



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

Tel-Aviv, March 22, 2011

a. Board of Directors' Report Regarding the State of the Corporation

1. Company Description

a. General

The Board of Directors of Clal Industries and Investments Ltd. ("the Company" and/or "CII") is hereby honored to present the Executive Summary as of December 31, 2010, which reviews the principal changes in the Company's activities in 2010 ("the reported year"). The report was formulated in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. The results of the company that are presented in the management discussion relate to the share of the shareholders of the company in the results, unless stated otherwise.

Clal Industries and Investments Ltd. is one of the largest holding companies in Israel. The Company is controlled by IDB Development Corporation Ltd. ("IDB Development"). IDB Development is wholly controlled by IDB Holdings Ltd.

The CII Group possesses holdings in the following sectors: Basic industry, high-tech and biotechnology, logistics, communication services, energy, consumer products and infrastructures. CII is engaged, directly and through its investees, in the establishment, acquisition, development and amelioration of its portfolio companies. CII strives to be involved in the management and steering of its investee companies, primarily when the Company possesses significant holdings in these companies. CII strives to enhance and maximize the value of its existing investments, with a view to realizing those investments at the appropriate time. CII has access to a variety of business opportunities, being constantly on the lookout for investments with a suitable potential return, in those sectors where it possesses experience and knowledge.

The Company's activities are conducted through subsidiaries (companies in which the Group holds more than 50% of the rights, either directly or indirectly, including potential rights), proportionally consolidated companies (companies in respect of which the Group has contractual arrangements with other entities for joint control), associated companies (companies in which the Group exercises significant influence and which are included in the financial statements by the equity method) and through other companies wherein the Company does not exercise significant influence (the investment in which is reflected in the financial statements at fair value).

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

b. Objectives

The Company's principal objectives are:

- Improve business performance in order to achieve maximum return on capital over time, while constantly analyzing the economic alternatives and opportunities.
- Continue focusing the Company as a holding company that centralizes holdings in the following sectors: Basic industry, high-tech and biotechnology, logistics, communication services, energy, consumer products and infrastructures.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

1. **Company Description (Continued)**

In order to achieve these objectives, the Company has formulated the following business strategy:

- Focus on a limited number of material holdings possessing sustainable growth potential, wherein the Company can exert a significant influence while exploring new sectors of operation that meet these criteria;
- Continue to examine investment opportunities in leading companies, including investees.
- Exploit opportunities in relevant markets in order to realize investments.
- Continue to search for opportunities to expose and create value in investees.
- Intensify international operations, including those of investees. In this framework, the Company is examining a wide range of investment and cooperation proposals in the various segments in which it operates, as well as through its investees, in different geographical regions.
- Nurture and strengthen the ties with existing and potential strategic partners in Israel and worldwide.
- Manage the Company's headquarters as a dynamic entity that works in cooperation with the investees.
- Occasional outsourcing of the management of certain activities, while exercising appropriate controls.
- Contributing to and assisting the community in Israel.

c. **Effects on Net Income**

The Company's net income consists of and is primarily affected by its holdings in its investee companies, as well as the following components:

- Equity in earnings of investees, net.
- Net gains from the realization of investments, update of value of investments and other non-recurring effects on the Company and its investees.
- The Company's headquarter activities, including net financial expenses, general and administrative expenses and revenues from management fees.

The Company's profits are liable to fluctuate considerably between different reporting periods, mainly due to the timing of the realization of investments performed by the Company and its investees; due to the effects of changes in prices of securities in the capital markets; and due to changes in the financial expenses of the Company and its investees, whose volume is affected by the net debt amount, by the debt's linkage terms and the net monetary assets and by the change in the Israeli Consumer Price Index ("CPI") and in the exchange rate of the NIS in relation to foreign currencies, primarily the U.S. dollar, during the reported period.

d. **The Economic Situation**

The economic recovery in most world financial and real markets continued during 2010, especially in awakening markets, including Israel. At the same time, the effects of the financial crisis which began in 2008 are still evident, including in the fluctuation of rates of securities and currencies, in light of the uncertainty regarding the capacities of some of the European countries to service their debts, the United States' ability to bring down unemployment rates, the slow recovery of the US real estate market and the handling of increasing inflation in developing countries (China, in particular), following the sharp rise in commodity prices throughout the world.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

1. **Company Description (Continued)**

The local capital market showed a positive trend in 2010, and at the same time, capital raising in the corporate debt market gradually increased. The obvious recovery of the Israeli market, on the one hand, and concerns regarding development of a bubble in the local residential real estate market, alongside concerns regarding rising inflation on the other hand, caused the Bank of Israel to gradually increase the monetary interest rate, and at the same time to continue be involved in the foreign currency market, and lately, in cooperation with the Ministry of Finance, to also impose limitations on the short term movement of capital. The year 2011 has begun with a continuation of the growth trend in the Israeli economy and the recovery of the financial markets. However, the geopolitical developments in a number of countries in the Middle East and North Africa are serving to increase the level of uncertainty and their effects are noticeable in the financial markets and in the energy industry, even if for the time being the effect is limited. The continued trend of geopolitical instability in the Middle East could, under certain scenarios, negatively impact the state of the Israeli economy. Recently, uncertainty in the financial markets has increased as a result of the earthquake in Japan which damaged its nuclear power stations and has created concern for the third largest economy in the world, which has intensified the nervousness in the financial markets.

The developments in the global markets - and especially in the Eurozone and in the United States - including fluctuations in exchange rates in Israel and worldwide, have affected and may continue to affect the business results of the Company and its investee companies, including an effect on their liquidity, the value of their assets, their ability to divest assets, the state of their business, their financial indicators and covenants, their credit rating, their ability to distribute dividends, ability to raise financing for their current operations and long-term plans, as well as on their financing terms.

e. **Memorandum Regarding Investments by an Institutional Entity in Non-Government Bonds**

In July 2010, the Capital Market Supervisor published a memorandum that includes, inter alia, recommendations regarding the internal processes at an institutional entity prior to investing in non-government bonds, recommendations regarding the information that is necessary for an institutional entity to analyze a potential investment in bonds and to regularly monitor such bonds, as well as recommendations regarding creating mechanisms for cooperation between institutional entities in certain aspects related to investment in bonds, recommendations regarding directives that must be included in the bond documents as a precondition for investment by institutional entities, recommendations regarding obligations of institutional entities to determine a policy regarding the rights for immediate repayment that will be included in the bonds, relating to the characteristics of the different bonds and issuers. The majority of the provisions of the memorandum entered into effect in October 2010 or January 2011. In February 2011 the Capital Markets Supervisor published a draft of clarifications to this memorandum in which it was clarified, inter alia, that certain provisions in the memorandum, including the obligation of an institutional body to set an investment policy as stated and regarding the provisions that must be included in bond documents, shall also apply to the purchase of a bond that was issued as part of a series expansion where the original series was issued prior to the memorandum.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

1. **Company Description (Continued)**

This memorandum and the manner by which the recommendations are adopted as they appear in the report of the Committee, may hold implications on the ability to raise capital from institutional entities by way of bonds, including the terms and the price of raising such capital.

f. The Group's principal sectors of operation are as follows¹:

1. **Cement** – The principal company in this segment is Neshar Israeli Cement Enterprises Ltd. ("Neshar"). Neshar is wholly owned by Mashav Initiating and Development Ltd. ("Mashav") (75% ownership). The presented segment data are the data of Mashav on a consolidated basis, less the data of Taavura Holdings Ltd.
2. **Taavura Holdings Ltd.** ("Taavura") (37.5% ownership) - Taavura's holdings include, inter alia, include Maman Cargo Terminals and Handling Ltd. ("Maman") (68% held by Taavura). Taavura provides transport, infrastructure and logistic services and deals in the import and marketing of trucks, buses, heavy equipment and cranes and in the import and sale of automobiles in Europe, in addition to providing other services.
3. **Hadera Paper Ltd.** ("Hadera Paper") (59% owned). Hadera Paper is mainly active in manufacturing and marketing packaging paper, collecting and recycling paper, manufacturing and marketing packaging and cardboard products, household paper products, disposable diapers, products for house and kitchen cleaning and fine paper. Hadera Paper holds Hogla-Kimberly Ltd. (49.9% holdings) and Mondi Hadera Paper (75% holdings).
4. **Golf & Co. Group Ltd.** ("Golf") (62% ownership). Golf deals primarily in the marketing and sale of fashion and clothing, textile and home design products.
5. **Fundtech Ltd.** ("Fundtech") (59% ownership). Fundtech deals in the development and marketing of software programs that are used by financial institutions and provides related support services.
6. **Clal Biotechnology Industries Ltd.** ("CBI") (59% ownership). CBI operates in the life sciences sector by investing in biotechnology companies and ventures, mostly in the research and clinical trial stages. CBI's holdings include, inter alia, MediWound Ltd. (52% ownership), D-Pharm Ltd. ("D-Pharm") (46% ownership), Curetech Ltd. (37% ownership plus - through Clal Venture Capital Fund - 20% ownership), the company also owns Andromeda Biotech Ltd. (84% ownership). PolyHeal Ltd. (38% ownership) and Gamida Cell Ltd. (20% ownership).
7. **Netvision Ltd.** ("Netvision") (30% ownership). Netvision is a leading supplier of communication services in Israel and operates mainly as an Internet Service Provider (ISP), while also providing international long-distance telephony services and managed services (equipment and communication network endpoint services and domestic telephony services).

¹ The data relating to the ownership interests are as at December 31, 2010. Percentage shareholdings in this report have been rounded to the nearest whole number, unless otherwise indicated or unless figures are provided after the decimal point.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

1. Company Description (Continued)

- 8. Other sectors of operation** - Operations in this segment include, inter alia, Cargal Ltd. (26% ownership), Jaf-Ora Ltd. (30% ownership), Beit Shemesh Engines Holdings (1997) Ltd. (36% ownership), Clal Energy Limited Partnership ("Clal Energy") (100% ownership), Clal Motors Ltd. (100% ownership), Kitan Textile Industries Ltd. (100% ownership), F.B.R. Infinity Israel II Fund (39% ownership), Infinity I-China (Israel 2) Fund, L.P. (9% ownership), KBA Townbuilders Group Ltd. ("KBA") (53% ownership).

