report:

	For the six months ended		For the three months ended		For the year ended
	June 30 2014	**June 30 2013**	**June 30 2014**	**June 30 2013**	**December 31 2013**
	(Unaudited)				**(Audited)**
	NIS millions				
Revenues					
Sales to external customers:					
Health & Wellness	979	958	500	504	1,987
Fun & Indulgence	524	525	213	223	1,013
Total Israel	1,503	1,483	713	727	3,000
Coffee Israel	356	362	151	155	715
Coffee Abroad	1,418	1,619	757	837	3,229
Total Coffee	1,774	1,981	908	992	3,944
International dips and spreads	320	293	170	159	600
Other	325	272	158	138	599
Sales to other segments:					
Health & Wellness	3	3	2	1	6
Fun & Indulgence	13	13	4	7	25
Total Israel	16	16	6	8	31
Coffee Israel	1	5	-*	1	6
Coffee Abroad	-	-	-	-	-
Total Coffee	1	5	-*	1	6
International dips and spreads	-	-	-	-	-
Other	-*	-*	-*	-*	-*
Total revenues of the segments	3,939	4,050	1,955	2,025	8,180
Cancellation of inter-segment sales	(17)	(21)	(6)	(9)	(37)
Total revenues of the segments excluding the inter-segment sales	3,922	4,029	1,949	2,016	8,143
Adjustments to the equity method	(1,286)	(1,277)	(683)	(682)	(2,538)
Total consolidated revenues	2,636	2,752	1,266	1,334	5,605

*Less than NIS 1 million.

Note 3 – Segments (cont'd)

	For the six months ended		For the three months ended		For the year ended
	June 30 2014	June 30 2013	June 30 2014	June 30 2013	December 31 2013
	(Unaudited)				(Audited)
	NIS millions				
Profit					
Health & Wellness	100	86	51	47	200
Fun & Indulgence	66	76	17	21	115
Total Israel	166	162	68	68	315
Coffee Israel	54	54	13	16	80
Coffee Abroad	125	156	76	83	323
Total Coffee	179	210	89	99	403
International dips and spreads	32	24	18	17	57
Other	(1)	3	(3)	1	(6)
Total profit of reportable segments	376	399	172	185	769
Unallocated income (expenses):					
Valuation of commodities hedging transactions as at the end of the year	9	(17)	(29)	(35)	12
Other income (expenses), net	(19)	(3)	(7)	(6)	(100)
Share based payment	(10)	(10)	(6)	(5)	(18)
	356	369	130	139	663
Adjustments to the equity method	(22)	(33)	(9)	(20)	(53)
Total operating profit	334	336	121	119	610
Financing expenses, net	(52)	(50)	(36)	(29)	(114)
Income before taxes on income	**282**	**286**	**85**	**90**	**496**

Note 4 - Material Events during the Reported Period

4.1 Further to Note 6.6.1 to the Annual Financial Statements, regarding the investment of the subsidiary Strauss Water in the joint venture Virgin Strauss Water UK, starting January 1 2014, one of the three directors appointed by the Virgin Group filed his resignation, leaving five members of the VSW UK Board of Directors, three of whom were appointed by the Group and an additional two appointed by Virgin. Starting from that date, Strauss Water achieved control of VSW UK. Accordingly, the Group consolidates the financial statements of VSW UK commencing this reporting period, instead of applying the equity method.

Strauss Water allocated the fair value of the identified assets and liabilities of VSW UK, with no influence on the results of Strauss Water in the reported period.
Following are the amounts recognized as at January 1, 2014 (in addition, immaterial amounts have been allocated to few current assets and liabilities):

	Fair Value NIS million	Amortization Period (years)
Customer relations	15	11
Liability for royalties	(15)	5
	-	

4.2 In February 2014 subsidiary Strauss Coffee entered into an agreement with coffee company Iguacu Cafe Soluvel CIA, for the purchase of coffee brand “Amigo”, sold largely in Romania, in return for a total of USD 20 million. Closing the agreement is stipulated on the Romanian antitrust commissioner’s approval.