The Group's activities are affected by numerous external factors (see Section 7 to part A - Description of the Company's Business as of December 31, 2010).

2. Results of Operations

a. Statements of Income

1. 2010 vs. 2009

Total net income attributed to the Company's shareholders and minority interests in 2010 amounted to NIS 639 million, as compared with net income of NIS 567 million in 2009.

Total comprehensive income attributed to the Company's shareholders and minority interests totaled NIS 567 million in 2010, as compared with NIS 1,021 million in 2009.

The net income attributed to the Company's shareholders in 2010 amounted to NIS 410 million, as compared with NIS 450 million in 2009.

In 2010, current income amounted to NIS 124 million, as compared with current income of NIS 205 million in 2009, due to a decrease in the current contribution of the segments in 2010, which totaled NIS 224 million, as compared with NIS 334 million in 2009, offset by a decrease in financing and headquarter expenses to an amount of NIS 100 million, as compared with NIS 129 million in 2009.

The income in 2010 deriving from the divestiture of investments, adjustment of the value of investments and other non-recurring net effects totaled NIS 286 million, and includes mainly income of NIS 268 million in respect of the completion of the MediWound transaction, and as a result, the cessation of the consolidation of MediWound in the financial statements of CBI (see Section 3d, below), the gain of NIS 23 million as a result of the decrease in the holdings in Nova and the sale of Nova shares, and a gain of NIS 29 million in respect of the fair value revaluation of the balance of the Nova investment, offset by a loss of NIS 37 million in respect of an impairment provision in Arcadian, a loss of NIS 12 million in respect of the El Al Maman transaction and a loss of NIS 8 million in respect of an impairment in the Company's investment in Hadera Paper – Printing and Writing Paper.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

The income in 2009 deriving from the divestiture of investments, adjustment of the value of investments and other non-recurring net effects totaled NIS 245 million, and includes mainly the amount by which the value of the assets and liabilities (net) related to the Company's purchase of additional shares of Hadera Paper exceeds the amount paid for the purchase of Hadera Paper shares (negative goodwill) of NIS 113 million, the gain from the expected decrease in the tax rates of NIS 49 million, the gain from expiration of the options for Golf shares and the gain from the decrease in the holdings in Golf as a result of the exercise of options for shares of Golf totaling NIS 32 million, the amount by which the value of the assets and liabilities (net) related to the additional share of CBI in D-Pharm as a result of the issuance and capital raised, exceeds the amount of CBI's investment in D-Pharm (negative goodwill) of NIS 21 million, the gain from the decrease in CBI's holding in Andromeda of NIS 35 million, the gain from the relocation of Taavura to the alternative site of NIS 12 million, net of NIS 17 million in expenses for the cancelation of the Hanson transaction in Mashav, impairment provisions for the investment in ECTel of NIS 11 million and Arcadian of NIS 14 million.

Basic net earnings per share in 2010 amounted to NIS 2.60, compared with net earnings of NIS 2.86 in 2009. Diluted net earnings per share in 2010 amounted to NIS 2.54, as compared with net earnings of NIS 2.75 in 2009.

For the three-month period ended December 31, 2010:

The total net income attributable to the Company's shareholders and to minority interests, amounted to NIS 489 million in the fourth quarter of 2010, as compared with net income of NIS 52 million in the fourth quarter of 2009.

The total comprehensive income attributable to the Company's shareholders and to minority interests, amounted to NIS 447 million in the fourth quarter of 2010, as compared with NIS 45 million in the fourth quarter of 2009.

Net income attributable to the Company's shareholders in the fourth quarter of 2010 amounted to NIS 282 million, as compared with net income of NIS 45 million in the corresponding quarter of 2009.

In the fourth quarter of 2010, current income amounted to NIS 8 million, as compared with NIS 41 million in the fourth quarter of 2009, as a result of the decrease in the current contribution of the segments in the reported quarter, which amounted to NIS 34 million, as compared with NIS 71 million in the fourth quarter of 2009, offset by a decrease in headquarters and financing expenses to NIS 26 million, compared with an expense of NIS 30 million in the fourth quarter of 2009.

In the fourth quarter of 2010, a gain of NIS 274 million was recorded from the divestiture of investments, the adjustment of the value of investments and other non-recurring net effects, deriving mainly from the gain of NIS 268 million in respect of the completion of the MediWound transaction, and, as a result, the cessation of its consolidation in the financial statements of CBI, offset by a loss in respect of the impairment provision for Arcadian of NIS 20 million.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

In the fourth quarter of 2009, a gain of NIS 4 million was recorded from the divestiture of investments, the adjustment of the value of investments and other non-recurring net effects, deriving mainly from the gain of NIS 8 million from the exercise of options for shares of Golf and a gain of NIS 11 million from the exercise of employee options in Fundtech, offset by a non-recurring expense of NIS 17 million as a result of the cancelation of the Hanson transaction in Mashav.

Basic net earnings per share in the fourth quarter of 2010 totaled NIS 1.79, as compared with earnings of NIS 0.29 in the corresponding quarter of 2009. Diluted net earnings per share in the fourth quarter of 2010 totaled NIS 1.74, as compared with earnings of NIS 0.28 in the corresponding quarter of 2009.

2. **2009 vs. 2008**

Total net income attributed to the Company's shareholders and minority interests in 2009, amounted to NIS 567 million, as compared with net income of NIS 133 million in 2008.

Total comprehensive income attributed to the Company's shareholders and minority interests totaled NIS 1,021 million in 2009 and NIS 146 million in 2008.

Net income attributed to the Company's shareholders in 2009 amounted to NIS 450 million, as compared with net income of NIS 26 million in 2008.

In 2009, current income amounted to NIS 205 million, as compared with current income of NIS 60 million in 2008. The current contribution of the segments in 2009 totaled NIS 334 million, as compared with NIS 256 million in 2008. Moreover, financing and headquarters expenses decreased to NIS 129 million, as compared with expenses of NIS 196 million in 2008. Most of the decrease was driven by the decrease in financing expenses, mainly due to the slowing of the inflation rate and the gains in the capital market.

The income in 2009 deriving from the sale of investments, adjustment of the value of investments and other non-recurring net effects totaled NIS 245 million, and includes primarily the amount by which the value of the assets and liabilities (net) related to the Company's purchase of additional shares of Hadera Paper increased, the amount paid for the purchase of Hadera Paper shares (negative goodwill) of NIS 113 million (see Section 3c to Part B, Directors' Report as at December 31, 2009), the gain from the expected decrease in the tax rates of NIS 49 million, the gain from expiration of the options for Golf shares and the gain from the decrease in the holdings in Golf as a result of the exercise of options for shares of Golf totaling NIS 32 million, the amount by which the value of the assets and liabilities (net) related to the additional share of CBI in D-Pharm as a result of the issuance and capital raised, the amount of CBI's investment in D-Pharm (negative goodwill) of NIS 21 million, the gain from the decrease in CBI's holding in Andromeda of NIS 35 million, the gain from the relocation of Taavura to the alternative site of NIS 12 million, net of NIS 17 million in expenses for the cancelation of the Hanson transaction in Mashav, impairment provisions for the investment in ECTel of NIS 11 million and Arcadian of NIS 14 million.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

The loss in 2008 from sale of investments, adjustments of the values of investments and other net non-recurring factors totaled NIS 34 million, mainly due to the loss from the sale of the investment in Saifun of NIS 20 million and the provision for the impairment of investment of NIS 38 million, a one-off effect of NIS 12 million from the streamlining efforts in Mashav, less gains from dilution in CBI from Teva's investments in Andromeda and Curetech of NIS 12 million.

Basic net earnings per share in 2009 amounted to NIS 2.86, compared with net earnings of NIS 0.16 in 2008. Diluted net earnings per share in 2009 amounted to NIS 2.75, as compared with net earnings of NIS 0.14 in 2008.

For the three-month period ended December 31, 2009:

Total net income attributable to the Company's shareholders and to minority interests in the fourth quarter of 2009 amounted to NIS 52 million, as compared with NIS 0 million in the fourth quarter of 2008.

Total comprehensive income attributable to the Company's shareholders and to minority interests in the fourth quarter of 2009 amounted to NIS 60 million, as compared with NIS 63 million in the fourth quarter of 2008.

Net income attributable to the Company's shareholders in the fourth quarter of 2009 amounted to NIS 45 million, as compared with net income of NIS 3 million in the corresponding quarter of 2008.

In the fourth quarter of 2009, current income amounted to NIS 41 million, as compared with current income of NIS 28 million in the corresponding quarter of 2008, due to the increase in the current contribution of the segments in the reported quarter amounting to NIS 71 million, as compared with NIS 31 million in the corresponding quarter of 2008 and offset by the increase in financing and headquarter expenses to NIS 30 million, as compared with expenses of NIS 3 million in the fourth quarter of 2008. Most of the increase in expenses is attributed to an increase in financing expenses due to the increase in the CPI in the fourth quarter of 2009, as compared with a decrease in the CPI in the fourth quarter of 2008.

In the fourth quarter of 2009, a gain of NIS 4 million was recognized from the sale of investments, the adjustment of the value of investments and other non-recurring net effects, deriving mainly from the gain of NIS 8 million from the exercise of options for shares in Golf and a gain of NIS 11 million from the exercise of employee options in Fundtech, offset by a one-off expense of NIS 17 million as a result of the cancelation of the Hanson transaction in Mashav.

In the fourth quarter of 2008, the Company recognized a loss of NIS 25 million deriving from the sale of investments, adjustment of the value of investments and other non-recurring net effects, driven mainly by the non-recurring effect of NIS 12 million resulting from the efficiency measures in Mashav and the impairment of investments totaling NIS 16 million.