After the date of the financial statements, the company received the approval. As of the date of this report, the Company had not yet completed the registration of the "Amigo" brand versus the relevant authorities and therefore and in accordance with the aforementioned agreement, the Company has transferred the entire consideration amounting to USD 20 million to an escrow account until the brand registration is completed.

4.3 On June 11, 2014 the Company expanded Bonds Series D and listed it for trading in Tel Aviv Stock Exchange. In this expanded series NIS 216 million par value were issued for consideration of NIS 241 million. Issuance expenses were totaled to NIS 3 million. The effective interest rate of this expanded series is 3.04%.

4.4 Further to Note 37.6 to the Annual Financial Statements, in June 2014 final tax assessments were issued for the company and some of its subsidiaries for the years 2008-2010, with no influence on the tax expenses during the reporting period.

4.5 Further to Note 26.4.7 to the Annual Financial Statements, following advanced negotiations with a potential buyer regarding the sale of some investment property areas in Park Yanai in Petah-Tikva, the related amounts were classified as held for sale assets in the statement of financial position as at June 30, 2014.

4.6 During the report period, the joint venture of the group in Brazil has declared dividend in the amount of NIS 50 million (company's share). Out of this amount the Company has received an amount of NIS 14 million during the reporting period and an additional amount of NIS 17 million subsequent to the Statement of financial position date. The rest is expected to be received during the third quarter of 2014.

Note 5 – Share-Based Payment

5.1 Grants during the reporting period

Details of the fair value of warrants granted during the reported period and the data used for this assessment at the grant date:

Grant date	Number of options and entitles employees	Fair value	Share price	Exercise price	Expected life	Expected annual volatility	Discount rate
		NIS m	NIS	NIS	Years	%	%
January 20, 2014	180,000 to 3 managers	3.1	66.5	69.82	4.2-6.2	23.35%-26.01%	2.18%-3.00%
March 23, 2014	580,000 to 10 managers	9.4	64.5	67.22	4.2-6.2	23.55%-25.88%	1.80%-2.67%
March 25, 2014	500,000 to 3 officers	8.6	65.9	67.14	4.2-6.2	23.63%-25.94%	1.84%-2.66%

The entitlement to exercise the warrants will vest in three equal portions, on grant date of each of the years 2016-2018.

The benefit arising from the grant will be recorded as an expense on the financial statements over the vesting period above.

5.2 During the reported period, 250,596 share options that were granted to employees were exercised into 62,616 shares in consideration for their par value.

Note 6 – Contingent liabilities

6.1 For details regarding legal claims and contingencies against the Company and its subsidiaries, as at December 31, 2013, see Note 26.1.1 to the Annual Financial Statements.

Below are details pertaining to claims filed with the court against the Company in the reported period to certify them as class actions. The Company's executive, based on its legal advisors assessment, estimates at this stage, that it is not expected that the claims will be affirmed as class actions:

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue	Claim Amount (Millions of NIS)
January 2014	District Court in Haifa	The Company	Prima facie misleading on a product	30
March 2014	District Court in Haifa	Yotvata Dairies Company in the name of the late Uri Horzo Ltd. (50%)	Prima facie misleading markings on a product	115

6.2 For details regarding claims filed with the court against the Company and its Subsidiaries to certify them as class actions, whereby the legal proceedings ended in respect thereof during reported period and until the date of approval of this report, see Note 26.1.1 to the Annual Financial Statements and as follows:

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue	Claim Amount (Millions of NIS)
January 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading marking of pasta products. In February 2014 the court affirmed a settlement between the parties that the company pay to the Plaintiff compensation and fees sum of NIS 45 thousand.	7
April 2013	District Court in Tel-Aviv Yaffo	Yotvata Dairies Company in the name of the late Uri Horzo Ltd. (50%)	Prima facie misleading markings on a product. In February 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	50
October 2012	District Court in Tel-Aviv Yaffo	The Company	Recalling products of the "Rich Chocolate Brownies" type due to mold found in some of the products. In April 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	11

Note 6 – Contingent liabilities (cont'd)

6.2 (cont'd)