Basic earnings per share in the fourth quarter of 2009 amounted to NIS 0.29, as compared with NIS 0.01 in the corresponding quarter of 2008. Fully diluted earnings per share in the fourth quarter of 2009 amounted to NIS 0.28, as compared with earnings of NIS 0.02 in the corresponding quarter of 2008.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

B. Data of principal investees and their contribution to earnings

1. Data from the financial statements of principal investees² (in NIS millions):

Revenues						
	For the year ended December 31			For the three months ended December 31		
	2010	2009	2008	2010	2009	2008
Companies that prepare financial statements in NIS (in NIS millions)						
Mashav (excluding Taavura)	1,589	1,508	1,560	447	382	360
Taavura	2,176	2,079	2,339	618	545	591
Hadera Paper	1,121	892	673	336	238	226
Golf	657	666	706	175	177	178
CBI	31	183	31	9	32	(5)
Netvision	1,303	1,250	1,235	346	318	318
Companies that prepare financial statements in dollars (in US\$ millions)						
Fundtech³	141.9	117.8	121	37.8	32.8	29.8

Net Income (loss)						
	For the year ended December 31			For the three months ended December 31		
	2010	2009	2008	2010	2009	2008
Companies that prepare financial statements in NIS (in NIS millions)						
Mashav (excluding Taavura)	229	284	183	50	31	13
Taavura	57	122	77	34	13	7
Hadera Paper	101	91	70	35	21	11
Golf	78	88	101	18	23	26
CBI	351	65	(83)	416	(16)	(9)
Netvision	85	106	87	23	27	11
Companies that prepare financial statements in dollars (in US\$ millions)						
Fundtech³	12.5	4.7	1.2	5.8	3.4	(2.2)

² The presented data refer to the results of the investees - representing accounting reporting segments - as at December 31, 2010, while disregarding the Company's holding rate therein and disregarding cancelations of inter-company and inter-segment transactions.

³ Relates to financial statements published by Fundtech, according to generally accepted accounting principles in the United States. The Company consolidates the results of Fundtech according to IFRS.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

c. Analysis of results by operating segments (in NIS millions):

	For the year ended December 31, 2010			For the year ended December 31, 2009			For the year ended December 31, 2008		
	Current ⁴	Othe	Total	Current ⁴	Other ⁵	Total	Current	Other ⁵	Total
Sectors of Operation									
Cement	179	(7)	172	209	19	228	153	(16)	137
Taavura	29	(9)	20	27	15	42	26	2	28
Hadera Paper	27	7	34	18	121	139	23	4	27
Golf	51	-	51	63	33	96	75	2	77
Fundtech	21	-	21	(2)	12	10	(9)	(2)	(11)
CBI	(77)	276	199	(21)	70	49	(57)	1	(56)
Netvision	16	(1)	15	9	1	10	5	(4)	1
Others	(22)	22	-	31	(15)	16	40	(22)	18
Total segment contributions	224	288	512	334	256	590	256	(35)	221
Financing and headquarters	(100)	(2)	(102)	(129)	(11)	(140)	(196)	1	(195)
Net income	124	286	410	205	245	450	60	(34)	26

	Three months ended December 31, 2010			Three months ended December 31, 2009			Three months ended December 31, 2008		
	Current ⁴	Other ⁵	Total	Current ⁴	Other ⁵	Total	Current ⁴	Other ⁵	Total
Sectors of Operation									
Cement	37	-	37	37	(14)	23	26	(16)	10
Taavura	9	3	12	5	-	5	3	-	3
Hadera Paper	7	11	18	4	-	4	4	-	4
Golf	11	-	11	16	8	24	19	(1)	18
Fundtech	11	-	11	4	12	16	(6)	-	(6)
CBI	(31)	274	243	(13)	(1)	(14)	(2)	(4)	(6)
Netvision	4	(3)	1	6	-	6	3	(4)	(1)
Others	(14)	3	(11)	12	(1)	11	(16)	(25)	(41)
Total segment contributions	34	288	322	71	4	75	31	(50)	(19)
Financing and headquarters	(26)	(14)	(40)	(30)	-	(30)	(3)	25	22
Net income	8	274	282	41	4	45	28	(25)	3

⁴ Contribution to the company's net income does not include: Earnings from realization of investments, write-offs (except the original differences) and non-recurring influences at the company on account of its investment in an investee.

⁵ Including results from the realization of investments, adjustment of the value of investments and non-recurring influences (at both investee companies and at the company on account of its investment in the segment).



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

1. **Cement Sector -**

a. Review of the cement sector:

The net income in 2010 amounted to NIS 172 million, as compared with net income of NIS 228 million in 2009.

The drop in net income in 2010 as compared with 2009 was due mainly to the drop in the current income of the cement segment, from the recording of expenses in respect of the amortization of fixed assets in 2010 of NIS 7 million, as compared with recording income in 2009 in respect of the anticipated drop in the tax rate of NIS 36 million, offset by an expense of NIS 17 million in respect of the cancelation of the Hanson purchase transaction.

Net income in the fourth quarter of 2010 amounted to NIS 37 million, as compared with NIS 23 million in the fourth quarter of 2009. The increase in net income in the fourth quarter of 2010, as compared with the fourth quarter of 2009 was due mainly to the recording of an expense of NIS 17 million in respect of the cancelation of the Hanson purchase transaction in the fourth quarter of 2009.

Net income in 2009 totaled NIS 228 million, as compared with net income of NIS 137 million in 2008. The increase in net income in 2009 as compared with 2008 is due mainly to the increase in the current income of the cement segment and from the recognition of income for the expected decrease in the tax rate of NIS 21 million in the cement segment and the recognition of income for the reduction of deferred taxes in the Company, deriving from the original difference attributed to the cement segment, amounting to NIS 15 million, offset by an expense of NIS 17 million for the cancelation of the Hanson transaction and the recognition of a one-off expense in 2008 for efficiency measures totaling NIS 12 million.

Net income in the fourth quarter of 2009 totaled NIS 23 million, as compared with net income of NIS 10 million in the fourth quarter of 2008. The increase in the fourth quarter net income in 2009 compared to the fourth quarter of 2008 is primarily due to the increase in the current income of the cement segment, which was offset by the NIS 17 million expense for the cancelation of the Hanson acquisition and from the recognition of a one-off expense of NIS 12 million in the fourth quarter of 2008 for efficiency measures.

b. Review of the condensed operating results of the cement companies:

Revenues in 2010 amounted to NIS 1,589 million, as compared with NIS 1,508 million in 2009 (growth of approximately 5%), primarily due to a quantitative increase in sales to the domestic market and to the Palestinian Authority, that served to offset the decrease in clinker exports.

The effect of the increase in sales and the contribution from the operation of the Mashav power station were offset by an increase in input costs, due, inter alia, to the operation at full capacity of the Ramla manufacturing plant (excluding seasonal refurbishment) in 2010, as compared with 2009 in which part of the manufacturing plant was shut down due to the crisis in the global markets.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

The net income in 2010 amounted to NIS 229 million, as compared with net income of NIS 256 million in 2009 (net of non-recurring revenues as a result of the decrease in tax rates amounting to NIS 28 million). The decrease in net income in 2010, as compared with 2009, is primarily a result of the transition to financing expenses in the reporting period, as opposed to financing income, due to the exceptional rises in the capital markets in 2009.

Revenues in the fourth quarter of 2010 amounted to NIS 447 million, as compared with NIS 382 million in the fourth quarter of 2009 (an increase of 17%), primarily due to the quantitative increase in sales to the domestic market and the Palestinian Authority.

The effect of the increase in sales was offset by an increase in input costs, including an increase in fuel prices.

Net income in the fourth quarter of 2010 amounted to NIS 50 million, as compared with NIS 54 million in the fourth quarter of 2009 (adjusted for a non-recurring expense wherein the Company assumed a total of NIS 23 million in respect of the cancellation of the Hanson purchase transaction).

Revenues in 2009 totaled NIS 1,508 million, as compared with NIS 1,560 million in 2008 (a 3% decrease), primarily due to the decrease in sales to the local market and the decrease in exports of clinker surpluses, offset by the increased sales to the Palestinian Authority and the impact of the rise in prices in 2008 in the local and export markets.

Net income in 2009 (net of non-recurring income due to the reduction in tax rates of NIS 28 million) amounted to NIS 256 million, as compared with net income of NIS 183 million in 2008. This was a result of the move from financing income in 2009 of NIS 1 million, as compared with financing expenses of NIS 117 million in 2008, owing to the bullish capital markets in 2009, compared to the bear markets in 2008, to the positive effect of the revaluation of futures transactions to hedge against increases in the CPI and a decrease in financing expenses due to the lower inflation rate, which was offset by a decrease in operating income.

Revenues in the fourth quarter of 2009 totaled NIS 382 million, as compared with NIS 360 in the fourth quarter of 2008 (a 6% increase), resulting primarily from the increase in sales to the domestic market and the Palestinian Authority.

Net income in the fourth quarter of 2009 totaled NIS 31 million, as compared with net income of NIS 13 million in the fourth quarter of 2008, resulting from the decrease in financing expenses of NIS 33 million, as compared with the fourth quarter of 2008, thanks to bullish capital markets in the fourth quarter of 2009, as compared with a bear market in the fourth quarter of 2008, coupled with the positive effect of the revaluation of futures transactions to hedge against a rising CPI.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

2. **Taavura -**

a. **Review of the Taavura segment**

Net income in 2010 totaled NIS 20 million, as compared with net income of NIS 42 million in 2009. The decrease in net income in 2010 is primarily the result of the recording of an expense of NIS 12 million from the EI Al Maman transaction, as compared with recording net income of NIS 12 million in respect of the relocation to the alternative site in 2009.

Net income in the fourth quarter of 2010 totaled NIS 12 million, as compared with net income of NIS 5 million in the fourth quarter of 2009. The increase in net income in the fourth quarter of 2010, as compared with the fourth quarter of 2009 derives from an improvement in the current income of the segment and the recording of revenues of NIS 3 million as a result of a revision of deferred taxes.

Net income in 2009 totaled NIS 42 million, as compared with net income of NIS 28 million in 2008. The increase in net income in 2009, as compared with 2008 is driven mainly by the recognition of net revenues from the relocation to the alternative site, amounting to NIS 12 million in 2009.

Net income in the fourth quarter of 2009 amounted to NIS 5 million, as compared with net income of NIS 3 million in the fourth quarter of 2008. The increase in net income in the fourth quarter of 2009, as compared with the fourth quarter of 2008 is mainly a result of an increase in the segment's current income.

b. **Review of the condensed operating results of Taavura:**

Revenues in 2010 totaled NIS 2,176 million, as compared with revenues of NIS 2,079 million in 2009. The increase is the result of a rise in a number of activities, mainly in the sale of trucks, earthworks, public transportation and transport, as well as revenues of subsidiaries that have been consolidated for the first time. This growth was offset - for the most part - by a decrease in the sale of vehicles in Europe and several additional activities, coupled with the accounting treatment of the EI Al Maman transaction.

Net income in 2010 totaled NIS 57 million, as compared with income of NIS 122 million in 2009. The decrease in net income in 2010, as compared with 2009 is driven mainly by the accounting treatment of the EI Al Maman transaction as a result of which a loss of NIS 32 million was recorded, in conjunction with the fact that in 2009, a gain of NIS 41 million was included from the relocation of Taavura to the alternative site.

Revenues in the fourth quarter of 2010 totaled NIS 618 million, as compared with revenues of NIS 545 million in the corresponding quarter in 2009. The increase was mainly due to an increase in the sale of trucks, an increase in the sale of vehicles in Europe, an expansion in the scope of earthworks and an increase in a number of other companies. The increase was partially offset by a decrease in the generator operations, a decrease in the activities of the cargo terminal operated by Maman and from a decrease in a number of other companies.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

Net income in the fourth quarter of 2010 totaled NIS 34 million, as compared with net income of NIS 13 million in the corresponding quarter of 2009. The increase in net income was mainly the result of an improvement in the scope of the activities in a number of companies and a revision of deferred taxes.

Revenues in 2009 totaled NIS 2,079 million, as compared with revenues of NIS 2,339 million in 2008. The decrease was due mainly to the decrease in sales turnover of vehicles in Europe, a decrease in truck sales in Israel and a decline in transport activities. Contrarily, growth was recorded as a result of the full consolidation of Maman over the entire year and the growth in public transport and generator activities.

Operating income in 2009 totaled NIS 246 million, as compared with operating income of NIS 193 million in 2008. Most of the increase is due to the recognition of NIS 56 million in revenues from the relocation to the alternative site (see Section 3b in Part B – Board of Directors' Report as of December 31, 2009), falling diesel prices and the full consolidation of Maman. Conversely, profitability of commercial activities decreased, against the backdrop of a lower volume of activity.

Net financing expenses in 2009 totaled NIS 71 million, as compared with net financing expenses of NIS 80 million in 2008. The decrease in net financing expenses is after the inclusion last year of financing income from the exercise of an option to acquire shares in an associate totaling NIS 16 million and is due mainly to the decrease in interest rates and the hedges effected against an increase in the CPI and in foreign currency exchange rates.

Net income in 2009 totaled NIS 122 million, as compared with income of NIS 77 million in 2008. The increase in net income in 2009, as compared with 2008 is driven mainly by the recognition of after-tax revenue from the relocation to the alternative site totaling 41 million, and the decrease in diesel prices, net of last year's financial income from the exercise of the option to acquire the shares of an affiliate totaling NIS 16 million. Additionally, profitability was affected by the decrease in the volume of activity.

Revenues in the fourth quarter of 2009 totaled NIS 545 million, as compared with revenues of NIS 591 million in the fourth quarter of 2008. The decrease is driven by the decline in truck and bus sales in Israel and by the decrease in vehicle sales in Europe.

Operating income in the fourth quarter of 2009 totaled NIS 39 million, as compared with operating income of NIS 42 million in the corresponding quarter of 2008.

Net financial expenses in the fourth quarter of 2009, totaled NIS 18 million, as compared with net financial expenses of NIS 31 million in the corresponding quarter of 2008.

The decrease is due to the exceptional level of financial expenses in the fourth quarter of 2008, against the backdrop of relatively large obligo positions and extreme changes in exchange rates (mainly in countries where the Group operates in Europe).

Net income in the fourth quarter of 2009 amounted to NIS 13 million, as compared with net income of NIS 7 million in the fourth quarter of 2008. Most of the increase was driven by the decrease in financing expenses, as above.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

3. **Hadera Paper -**

a. Review of the Hadera Paper segment

Net income in 2010 totaled NIS 34 million, as compared with net income of NIS 139 million in 2009. The decrease in net income in 2010 as compared with 2009 is mainly due to a loss of NIS 8 million in respect of a decrease in the value of the Company's investment in Hadera Paper – Printing and Writing Paper, and the recording in 2009 of an amount by which the value of the assets and liabilities (net) relating to the Company's additional purchase of shares in Hadera Paper exceeds the amount of the Company's investment in Hadera Paper (negative goodwill), amounting to NIS 113 million.

Net income in the fourth quarter of 2010 amounted to NIS 18 million, as compared with net income of NIS 4 million in the fourth quarter of 2009. The increase in net income in the fourth quarter of 2010 as compared with the fourth quarter of 2009 was mainly due to an increase in the current income of the segment and the non-recurring revenue of NIS 5 million in respect of the return of monies from a mutual fund to employers.

Net income in 2009 totaled NIS 139 million, as compared with income of NIS 27 million in 2008.

The increase in net income in 2008, as compared with 2009 was driven mainly by the amount by which the value of the assets and liabilities (net), relating to the Company's additional purchase of shares of Hadera Paper exceeds the amount of the Company's investment in Hadera Paper (negative goodwill), amounting to NIS 113 million, net of the decrease in current income of NIS 5 million in 2009, as compared with 2008.

Net income in the fourth quarter of 2009 amounted to NIS 4 million, similar to the net income in the fourth quarter of 2008.

b. Review of the condensed operating results of Hadera Paper

Revenues in 2010 totaled NIS 1,121 million, as compared with NIS 892 million in 2009, representing an increase of 26%. Most of the increase in revenues originates from an increase in the revenues of the packaging paper sector that originates from a quantitative growth as a result of the operation of the new packaging paper manufacturing line - Machine 8 - coupled with the increase in exports to Europe and the growth in the demand of the domestic market, coupled with the higher selling prices in relation to the corresponding period in 2009.

Operating income in 2010 amounted to NIS 61 million, as compared with NIS 16 million in 2009. With the offset of non-recurring effects (including mainly the effect of the sale of a property of NIS 19 million, a refund from a mutual fund to employers of NIS 9 million, and a revaluation of an investment in an associate of NIS 6 million), the operating income in the reported period amounted to NIS 28 million, as compared with 2009 in which there was an operating loss of NIS 1 million with an offset of one-off revenues of NIS 16 million in respect of a unilateral dividend. The increase in operating income in the period mainly derives from an increase in sales as stated above.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

Hadera Paper's share in the earnings of associates in 2010 totaled NIS 81 million, as compared with NIS 87 million in the corresponding period in 2009, with the drop deriving from a decrease in the income of the associates offset by a reduction in the KCTR losses in Turkey.

Net income in 2010 totaled NIS 101 million, as compared with income of NIS 91 million in 2009.

Revenues in the fourth quarter of 2010 totaled NIS 336 million, as compared with revenues of NIS 238 million in the fourth quarter of 2009 (an increase of 42%), which derives mainly from an increase in sales in the packaging paper and recycling segment.

Operating income in the fourth quarter of 2010 totaled NIS 29 million, as compared with operating income of NIS 1 million in the fourth quarter of 2009.

The increase in operating profit this quarter is primarily attributed to the sharp rise in gross profit of the paper and recycling sector, as a result of the increase in sales and the manufacturing efficiency of the sector as a result of the operation of Machine 8, as mentioned above.

Hadera Paper's share in the earnings of its associates in the fourth quarter of 2010 totaled NIS 23 million, similar to the corresponding quarter in 2009.

Net income in the fourth quarter of 2010 totaled NIS 35 million, as compared with net income of NIS 21 million in the corresponding quarter of 2009.

Revenues in 2009 totaled NIS 892 million, as compared with revenues of NIS 673 million in 2008. Most of the increase in revenues was due to a difference of NIS 317 million as a result of the inclusion of the revenues of two subsidiaries (Carmel Container Systems Ltd. and Frenkel C.D. Ltd.), whose results were only consolidated for part of 2008, offset by the decrease in turnover in the packaging paper and recycling activities, of NIS 118 million, as a result of the effect of the erosion in sales prices (sales in this sector are influenced by the import prices in dollars), and the quantitative decrease in sales driven by imports of packaging paper at dumping prices from Europe, and from eroding demand from the domestic market and in Israeli export activities during 2009.

Operating income amounted to NIS 16 million in 2009, as compared with NIS 35 million in 2008. The decrease in operating income was due to eroding sales prices and the quantitative erosion in packaging paper and recycling, as a result of imports of packaging paper at dumping prices, which were offset by the recognition of one-off revenues of NIS 16 million for a unilateral dividend.

Hadera Paper's share in the earnings of associates in 2009 totaled NIS 87 million, as compared with NIS 51 million in 2008, as a result of the associates' improved results, including a reduction in the losses of KCTR in Turkey.

Net income in 2009 totaled NIS 91 million, as compared with income of NIS 70 million in 2008.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

Revenues in the fourth quarter of 2009 totaled NIS 238 million, as compared with revenues of NIS 226 million in the fourth quarter of 2008 (5% growth). Most of the increase in revenues derives from sales growth in the packaging paper and recycling sector and in the marketing of office equipment.

Operating income in the fourth quarter of 2009 totaled NIS 1 million, as compared with an operating loss of NIS 3 million in the fourth quarter of 2008.

The move to operating income in the fourth quarter of 2009, as compared with the loss in the fourth quarter of 2008 was driven mainly by the shift from an operating loss in the packaging products and cardboard sector in the fourth quarter of 2009 to operating income in the fourth quarter this year, as a result of the utilization of the price erosion of raw materials in this sector, and the continued implementation of the efficiency plan. The increase in operating income in the fourth quarter of 2009 was offset due to the transition to an operating loss of the paper and recycling sector, in relation to the fourth quarter of 2008, as a result of dumping prices, as mentioned above.