The Date Claim Filed	Court In Which The Claim Is Being Litigated	The Defendant	Claim Issue	Claim Amount (Millions of NIS)
February 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading marking of dairy desert. In April 2014 the court affirmed a settlement between the parties that the company pay to the Plaintiff compensation and fees sum of NIS 21 thousand. According to settlement agreement, the Company undertook to donate products to Voluntary association of a total sum of NIS 90 thousand,	24
August 2012	District Court in Central District	The Company	Marking on packaging of yogurt product with granola and nuts. In May 12, 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	72
December 2012	District Court in Central District	The Company	Prima facie misleading marking of yogurt with chocolate pecan products. In May 12, 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	85
January 2013	District Court in Tel-Aviv Yaffo	The Company	Prima facie misleading markings on a product as a Kosher dairy product. In June 19, 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	270
December 2013	District Court in Haifa	The Company	Prima facie misleading markings on a product. In June 29, 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	10
November 2013	District Court in Tel-Aviv Yaffo	Yotvata Dairies In The Name Of The Late Uri Horzo Ltd. (50%)	Prima facie misleading on a Product collection procedure. In June 24, 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	52
May 2013	District Court in Central District-Lod	The Company	Prima facie misleading markings on a product. In June 19, 2014 the court ruled to approve the Plaintiff's claim abandonment notice. The company pay to the Plaintiff compensation and fees sum of NIS 15 thousand.	11
September 2013	District Court in Haifa	The Company	Prima facie misleading markings on a product. In July 14, 2014 the court ruled to approve the Plaintiff's claim abandonment notice, without an order for costs.	691

Note 7 – Equity-Accounted Investees

7.1 Following is the Group's share in the financial statement items of Sabra Dipping Company, a joint venture, accounted for under the equity method (ownership of 50%):

	June 30		December 31
	2014	2013	2013
	(Unaudited)		(Audited)
	NIS millions		
Current assets	127	140	153
Long-term assets	267	194	215
Total assets	394	334	368
Current liabilities	(117)	(71)	(92)
Long-term liabilities	(55)	(82)	(68)
Total liabilities	(172)	(153)	(160)
Total equity attributed to the Company shareholders	(222)	(181)	(208)

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2014	2013	2014	2013	2013
	(Unaudited)				(Audited)
	NIS millions		NIS millions		
Revenues	304	277	162	153	565
Gross profit	151	137	82	76	281
Operating profit	41	34	22	22	73
Income for the period attributed to the Company shareholders	22	17	12	11	38

Regarding not enclosing the financial statements of the investee to the Group's financial statements, as required by Rule 44 to the Securities Regulations (Periodic and Immediate Reports)-1970, see further details in the MD&A report of the Group as at June 30, 2014.

Note 7 – Equity-Accounted Investees (cont'd)

7.2 The Group is enclosing to these interim consolidated financial statements the condensed interim consolidated financial statements of Tres Coracoes Alimentos S.A, a joint venture in Brazil (50% ownership), accounted for under the equity method.

The investee's presentation currency is the Brazilian real.

The real-shekel exchange rate was 1.56 as of June 30, 2014.

The following are the average exchange rates and rates of change in the real exchange rates during the reporting period:

	Real Exchange Rate	
	Average for the period	**Change in %**
For the six-month period ending on:		
June 30, 2014	1.52	6.6
June 30, 2013	1.81	(10.3)
For the three month period ending on:		
June 30, 2014	1.56	1.7
June 30, 2013	1.76	(9.9)
For the year ending December 31, 2013	1.69	(19.3)

Note 8 – Financial Instruments

8.1 **Fair value of financial instruments**

The carrying amount of the cash and cash equivalents, short and long term investments, trade receivables, other receivables and debit balances, credit from banks and others, trade payables and other payables and credit balances is the same or proximate to their fair value, except as mentioned below.

Presented below are the carrying amounts and fair values of financial liabilities that are not presented in the financial statements at fair value or close to it:

	June 30, 2014		June 30, 2013		December 31, 2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
	(Unaudited)				(Audited)	
	NIS millions					
Series B Debentures (1)	731	792	902	990	915	991
Series D Debentures (1)	487	516	250	266	248	266

Note 8 – Financial Instruments (cont'd)

8.1 Fair value of financial instruments (cont'd)

(1) The fair value is based on the prices of the Tel Aviv Stock Exchange. The carrying amount includes interest accrued as at June 30, 2014 on Series B debentures NIS 12 million and on Series D debentures NIS 5 million; as at June 30, 2013 on Series B debentures NIS 15 million and on Series D debentures NIS 5 million, and as at December 31, 2013 on Series B debentures NIS 15 million and on Series D debentures NIS 3 million.