Hadera Paper's share in the earnings of associates in the fourth quarter of 2009 totaled NIS 23 million, as compared with NIS 15 million in the fourth quarter of 2008, mainly as a result of the improved results of the associates, including a reduction in the losses of KCTR in Turkey.

Net income in the fourth quarter of 2009 totaled NIS 21 million, as compared with net income of NIS 11 million in the corresponding quarter of 2008.

- c. Regarding the purchase by Hadera Paper of shares of Mondi Hadera Paper Ltd. ("Mondi Hadera") which is an associate of Hadera, see Section 3b(2), below.

4. **Golf -**

- a. **Review of the Golf segment:**

Net income in 2010 amounted to NIS 51 million, as compared with net income of NIS 96 million in 2009. The decrease in net income in the reported period as compared with 2009 is due mainly to the decrease in the current income of Golf and the fact that in 2009 the Company recorded income of NIS 32 million as a result of the expiration of the balance of the Series 1 options of Golf and the exercise of some of the Series 2 options.

Net income in the fourth quarter of 2010 totaled NIS 11 million, as compared with net income of NIS 24 million in the fourth quarter of 2009. The decrease in the net income in the fourth quarter of 2010 against that of the fourth quarter of 2009 derives from a decrease in the current income of Golf and the fact that in the fourth quarter of 2009, income of NIS 8 million was recorded as a result of the exercise of part of the Series 2 options.

Net income in 2009 amounted to NIS 96 million, as compared with net income of NIS 77 million in 2008. The growth in net income in 2009, as compared with last year is due mainly to the gain of NIS 32 million as a result of the expiration of the balance of the Series 1 options of Golf and the exercise of some of the Series 2 options, net of a drop of NIS 12 million in Golf's current income.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

Net income in the fourth quarter of 2009 amounted to NIS 24 million, as compared with net income of NIS 18 million in the fourth quarter of 2008. The increase in net income in the fourth quarter of 2009, as compared with the fourth quarter of 2008 is driven by a gain of NIS 8 million from the exercise of some of the Series 2 options, net of the NIS 3 million decrease in Golf's current income.

b. **Review of the condensed operating results of Golf:**

Revenues in 2010 totaled NIS 657 million, as compared with NIS 666 million in the corresponding period in 2009, representing a decrease of approximately 1%.

The decrease in revenues in 2010, as compared with 2009 was due mainly to the decrease in revenues of the fashion clothing segment as a result of the warm weather in the first and fourth quarters of 2010, which reduced the sales of the Winter collection, net of an increase in sales in the home design segment due to the opening of new shops.

Gross profit in 2010 totaled NIS 397, which represents 60.8% of revenues, as compared with gross profit of NIS 401 million in 2009, which represented 60.6% of revenues. The increase in the gross profit margin in 2010, as compared with 2009 was due mainly to the drop in the US dollar and euro exchange rates in relation to the NIS and a drop in the volume of slow-moving and obsolete inventories.

Income from ordinary operations in 2010 totaled NIS 99 million, as compared with NIS 115 million in 2009. The decrease in income from ordinary operations was due mainly to an increase in selling, marketing, administrative and general expenses of NIS 12 million, as compared with 2009, due to the increase of inputs costs and the opening of new stores.

Net income in 2010 totaled NIS 78 million, as compared with NIS 88 million in 2009. The drop in net income in 2010, as compared with the corresponding period in 2009 is due mainly to the increase in selling and administrative expenses and a decrease in net financing income of NIS 2 million, net of a drop in tax expenses of NIS 9 million.

Revenues in the fourth quarter of 2010 totaled NIS 175 million, as compared with NIS 177 million in the corresponding quarter of 2009 (a decrease of approximately 1%). The decrease in revenues was a result of a drop in revenues of the fashion clothing segment due to the warm weather in the fourth quarter of 2010 which reduced sales of the winter collection, net of an increase in sales in the home design segment as a result of the opening of new stores.

Gross profit in the fourth quarter of 2010 totaled NIS 102 million, constituting 57.2% of revenues, as compared with gross profit of NIS 108 million which accounted for 61.7% of revenues in the fourth quarter of 2009. The drop in the gross profit margin was due mainly to an increase of discounts.

Income from ordinary operations in the fourth quarter of 2010 totaled NIS 24 million, as compared with NIS 34 million in the fourth quarter of 2009. The increase in income from ordinary operations was due mainly to a decrease in selling, marketing, administrative and general expenses of NIS 4 million, as compared with the fourth quarter of 2009.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

Net income in the fourth quarter of 2010 totaled NIS 18 million, as compared with NIS 23 million in the corresponding quarter in 2009. The decrease in net income was due mainly to the decrease in operating income as stated above, net of a decrease in tax expenses of NIS 3 million.

The revenues in 2009 totaled NIS 666 million, as compared with revenues of NIS 706 million in the corresponding period in 2008, representing a decrease of 6%. The decrease in revenues in 2009 in relation to the corresponding period in 2008, was a result both of the effects of the global economic crisis as described in Section 1 above, of the relatively hot weather in the first and fourth quarters that reduced sales of the winter collection and the closing down of certain Golf shops during the "Cast Lead" military operation.

Gross profit totaled NIS 401 million in 2009, as compared with NIS 429 million in 2008. Gross margin in 2009 accounted for 61% of revenues, similar to 2008.

Income from ordinary operations in 2009 totaled NIS 115 million, as compared with NIS 134 million in 2008. Most of the decrease in income from ordinary operations was due to the lower gross profit, as above, net of a decrease in selling, marketing, general and administrative expenses of NIS 10 million, as compared with 2008, as a result of Golf's efficiency and cost-cutting measures.

Net income in 2009 amounted to NIS 88 million, as compared with NIS 101 million in 2008. The decrease in net income in 2009 as compared with 2008 was driven mainly by the decrease in sales, which was offset in part by the decline in selling and administrative expenses and an increase in net financing income compared to 2008, amounting to NIS 4 million.

Revenues in the fourth quarter of 2009 totaled NIS 177 million, as compared with NIS 178 million in the fourth quarter of 2008 (a decrease of approximately 1%).

Gross profit in the fourth quarter of 2009 totaled NIS 108 million, similar to the fourth quarter of 2008. Gross margin in the fourth quarter of 2009 amounted to 61%, similar to the fourth quarter of 2008.

Income from ordinary operations in the fourth quarter of 2009 totaled NIS 34 million, as compared with NIS 32 million in the fourth quarter of 2008. The increase in income from ordinary operations was due mainly to a decrease in selling, marketing, administrative and general expenses of NIS 2 million, as compared with the fourth quarter of 2008.

Net income in the fourth quarter of 2009 amounted to NIS 23 million, as compared with NIS 26 million in the corresponding quarter of 2008. The decrease in net income was due mainly to the increase of NIS 2 million in income taxes compared to the fourth quarter of 2008.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

5. **Fundtech**

a. Review of the Fundtech segment:

Net income in 2010 totaled NIS 21 million, as compared with net income of NIS 10 million in 2009. The increase is due to an increase in the current income of Fundtech and a decrease in the current write-offs of original differences in respect of CII's investment in Fundtech.

Net income in the fourth quarter of 2010 totaled NIS 11 million, as compared with net income of NIS 16 million in the fourth quarter of 2009. The decrease in net income in the fourth quarter of 2010 as compared with 2009 is due to the fact that in the fourth quarter of 2009 a gain of NIS 11 million from the exercise of employee options in Fundtech was recorded, net of an increase in Fundtech's current income.

Net income in 2009 totaled NIS 10 million, as compared with a net loss of NIS 11 million in 2008. The change from a loss in 2008 to income in 2009 was driven by the increase in Fundtech's income in 2009 as compared with 2008, by a NIS 11 million gain from the exercise of employee options and a decrease in current write-off of original differences from the CII investment in Fundtech.

Net income in the fourth quarter of 2009 amounted to NIS 16 million, as compared with a net loss of NIS 6 million in the fourth quarter of 2008. The transition from a loss in the fourth quarter of 2008 to income in the fourth quarter of 2009 was driven by a NIS 11 million gain from the exercise of employee options, an increase in the current income of Fundtech and a decrease in the current write-off of original differences from the CII investment in Fundtech.

b. Review of the condensed operating results of Fundtech:

Revenues in 2010 totaled \$141.9 million, as compared with revenues of \$117.8 million in 2009 (an increase of 20%). The increase in revenues is due mainly to increased demand for the Company's products against a backdrop of recovery in the global economy.

Operating income in 2010 totaled \$13.3 million, as compared with operating income of \$4 million in 2009. The increase in operating income is due mainly to an increase in revenues of \$24.2 million which was offset by an increase in operating expenses of \$15 million. The increase in operating expenses was due primarily to an increase in the cost of sales of \$12.6 million.

Net income in 2010 totaled \$12.5 million, as compared with net income of \$4.7 million in 2009. The increase in net income derived mainly from an increase in operating income as stated above, which was offset by financing expenses of \$0.8 million.

Revenues in the fourth quarter of 2010 totaled \$37.8 million, as compared with revenues of \$32.8 million in the corresponding quarter in 2009 (an increase of 15%). The increase in revenues is mainly a result of increased demand for the Company's products along with the continued recovery in the global economy.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

Operating income in the fourth quarter of 2010 totaled \$3.9 million, as compared with operating income of \$2.4 million in the fourth quarter of 2009. The increase in operating income is due mainly to an increase in revenues of \$4.9 million which was offset by an increase in operating expenses of \$3.5 million. The increase in operating expenses was due primarily to an increase in the cost of sales of \$2.6 million.

Net income in the fourth quarter of 2010 totaled \$5.8 million, as compared with net income of \$3.4 million in the corresponding quarter of 2009. The increase in net income is due mainly to the increase in operating income as stated above, and from the recording of a high tax benefit compared to the tax benefit in 2009.

Revenues in 2009 totaled \$117.8 million, as compared with revenues of \$121 million in 2008 (a 2% decrease). The decrease in revenues was due mainly to the effect of the global economic crisis, as discussed in Section 1.

Operating income in 2009 amounted to \$4 million, as compared with \$3 million in 2008. The increase in operating income is mainly a result of the decrease in software development costs and selling and marketing expenses, net of a decrease in revenues and the inclusion of amortization of goodwill and intangible assets in 2008.

Net income in 2009 totaled \$4.7 million, as compared with income of \$1.2 million in 2008. The increase in income was due mainly to the increase in operating income, as noted, and the recognition of a tax benefit, as opposed to a tax expense in 2008.

Revenues in the fourth quarter of 2009 totaled \$32.8 million, as compared with \$29.8 million in the corresponding quarter of 2008, representing a 10% increase. The increase in revenues is attributed to a certain recovery in the global economy, as mentioned in Section 1, above.

Operating income in the fourth quarter of 2009 totaled \$2.4 million, as compared with an operating loss of \$1.6 million in the fourth quarter of 2008. The change from an operating loss to operating income was driven mainly by an increase in revenues, as above, and the inclusion of amortization of goodwill and intangible assets in the fourth quarter of 2008.

Net income in the fourth quarter of 2009 totaled \$3.4 million, as compared with a net loss of \$2.2 million in the fourth quarter of 2008. Most of the increase in net income is driven by the increase in operating income.

6. **CBI –**

a. **Review of the CBI segment:**

Net income in 2010 totaled NIS 199 million, as compared with net income in 2009 of NIS 49 million. The increase in net income is due mainly to the recording of a gain of NIS 268 million in respect of the completion of the MediWound transaction, and as a result, the cessation of the consolidation of MediWound in CBI's financial statements, in contrast with 2009 in which other income of NIS 70 million was recorded including a gain from the excess of the carrying value over the cost of CBI's investment in D-Pharm of NIS 21 million, income from the decrease in CBI's holding in Andromeda of NIS 35 million and a gain from the sale of Compugen shares of NIS 10 million, net of an increase in the current loss of CBI of NIS 56 million.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

2. Results of Operations (Continued)

Net income in the fourth quarter of 2010 totaled NIS 243 million, as compared with a net loss of NIS 14 million in the fourth quarter of 2009. The transition to profitability is the result of the recording of a gain of NIS 268 million in respect of the completion of the MediWound transaction, and as a result, the cessation of the consolidation of MediWound in CBI's financial statements, offset by an increase in the current loss of CBI of NIS 18 million.

Net income in 2009 totaled NIS 49 million, compared to a net loss of NIS 56 million in 2008. The transition to income is mainly due to a decrease in the current loss of CBI of NIS 36 million and the recognition of income deriving from the excess of the carrying value over the cost of CBI's investment in D-Pharm of NIS 21 million, a gain from the decrease of CBI's holding in Andromeda of NIS 35 million and a gain from the sale of Compugen shares of NIS 10 million.

The net loss in the fourth quarter of 2009 totaled NIS 14 million, as compared with a net loss of NIS 6 million in the fourth quarter of 2008. The increase in the loss in the fourth quarter of 2009, as compared with the fourth quarter of 2008 is due mainly to the increase in the current loss of CBI of NIS 11 million.

b. Review of the condensed operating results of CBI:

The increase in income in 2010, as compared with 2009 was mainly the result of: (a) Income from the loss of control in MediWound (NIS 436 million) see ad5 below, (b) A tax benefit (NIS 23 million) in respect of the recording of a deferred tax asset against a deferred tax liability that was recorded in respect of part of the income from the decrease in control in MediWound and (c) A decrease in the Company's share in the losses of its investee companies (NIS 12 million). These effects were partially offset by: (a) Changes in the values of derivatives (NIS 75 million) last year chiefly in respect of derivatives related to CBI's investment in Andromeda, (b) Decrease in the income from the sale of assets and the adjustment of asset values (NIS 75 million) last year - primarily a gain from the exercise of Teva's option to invest in Andromeda and the gain recorded at the time of the consolidation for the first time of D-Pharm, and (c) From the transition from financing and administrative income in 2009 to an expense in 2010 (NIS 35 million) mainly due to a decrease in the US dollar exchange rate and an increase in administrative expenses.

CBI's share in the results of its investee companies decreased by NIS 12 million, as compared with 2009, mainly due to a decrease in the losses of PolyHeal (last year there was a large loss as a result of a change in the value of derivatives and convertible loans), offset by an increase in the losses of D-Pharm and Andromeda due to expenses incurred in the trials that they had been conducting.

The transition from a loss in the fourth quarter of 2009 to income in the fourth quarter of 2010 was due mainly to: (a) Income from the loss of control in MediWound, (b) A reduction in the Company's shares in the results in its investee companies (NIS 27 million), (c) A tax benefit (NIS 22 million) and (d) An increase in the income from the disposal of assets (NIS 9 million).



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

This effect was partially offset as a result of: (a) The decrease in income from adjustments to the value of derivatives (NIS 41 million) chiefly last year due to a change in the value of the derivative instruments related to CBI's investment in PolyHeal and in the current quarter a change in the value of the derivatives related to CBI's investment in MediWound and (b) The transition to financing and administrative expenses (NIS 20 million) mainly due to a change in the US dollar exchange rate and an increase in administrative expenses.

CBI's share in the results of its investee companies decreased by NIS 25 million in the fourth quarter of 2010, as compared with the corresponding quarter in the previous year, chiefly due to a decrease in the losses of PolyHeal which were partially offset by an increase in the losses of D-Pharm.

Income in 2009 totaled NIS 65 million, as compared with a loss of NIS 83 million in 2008. The change from loss in 2008 to income in 2009 was due mainly to the increase in gains from the disposal of assets and from the impairment of assets (NIS 99 million), due to the completion of the exercise of Teva's option to invest in Andromeda and the gain from the investment in D-Pharm, to the increase in value of derivatives (NIS 58 million), mainly derivatives related to CBI's investment in Andromeda and the transition to financial and administrative income (NIS 14 million), due to changes in the dollar exchange rate. These effects were offset in part by the increase in CBI's share in losses of investees (NIS 23 million).

Loss in the fourth quarter of 2009 amounts to NIS 16 million, as compared with a loss of NIS 9 million in the corresponding quarter of 2008.

The increase in the loss in the fourth quarter of 2009, as compared with the fourth quarter of 2008 was due mainly to the increase in CBI's share in the results of investees (NIS 29 million). This effect was offset in part by the shift from a loss on sale of assets and impairment of assets (NIS 12 million) to a gain from sale of Compugen shares in the fourth quarter of 2009, compared to an impairment loss in Compugen in the fourth quarter of 2008 and an increase in income from the change in value of derivatives (NIS 9 million), mainly driven by a change in the value of derivatives related to CBI's investment in PolyHeal.

CBI's share in the losses of investees increased by NIS 29 million in the fourth quarter of 2009, as compared with the fourth quarter of 2008, primarily due to the increase in the losses of PolyHeal resulting from a change in the value of derivatives and convertible loans.

7. **Netvision -**

a. **Review of the Netvision segment:**

The net income in 2010 amounted to NIS 15 million, as compared with net income of NIS 10 million in 2009.

The increase in income derives mainly from the decrease in current write-offs of original differences in the Company's investment in Netvision and as a result of an increase in the Company's holding in Netvision.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

Net income in the fourth quarter of 2010 totaled NIS 1 million, as compared with net income of NIS 6 million in the fourth quarter of 2009. The decrease in net income in the fourth quarter of 2010, as compared with the corresponding quarter last year is chiefly due to the recording of a loss in respect of the impairment of assets in a subsidiary of Netvision in Georgia of NIS 2 million.

Net income in 2009 totaled NIS 10 million, as compared with net income of NIS 1 million in 2008. The increase in income is due mainly to an increase in the income of Netvision, an increase in CII's holding in Netvision and a decrease in the current amortization of original differences in respect of CII's investment in Netvision and the inclusion of NIS 3 million of expenses in 2008 for the amortization of intangible assets in Netvision.

Net income in the fourth quarter of 2009 totaled NIS 6 million, as compared with a net loss of NIS 1 million in the fourth quarter of 2008, mainly arising from Netvision's improved results and the inclusion of NIS 3 million of expenses in the fourth quarter of 2008 for the amortization of intangible assets in Netvision and the increase in CII's holding in Netvision.

b. **Review of the condensed operating results of Netvision:**

Revenues in 2010 totaled NIS 1,303 million, as compared with NIS 1,250 million in 2009, an increase of 4%, mainly due to an increase in revenues from the internet connectivity segment. Most of the increase in the ISP operations originates from the sale of information security products, growth in the Internet operations and value added services sold to clients, coupled with the consolidation for the first time the financial statements of Rimon Israel 2009 Ltd. (whose financial statements are consolidated since September 2009).

Operating income in 2010 totaled NIS 115 million, as compared with operating income of NIS 156 million in 2009. The decrease in operating income relative to 2009 is due mainly to the decrease in operating income of the telephony segment, which is due mainly to the effect of the entry of Netvision into the household telephony sector which caused an operating loss in 2010 of NIS 31 million, as compared with an operating loss of NIS 10 million. In addition, included in the operating income for 2010 is a loss of NIS 8 million in respect of the impairment of assets in a subsidiary of Netvision in Georgia.

Net income in 2010 totaled NIS 85 million, as compared with net income of NIS 106 million in 2009. The decrease in income was mainly due to a decrease in the operating income as stated above, net of a decrease in financing expenses and taxes of NIS 18 million compared to 2009.

Revenues in the fourth quarter of 2010 totaled NIS 346 million, as compared with NIS 318 million in the fourth quarter of 2009.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

2. **Results of Operations (Continued)**

Operating income in the fourth quarter of 2010 totaled NIS 25 million, as compared with operating income of NIS 37 million in the fourth quarter of 2009. The decrease in operating income is due mainly to the effect of the entry of Netvision into the household telephony sector which caused an operating loss of NIS 9 million, as compared with NIS 4 million in the fourth quarter of 2009, and a loss of NIS 8 million in respect of the impairment of assets in a subsidiary of Netvision in Georgia.

Net income in the fourth quarter of 2010 totaled NIS 23 million, as compared with net income of NIS 27 million in the corresponding quarter in 2009. The decrease in net income derives primarily from the decrease in operating income as stated above.