8.2 Fair value hierarchy

The table below illustrates an analysis of financial instruments carried at fair value, using valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active market for similar instruments.
- Level 2: Inputs other than quoted prices within level 1.
- Level 3: inputs that are not based on observable market data.

	June 30, 2014		June 30, 2013		December 31, 2013	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
	(Unaudited)				(Audited)	
	NIS million					
Financial assets						
Marketable securities	82	-	245	-	242	-
Trade receivables- derivatives	1	-	7*	4	10	1
Trade payables- derivatives	(11)	(22)	(40)*	(8)	(11)	(8)
Available for sale financial asset	38	-	23	-	33	-
	110	(22)	235	(4)	274	(7)

*Reclassified to correspond with the current period

As at June 30, 2014 and 2013 and as at December 31, 2013, the Company does not have financial instruments measured at level 3.

See Note 5 to the Annual Financial Statements regarding determination of the fair value of financial instruments.

Note 9 - Subsequent Events

9.1 For details regarding legal procedures ended subsequent to the date of statement on financial position, see Note 6.2.

STRAUSS GROUP LTD.

Inclusion of the financial statements of an investee pursuant to Regulation 44 of the Securities Regulations, 1970

Três Corações Alimentos S.A.
Condensed Consolidated Interim
Financial Statements for 06/30/14

Consolidated Interim Statements of Financial Position

	June 30th, 2014 (Unaudited)	December 31st, 2013 (Audited)
	R$ thousands	
Current assets		
Cash and cash equivalents	91,137	36,952
Deposits	4,970	21,670
Trade receivables	283,144	250,914
Inventory	230,697	214,147
Income tax receivables	2,861	7,148
Other receivables, including derivatives	38,128	40,264
Total current assets	650,937	571,095
Investments and non-current assets		
Other investments and long-term debt balances	20,565	19,340
Fixed assets	187,848	174,679
Intangible assets	159,991	158,110
Deferred tax assets	10,794	9,067
Total investments and non-current assets	379,198	361,196
Total assets	1,030,135	932,291

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

Consolidated Interim Statements of Financial Position (cont'd)

	June 30th, 2014 (Unaudited)	December 31st, 2013 (Audited)
	R$ thousands	
Current liabilities		
Short term loans and credit	218,260	186,920
Trade payables	62,001	64,203
Income tax payables	4,118	1,123
Employees and other payroll related liabilities	42,534	31,503
Proposed dividends	44,714	61,923
Other payables, including derivatives	27,582	39,622
Total current liabilities	399,209	385,294
Non-current liabilities		
Long term loans and credit	136,092	136,790
Long-term payables	4,382	4,406
Deferred tax liabilities	16,656	17,293
Provisions	15,953	15,091
Total non-current liabilities	173,083	173,580
Equity		
Share capital	271,669	271,669
Translation reserve	(48,045)	(50,388)
Retained earnings	234,219	152,136
Total equity	457,843	373,417
Total liabilities and equity	1,030,135	932,291

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

Consolidated Interim Income Statement

	For the six months period ended,		For the three months period ended,	
	June 30th, 2014	June 30th, 2013	June 30th, 2014	June 30th, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Reclassified)		(Reclassified)
	R$ thousands			
Net revenue	1,087,875	973,842	571,554	533,350
Cost of sales	(744,920)	(698,888)	(399,002)	(381,797)
Gross profit	342,955	274,954	172,552	151,553
Selling and marketing expenses	(204,738)	(145,439)	(110,385)	(73,684)
General and administrative expenses	(32,186)	(27,462)	(17,126)	(14,236)
	(236,924)	(172,901)	(127,511)	(87,920)
Operating profit before other expenses, net	106,031	102,053	45,041	63,633
Other income (expenses), net	(137)	(84)	(76)	(190)
Operating profit	105,894	101,969	44,965	63,443
Financing income	18,250	19,147	4,927	14,793
Financing expenses	(21,364)	(28,191)	(6,214)	(20,127)
Financing expenses, net	(3,114)	(9,044)	(1,287)	(5,334)
Profit before income tax	102,780	92,925	43,678	58,109
Income tax expenses	(17,906)	(19,085)	(7,018)	(11,875)
Profit for the period	84,874	73,840	36,660	46,234

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

Consolidated Interim Statements of Comprehensive Income

	For the six months period ended		For the three months period ended	
	June 30th, 2014	June 30th, 2013	June 30th, 2014	June 30th, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	R$ thousands			
Profit for the period	84,874	73,840	36,660	46,234
Other comprehensive loss components, if any, that would be transferred in the future to the statement of income (*):				
Foreign currency translation differences	2,343	(2,310)	3,236	(4,499)
Comprehensive income for the period	87,217	71,530	39,896	41,735

* The other comprehensive income, if any, would be transferred to the statement of income only in case the Group decides to dispose of the export activity

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

Consolidated Interim Statements of Changes in Equity

	Share capital	Reserve	Retained earnings	Total equity
	R$ thousands			
Balance as of December 31st, 2013 – Audited	271,669	(50,388)	152,136	373,417
Dividends distributed relative to 2013	-	-	(2,791)	(2,791)
Total comprehensive income for the period:				
Profit for the period	-	-	84,874	84,874
Other comprehensive income for the period:				
Foreign currency translation differences, net	-	2,343	-	2,343
Total comprehensive income for the period	-	2,343	84,874	87,217
Balance as of June 30th, 2014 – Unaudited	271,669	(48,045)	234,219	457,843

	Share capital	Reserve	Retained earnings	Total equity
	R$ thousands			
Balance as of December 31st, 2012 – Audited	271,669	(44,597)	64,327	291,399
Dividends distributed relative to 2012	-	-	(8,407)	(8,407)
Total comprehensive income (loss) for the period:				
Profit for the period	-	-	73,840	73,840
Other comprehensive loss for the period:				
Foreign currency translation differences, net	-	(2,310)	-	(2,310)
Total comprehensive income (loss) for the period	-	(2,310)	73,840	71,530
Balance as of June 30th, 2013 – Unaudited	271,669	(46,907)	129,760	354,522

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

Consolidated Interim Statements of Changes in Equity

	Share capital	Reserve	Retained Earnings	Total equity
	R$ thousands			
Balance as of March 31st, 2014 – Unaudited	271,669	(51,281)	200,350	420,738
Dividends distributed relative to 2013	-	-	(2,791)	(2,791)
Total comprehensive income for the period:				
Profit for the period	-	-	36,660	36,660
Other comprehensive income for the period:				
Foreign currency translation differences, net	-	3,236	-	3,236
Total comprehensive income for the period	-	3,236	36,660	39,896
Balance as of June 30th, 2014 – Unaudited	271,669	(48,045)	234,219	457,843

	Share capital	Reserve	Retained Earnings	Total equity
	R$ thousands			
Balance as of March 31st, 2013 – Unaudited	271,669	(42,408)	91,933	321,194
Dividends distributed relative to 2012	-	-	(8,407)	(8,407)
Total comprehensive income (loss) for the period:				
Profit for the period	-	-	46,234	46,234
Other comprehensive loss for the period:				
Foreign currency translation differences, net	-	(4,499)	-	(4,499)
Total comprehensive income (loss) for the period	-	(4,499)	46,234	41,735
Balance as of June 30th, 2013 – Unaudited	271,669	(46,907)	129,760	354,522