Revenues in 2009 totaled NIS 1,250 million, as compared with NIS 1,235 million in 2008, representing an increase of 1%. Most of the increase is due to the revenue growth in the Internet connectivity sector, as a result of the increase in volume of customers, to the sale of products and services related to connectivity, and the impact of the increase in the dollar exchange rate, net of the decrease in telephony revenues, mainly as a result of the decrease in volume of minutes, which is explained in part by the market's overall decline in outgoing traffic and the decrease in Netvision's market share.

Operating income in 2009 totaled NIS 156 million, as compared with operating income of NIS 111 million in 2008. Most of the increase in operating income relative to 2008 is due to revenue growth, as noted, and the decrease in communication expenses, and efficiency measures in general and administrative expenses, net of the effect of a decline in the profitability of international calling cards and the effect of the increase in the dollar exchange rate on the expenses of purchasing minutes overseas.

Net income in 2009 amounted to NIS 106 million, as compared with net income of NIS 87 million in 2008. Most of the increase was driven by improved operating income, as noted above, net of the increase in financing and tax expenses of NIS 27 million, as compared with 2008.

Revenues in the fourth quarter of 2009 totaled NIS 318 million, similar to the fourth quarter of 2008.

Operating income in the fourth quarter of 2009 totaled NIS 37 million, as compared with operating income of NIS 22 million in the fourth quarter of 2008. Most of the increase is due to the inclusion of expenses for the impairment of intangible assets of NIS 14 million in the fourth quarter of 2008.

Net income in the fourth quarter of 2009 totaled NIS 27 million, as compared with net income of NIS 11 million in the corresponding quarter of 2008. The increase in net income is due mainly to the increase in operating income.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

3. **Principal Changes in Investments and in Investee Companies**

a. Taavura

Maman

In February 2010, Maman entered into a framework agreement with El Al Israel Airways Ltd. ("El Al"), that is a major customer of Maman in the cargo terminal operations, pursuant to which Maman would provide El Al with discounts during the contractual agreement, off the regular rates, on the terminal services provided to El Al cargos at the terminal. Pursuant to the framework agreement, Maman has undertaken to allocate to El Al, subject to obtaining the requisite approvals, shares of Maman, which will be allocated in tranches, at a cumulative rate of up to 15% of the fully-diluted issued share capital of Maman, as well as non-marketable options to acquire shares of Maman, approximating 10% of the fully-diluted issued share capital of Maman, and exercisable, under varying conditions, over the course of six years.

On November 3, 2010, the shareholders of Maman, in a general meeting of the Maman shareholders, approved the allotment of the shares and options in accordance with the aforesaid agreement, and on November 7, 2010, the two first tranches of shares (7.5% of the shares of Maman) and options (exercisable into 10% of Maman's shares) have been allotted under the agreement. Upon the fulfillment of the terms of the agreement, Maman shall allot to El Al at the start of 2011 and at the start of 2012 two additional tranches of shares (each representing 3.75% of the company's shares), such that following the completion of allotment of the shares and exercise of the options El Al will hold 25% of the share capital of Maman.

Following the allotment of the first two tranches of the shares, Taavura's stake in Maman fell from 76.8% to 68.2%. In the event that the shares are all allocated and all the options are exercised, Taavura's holding percentage in Maman will drop to 57.6%.

Following the allotment of the shares and options to El Al, in the third quarter of 2010, the Company recorded its share in Maman's expenditure, which is attributable to the Company's shareholders, in the amount of NIS 12 million.

For additional details, see Note 11h1 to the Company's financial statements as at December 31, 2010.

b. Hadera Paper

1. Hadera Paper - Printing and Writing Paper Ltd. (formerly: "Mondi Hadera Paper Ltd.")

On September 7, 2010, Hadera Paper signed an agreement with a subsidiary of Mondi Group ("Mondi Group") which, prior to the transaction, held 50.1% of the issued and outstanding share capital of Hadera Paper – Printing and Writing Paper Ltd., an associated company of Hadera Paper, previously known as Mondi Hadera Paper Ltd. (hereinafter: "Printing and Writing Paper"), pursuant to which Mondi Group would sell to the Company 25.1% of the issued and outstanding share capital of Printing and Writing Paper ("the Acquisition Transaction").



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

3. **Principal Changes in Investments and in Investee Companies (Continued)**

Prior to the Acquisition Transaction, Hadera Paper held 49.9% of the issued and outstanding share capital of Printing and Writing Paper, and subsequent to completion of the Acquisition Transaction on December 31, 2010, it holds 75% of the issued and outstanding share capital of Printing and Writing Paper, while Mondi Group holds the balance of 25%.

In consideration of the shares sold, Hadera Paper paid the Mondi Group a sum of 10.3 million euro on January 5, 2011.

Based on the value of Mondi Hadera, as determined for purposes of the transaction, the Company recorded in its accounts in 2010, an impairment allowance of NIS 35 million in respect of its investment in Mondi Hadera, of which NIS 13 million were carried to other comprehensive income, reducing the balance of the revaluation reserve that had been created following the achievement of control in Mondi Hadera, while NIS 22 million were carried to the statement of income, of which NIS 8 million were attributed to the Company's shareholders.

For additional details, see Note 11h2b to the Company's financial statements as at December 31, 2010.

2. **The Company's investment in Hadera Paper Ltd. and Hogla Kimberly Ltd.**

In order to test for impairment of the Company's investment in Hadera Paper and Hogla Kimberly at December 31, 2010, the Company obtained a valuation by an independent external appraiser which stated that the recoverable value of the investments is higher than their value in the Company's books.

For the data required for the very material valuation attached to Hadera Paper Ltd.'s periodic report as of December 31, 2010, which was published on March 7, 2011, in accordance with Section 8b of the Securities Regulations (Periodic and Immediate Reports), 1970, see Regulation 8b of Chapter D – Additional Details on the Corporation as of December 31, 2010.

c. **Golf**

In 2010, as a result of the exercise of the Golf options, the Company recorded an increase in capital attributable to Company shareholders of NIS 22 million, which was charged to a capital reserve. As a result of the exercise of the said options, the holdings in Golf decreased to approximately 62%.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

3. Principal Changes in Investments and in Investee Companies (Continued)

d. CBI

1. Biomedical Investments (1997) Ltd. ("Biomedical")

In February 2010, CBI entered into an agreement to acquire all of the rights to Biomedical in return for a cash payment of NIS 28 million, the allocation of 3 million ordinary shares of CBI ("The Allocated Shares") and the allocation of a non-marketable option to acquire 1,250,000 ordinary shares of CBI, under terms that are similar to the terms of the Series 3 options of CBI, that are traded on the stock exchange ("The Option Warrant"). The economic value of the proceeds paid under the said transaction, given the value of the securities allocated at the date the transaction was completed, totals NIS 95 million. The allocated shares and option warrants constituted, immediately after the allocation, 3.64% of the share capital of CBI on a fully diluted basis.

Subsequent to the said allotment the Company's holding percentage in CBI fell to 61% (52% on a fully diluted basis). As a result, the Company recorded an NIS 28 million increase in the equity attributable to the shareholders of the Company.

Biomedical is a private holding company that holds several life sciences and biotechnology companies, the principal ones being:

- a. Gamida Cell Ltd. is a leader in the development of stem cell therapy technologies and products. The therapies are based on expanded populations of umbilical cord blood stem cells. The flagship product, StemEx, is currently in advanced stages of clinical trials (Pivotal Phase III). Biomedical holds 20% of the issued and paid-up share capital and approximately 17% fully diluted.
- b. Transpharma Medical Ltd. ("Transpharma"), specializes in the development and commercialization of drug products utilizing a proprietary active transdermal drug delivery technology. Biomedical holds 6.0% of the issued and paid-up share capital of Transpharma (5.6% fully diluted).
- c. BioControl Medical (BCM) Ltd. is currently focused on the clinical development of the CardioFit™ System, intended to effectively treat congestive heart failure (CHF) via vagus nerve stimulation. Biomedical indirectly holds approximately 3.0% of the issued and paid-up share capital (2.7% fully diluted).

For additional details, see Note 11h4a to the Company's financial statements as of December 31, 2010.

2. Andromeda Biotech Ltd. (hereinafter - Andromeda)

In 2010, CBI invested an amount of \$4.9 million in Andromeda, while Teva invested \$6.7 million in Andromeda.

For additional details, see Note 11h4b to the Company's financial statements as of December 31, 2010.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

3. Principal Changes in Investments and in Investee Companies (Continued)

3. D-Pharm (hereinafter: "D-Pharm")

In May 2010, CBI exercised 900,000 option warrants (Series 1) of D-Pharm, a subsidiary in which CBI holds 47% (51% fully diluted), in consideration for a total exercise price of NIS 15.7 million.

In close proximity subsequent to the aforementioned exercise, CBI entered into an off-exchange agreement with a third party, to sell 600,000 ordinary shares of D-Pharm and 150,000 option warrants (Series 1) of D-Pharm for a total consideration of NIS 14.2 million.

Subsequent to the said exercise and sale, CBI holds 46% of the issued and paid-up share capital of D-Pharm and 48% on a fully diluted basis.

For additional details, see Note 11h4c to the financial statements dated December 31, 2010.

4. Curetech Ltd. (hereinafter – "Curetech")

In the course of 2010, Teva invested a further \$6 million in Curetech. The sum of the investment constitutes part of a total sum of \$10.5 million that are intended to allow Curetech to expand the development operations.

For additional details, see Note 11h4d to the Company's financial statements as at December 31, 2010.

5. MediWound Ltd. (hereinafter – "MediWound")

Following the signing of the non-binding memoranda of understanding in June 2010, MediWound and PolyHeal signed agreements between them and with Teva in November 2010, pursuant to which the parties will collaborate in the area of wound healing in the development, manufacture and marketing of the innovative products of MediWound and PolyHeal. The purpose of the collaboration is to combine PolyHeal's technological capabilities with MediWound's technological, manufacturing and administrative capabilities and with Teva's global marketing platform. The structure of the transaction includes the acquisition of PolyHeal by MediWound. In parallel, the options for the acquisition of control in MediWound - that were signed with Teva in 2007 - were updated. The joint product range will include a series of products addressing the healing of wounds.