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

Consolidated Interim Statements of Cash Flows

	For the six months period ended		For the three months period ended	
	June 30th, 2014	June 30th, 2013	June 30th, 2014	June 30th, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Reclassified)		(Reclassified)
	R$ thousands			
Cash flows from operating activities				
Profit for the period	84,874	73,840	36,660	46,234
Adjustments:				
Depreciation	8,704	7,246	4,459	3,956
Amortization of intangible assets and deferred expenses	1,036	795	557	393
Other expenses, net	137	84	76	190
Financing expenses, net	3,114	9,044	1,287	5,334
Income tax expenses	17,906	19,085	7,018	11,875
Change in trade receivables	(34,281)	9,034	(32,842)	109
Change in inventory	(18,109)	(3,034)	11,875	6,359
Change in long-term debt balances	-	(1)	-	-
Change in trade payables	4,798	9,333	2,389	5,889
Change in employees and other payroll related liabilities	11,031	8,302	7,650	8,050
Change in other receivables and payables, net	(11,575)	(3,491)	9,074	(5,427)
Interest paid, net	(5,564)	(8,975)	(3,370)	(4,649)
Income tax paid, net	(12,988)	(17,263)	(8,314)	(10,718)
Net cash flows provided by operating activities	**49,083**	**103,999**	**36,519**	**67,595**
Cash flows from investing activities				
Change in deposits	16,700	(5,489)	12,863	(1,570)
Proceeds from sale of fixed assets	764	626	589	350
Acquisition of fixed assets	(30,955)	(17,858)	(7,453)	(10,582)
Investments in intangible assets and deferred expenses	(2,922)	(1,594)	(1,996)	(668)
Acquisition of operation and subsidiaries	-	(5,086)	-	(5,086)
Repayment of long-term loans granted	378	87	378	-
Net cash flows provided by (used in) investing activities	**(16,035)**	**(29,314)**	**4,381**	**(17,556)**

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

Interim Statements of Cash Flows (cont'd)

	For the six months period ended		For the three months period ended	
	June 30th, 2014	June 30th, 2013	June 30th, 2014	June 30th, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Reclassified)		(Reclassified)
	R$ thousands			
Cash flows from financing activities				
Receipt of short-term bank credit	275,794	182,641	155,653	89,473
Repayment of short-term bank credit	(219,059)	(242,396)	(104,436)	(122,414)
Receipt of long-term loans and credit	8,849	22,486	470	21,881
Repayment of long-term loans and credit	(24,447)	(7,647)	(20,166)	(4,757)
Dividend paid	(20,000)	-	(20,000)	-
Net cash flows provided by (used in) financing activities	**21,137**	**(44,916)**	**11,521**	**(15,817)**
Net increase in cash and cash equivalents	**54,185**	**29,769**	**52,421**	**34,222**
Cash and cash equivalents as at beginning of period	36,952	16,503	38,716	12,050
Cash and cash equivalents as at end of period	**91,137**	**46,272**	**91,137**	**46,272**

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

Note 1 – Reporting entity

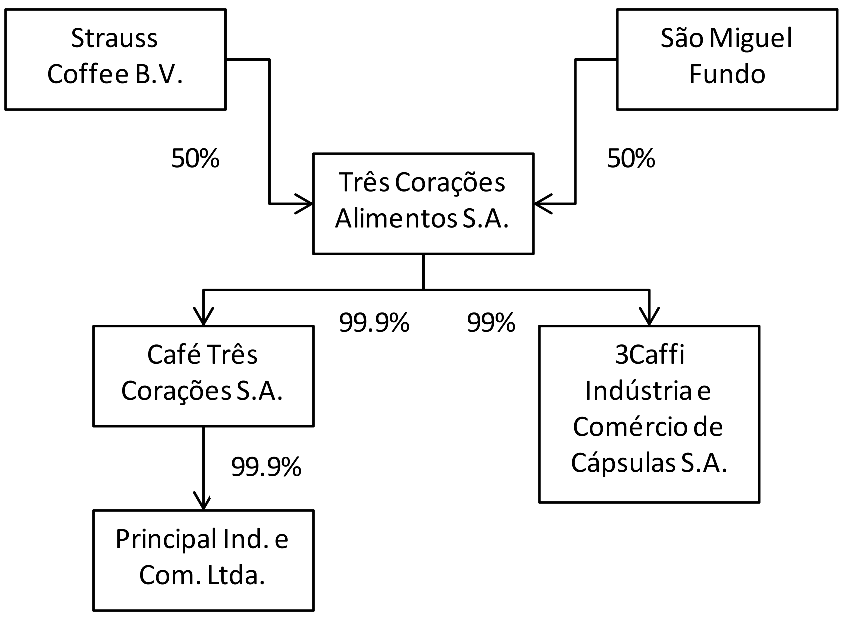
Três Corações Alimentos S.A. and its controlled entities are an industrial and commercial group of companies, which operates in Brazil, in producing and selling branded coffee products, powdered juices, chocolate drinks, corn derivative products and single-dose machines and capsules. The Group is also active in green coffee exports.

The Company controls the entities 3Caffi Indústria e Comércio de Cápsulas S.A. and Café Três Corações S.A., which controls the entity Principal Comércio e Indústria de Café Ltda., all together referred to as “the Group”.

The Group is one of two largest groups in roasted and ground coffee business in Brazil, and owns the brands Santa Clara, Kimimo, Três Corações, Pimpinela, Principal, Fino Grão, Café Doutor, Café Opção, Café Divinópolis, Café Geronymo, Estrada Real, Café Letícia, Claralate, Dona Clara, Claramil, Frisco, Tornado and Tres.

The Group’s industrial facilities are located in the states of Ceará, Rio Grande do Norte, Minas Gerais and Rio de Janeiro, and its distribution centers are located in all states of Brazil. Part of the facilities used by the Group is leased from one of its related parties, Três Corações Imóveis Armazéns Gerais e Serviços Ltda., which is not consolidated in this report, since it is not part of the Group structure presented below.

As of June 30th, 2014, the Group had the following structure:



Note 2 – Basis of Preparation

2.1 Statement of compliance

These consolidated interim financial statements have been prepared in accordance with IAS 34 regarding interim financial reporting. These consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the IFRS audited financial statements of the Company as of December 31st, 2013 and for the year then ended together with its accompanying notes (hereinafter – the "Annual Financial Statements").

These condensed consolidated interim financial statements were authorized for issue by the Company’s Management in July 31st, 2014.

Três Corações Alimentos S.A. – Condensed Notes to Consolidated Interim Financial Statements, presented in R$ thousands and rounded to nearest thousand June 30th, 2014

Note 3 – Significant accounting policies

The accounting principles applied by the Company in preparing these consolidated interim financial statements are consistent with the principles applied by the Company in preparing its audited Annual Financial Statements as of December 31st, 2013 and have been applied consistently in all entities of the Group.

3.1 Implementation of new accounting standards

3.1.1 Amendment to IAS 32 Financial Instruments: Presentation (hereinafter - "the Amendment to IAS 32")

The amendment to IAS 32 clarifies that an entity may only compensate active and passive balances if it currently has a legally enforceable right to set-off amounts that were recognized, if that right is not contingent on a future event; and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all its counterparts.

In the Group's opinion application of the amendment has no material effect on the financial statements presented herein.

Note 4 – Reclassification

When preparing its Annual Financial Statements, the Company decided to change its presentation of financial expenses and income, and its presentation of cash flows from operating activities and financing activities, in order to reflect the same criteria used in the preparation of its Financial Statements published in Brazil.

In June 2013 interim financial statements, interest revenues and expenses, other than those arising from deposits or loans and borrowings, were presented net as financial income, and all exchange rate variations were presented net as financial expense. The reclassification was made in order to segregate all income and expenses according to their nature, without net presentation. The effect of the reclassification is presented below:

	Originally Presented June 30th, 2013	**Reclassification**	**Reclassified June 30th, 2013**
		R$	
Financial income	793	18,354	19,147
Financial expenses	(9,837)	(18,354)	(28,191)
Financial expenses, net	(9,044)	-	(9,044)

Três Corações Alimentos S.A. – Condensed Notes to Consolidated Interim Financial Statements, presented in R$ thousands and rounded to nearest thousand

Note 4 – Reclassification (cont'd)

Below is the effect of reclassifications in the interim statements of cash flows, with details for the relevant changes:

	Originally Presented June 30th, 2013	Reclassification	Reclassified June 30th, 2013
		R$	
Other cash flows from operating activities, with no change	92,830	-	92,830
Change in trade receivables (1)	734	8,300	9,034
Change in inventory	(3,080)	46	(3,034)
Change in trade payables (2)	16,602	(7,269)	9,333
Change in employees and other payroll related liabilities (3)	-	8,302	8,302
Change in other receivables and payables, net (3)	-	(3,491)	(3,491)
Interest paid, net	(9,298)	323	(8,975)
Net cash flows provided by operating activities	**97,788**	**6,211**	**103,999**
Net cash flows used in investing activities	**(29,314)**	**-**	**(29,314)**
Other cash flows from financing activities, with no change	14,839	-	14,839
Receipt of short-term bank credit (4)	(53,544)	236,185	182,641
Repayment of short-term bank credits (4)	-	(242,396)	(242,396)
Net cash flows used in financing activities	**(38,705)**	**(6,211)**	**(44,916)**
Net increase in cash and cash equivalents	**29,769**	**-**	**29,769**
Cash and cash equivalents as at the beginning of period	16,503	-	16,503
Cash and cash equivalents as at the end of period	**46,272**	**-**	**46,272**

(1) Originally presented as change in trade and other receivables.
(2) Originally presented as change in trade and other payables.
(3) Not originally presented. The Company decided to separate these items from trade receivables and trade payables.
(4) Originally presented as change in short term loans and credit, net, which included interests and exchange rate variation provisioned. The effect of interests and exchange rate variation provisioned was adjusted against change in trade and other payables.

Note 5 – Material events during the reported period

On April 30th, 2014, the dividends related to 2013 profits were approved by the General shareholders meeting in the amount of R$ 64,714 thousand, which represents additional R$ 2,791 thousand when compared to the original provision, made in December 2013 based upon the Management's proposal at the time. The approved dividends were provisioned as Proposed dividends.

Two payments in the amount of R$ 10,000 thousand were made in May and June 2014, and the remaining amount is expected to be paid in two installments, the first in July, as mentioned in Note 8, and the second in September 2014.

Três Corações Alimentos S.A. – Condensed Notes to Consolidated Interim Financial Statements, presented in R$ thousands and rounded to nearest thousand

Note 6 – Contingent liabilities

In addition to the amounts informed in Note 21 of its audited Annual Financial Statements, the Group received new tax assessments from Brazilian tax authorities, regarding denied federal VAT (PIS/COFINS) credits, in the amount of R$ 468.

The Group and its tax advisors are of the opinion that the above tax assessments can be successfully defended and there is no need to record any liability provision.

Note 7 – Financial instruments

7.1 Fair value of financial instruments

The carrying amounts of the cash and cash equivalents, short and long term financial investments, trade receivables, other receivables and debit balances, credit from banks and others, trade payables and other payables and credit balances are the same or close to their fair value, except as mentioned below.

Presented below are the carrying amounts and fair values of financial liabilities that are not presented in the financial statements at fair value or close to it:

	June 30th, 2014		December 31st, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	(Unaudited)		(Audited)	
	R$			
Financial liabilities				
Credit from the Banks	192,669	185,884	141,740	133,870
Long term loans from the Banks, including current maturities	161,683	160,999	181,970	164,131

The fair value is based on the contractual cash flow discounted to each reporting date, based on the market interest rates as of each reporting date. The carrying amount includes interest accrued as of each reporting date.

7.2 Fair value hierarchy

The table below illustrates an analysis of financial instruments carried at fair value, using valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active market.

	June 30th, 2014	December 31st, 2013
	Level 1	Level 1
	(Unaudited)	(Audited)
	R$	
Derivatives (included in other receivables and debit balances)	442	77
Derivatives (included in other payables and credit balances)	29	11,133

Note 7 – Financial instruments (cont'd)

7.2 Fair value hierarchy (cont'd)

- Level 2: inputs other than quoted prices within level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of June 30th, 2014 and December 31st 2013 the Group did not have financial instruments classified as level 2 or level 3.

Note 8 – Subsequent events

On July 30th and July 31st, 2014, a total dividends payment in the amount of R$ 22,357 thousand was made.

Pedro Alcântara Rêgo de Lima	Hilel Kremer	Adenise de Melo
Chief Executive Officer	Chief Financial Officer	Accountant
3Corações Group	3Corações Group	3Corações Group