The following are the main points of the agreements:

1. Licensing agreements: MediWound would acquire from PolyHeal an exclusive license to develop, manufacture and market all PolyHeal products, in return for the royalties stipulated in the licensing agreement (hereinafter: "MediWound license for PolyHeal products"). In parallel, Teva will acquire from MediWound an exclusive global sub-license for the commercialization of PolyHeal products, including a product that is marketed in Israel and approved for marketing in Europe, and other products at the development stage, in return for the payment of double-digit sub-royalties at a rate that will not exceed 20%. In addition, Teva will pay MediWound an amount of up to \$167 million subject to the volume of sales of PolyHeal products ("the Teva license for PolyHeal products").

Moreover, Teva will finance the continued development of PolyHeal products, subject to the terms outlined in the agreement.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

3. Principal Changes in Investments and in Investee Companies (Continued)

2. Teva investment in MediWound: At the initial closing date, Teva will invest approximately \$6.8 million in MediWound, according to a value of approximately \$200 million for MediWound, before the money. In addition, Teva will be entitled to invest \$65 million in MediWound, subject to agreed milestones (related to the development progress of PolyHeal products), at a pre-money valuation of MediWound of between \$200 million and \$300 million (of this amount \$6.8 million may be realized starting from the completion date of the transaction, at Teva's discretion, not subject to the fulfillment of any milestones). The failure to perform any of the said investments will lead to the cancellation of the Teva license for PolyHeal products (except for a decision by Teva not to invest in MediWound subsequent to obtaining the approval of the US authorities for marketing the product in the United States, that would lead to the cancellation of the Teva license for PolyHeal products in the United States alone).
3. Acquisition of PolyHeal shares by MediWound: MediWound will acquire, at the initial closing date, from the PolyHeal shareholders, shares of PolyHeal in the total sum of \$7 million, according to a value of \$90 million for PolyHeal. Moreover, MediWound will acquire from the PolyHeal shareholders, shares of PolyHeal in the sum of \$193 million, subject to meeting agreed-upon objectives related to the progress of development and the sale of PolyHeal products and the realization of investments and milestone payments by Teva in MediWound, according to a value ranging between \$90 million and \$270 million for PolyHeal. Additionally, MediWound will pay to PolyHeal and its shareholders, additional payments on the basis of the sale of PolyHeal products. The CBI share in the said payments under this section totals approximately 40%. The failure to perform any of the said investments will lead to the cancellation of the MediWound license for PolyHeal products (except in the United States, as mentioned above).
4. Amendment of the Teva purchasing agreement from the MediWound shareholders dated 2007 (hereinafter: "The 2007 Agreement"): Teva will acquire, at the initial closing date, from the MediWound shareholders, shares of MediWound in the total sum of \$5 million, according to a value of \$200 million for MediWound. Additionally, Teva will acquire, from the MediWound shareholders, MediWound shares in the amount of approximately \$22 million and \$64 million, at the date of approval of marketing of the MediWound product in Europe and in the United States, respectively, according to a value of \$271 million and \$593 million for MediWound, respectively. These acquisitions will be made in the event that Teva decides to expand the Teva license for MediWound products in Europe and in the United States, respectively and in the event that Teva or the MediWound shareholders realize the Call option and Put option that were allocated to them in relation to these milestones. The CBI share in the said payments under this section totals approximately 57%.
5. Composition of the MediWound Board of Directors: As from the initial closing date, the MediWound Board of Directors would consist of seven Board members, of which three are to be appointed by CBI, one by Teva, one by the founder, one by PolyHeal (an industry expert) and an additional board member to be appointed by four of the other six board members. The number of directors that will be appointed to the board by CBI, will decrease in line with the change in the percentage of its holdings according to the agreement.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

3. Principal Changes in Investments and in Investee Companies (Continued)

At the date of initial closing, the Teva holdings in MediWound will increase from approximately 12% (11% fully diluted) to approximately 18% (approximately 17% fully diluted). In the event that all of the investments and acquisitions mentioned above are performed, the Teva holdings in MediWound will increase to reach approximately 51% fully diluted, while MediWound will hold all of the equity of PolyHeal. It should be clarified that even in the event that Teva decides to relinquish the Teva license for PolyHeal products, its holdings in MediWound can increase to approximately 51% fully diluted, by performing all of the share acquisitions contingent upon fulfilling the milestones associated with the MediWound products, as stipulated in the 2007 agreement.

At the completion date of the transaction, CBI's holding in MediWound dropped to 52% (49.99% taking into account immediately exercisable dilution instruments) and to 38% in PolyHeal (37% fully diluted) and MediWound has a 7.5% holding in PolyHeal (7% fully diluted). Upon full completion of the stages detailed above, CBI's holdings in MediWound decreased to 29% (27% fully diluted).

In light of the decrease in the Group's holdings in MediWound, taking into account immediately exercisable diluting instruments, to 49.99%, and in light of the change in the composition of the board of directors of MediWound as detailed above, CBI no longer controls MediWound. Therefore, starting from the completion date of the transaction, CBI ceased consolidating the financial statements of MediWound and the investment is accounted for on an equity basis.

CBI engaged an independent appraiser in order to assess the fair value of the remaining investment in MediWound at the date of completion of the transaction, and the fair value of the derivatives given under the agreements. According to the valuation the fair value of MediWound was assessed at a total of \$272 million, and, as a result, the fair value of the Group's remaining investment in MediWound was assessed at a total of NIS 430 million. The aforementioned valuation carried out by the appraiser is attached to CBI's periodic report for 2010.

The difference between the fair value of the Group's remaining investment in MediWound, the proceeds from the sale of MediWound shares to Teva on completion and the change in the values of the derivatives that were exchanged in the transaction and the book value of MediWound's assets (net) and of the rights that do not confer control in respect of MediWound that were included in the consolidated financial statements prior to the completion of the transaction, of NIS 457 million, has been charged to the statements of income, in which the Company shareholders' share is NIS 268 million.

As of the date of approval of the financial statements, the allocation of the purchase price of the remaining investment in monies that have been and that shall be deposited and their profits has not been completed. In CBI's opinion, most of the purchase price of this investment will be attributed to Identified Intangible Assets (Research and Development Assets). In CBI's opinion, the allocation of the purchase price should be completed by the date of publication of CBI's financial statements in the first quarter of 2011.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

3. **Principal Changes in Investments and in Investee Companies (Continued)**

MediWound valuation

For the data required for the very material valuation attached to CBI's financial statements as of December 31, 2010, which was published on March 17, 2010 in accordance with section 8b (i) of the Securities Regulations (Periodic and Immediate Reports), 1970, see Regulation 8b of Chapter D – Additional Details on the Corporation as of December 31, 2010.

6. **Private Placement to Migdal Insurance Group (hereinafter: "Migdal")**

In September 2010, several entities from the Migdal Group exercised all of the options that were granted to them as part of the agreement dated September 2009, for the acquisition of 2,857,143 ordinary shares of CBI in consideration of approximately NIS 40 million.

As a result of the exercise of the said options, the holding percentage of the Company in CBI has decreased to approximately 59%, while the company recorded an increase in the equity attributed to the company shareholders, in the amount of NIS 15 million.

See also Note 11h4g of the Company's financial statements as of December 31, 2010.

e. **Cargal**

On July 7, 2010, Cargal, an investee company in which the company holds 26%, signed a memorandum of understanding with all of the shareholders of Amraz Ltd. ("Amraz" or "the sellers"), regarding the acquisition of all of the issued share capital of Amraz by Cargal from all of the sellers (whether directly or by way of acquiring a holding company that holds part of the shares of Amraz) ("the acquisition transaction").

On November 23, Cargal and the sellers decided to discontinue the negotiations between the parties regarding the acquisition transaction and to cancel the memorandum of understanding.

f. **Tigo Energy Inc. (hereinafter: "Tigo")**

During the reported period, the Company invested an additional sum of NIS 15 million in Tigo, thereby bringing the Company's total investment in Tigo to NIS 23 million, as the Company's holding rate in Tigo has increased to 13%.

For additional details, see Note 10a1 to the Company's financial statements as at December 31, 2010.

g. **Arcadian Networks Inc. (hereinafter – "Arcadian")**

During the first quarter of 2010 the Company included in its books an NIS 17 million provision for impairment of its investment in Arcadian, a company in which 12% are held. During the fourth quarter of 2010 the Company included in its books a further provision for the impairment of the investment of NIS 20 million, and in total the Company has written off an amount of NIS 37 million. The valuation was considered a material valuation (below are details regarding a material valuation).



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

3. **Principal Changes in Investments and in Investee Companies (Continued)**

For the data required for the material valuation in accordance with Section 8b of the Securities Regulations (Periodic and Immediate Reports), 1970, see Regulation 8b of Chapter D – Additional Details on the Corporation as of December 31, 2010.

h. **Nova Measuring Instruments Ltd. ("Nova")**

In February 2010, Nova conducted a public offering of its shares. Consequently, the Company recognized gains of NIS 7 million in the first quarter of 2010, on account of the decrease in its holding percentage.

In March 2010, in the course of trading on the stock exchange, the Company sold one million shares of Nova, constituting 4.2% of the issued and paid-up share capital of Nova, for a total consideration of \$5.1 million.

As a result of the sale, the Company recognized gains of NIS 11 million in the first quarter of 2010.

In proximity to the above mentioned sale, the company exercised all of the cashless options it held for acquiring Nova shares. As a result, the Company received 336,000 shares of Nova.

As a result of the aforementioned transactions, the Company's stake in Nova decreased to 14% (12.7% on a fully diluted basis).

In light of the above, the company modified the accounting treatment of its investment in Nova, so that Nova now appears in its financial statements of the financial asset available-for-sale on the basis of fair value.

As a result of the change in accounting treatment, the Company recognized gains of NIS 29 million in the first quarter of 2010, on account of the revaluation of the balance of the investment in Nova to fair value.

For additional details, see Note 10b to the Company's financial statements as at December 31, 2010.

i. **Clal Energy Limited Partnership (hereinafter – "Clal Energy")**

On September 12, 2010, the Company's Board of Directors decided to approve the principles for the merger of Clal P.V. Ltd. (hereinafter: "Clal PV"), a wholly-owned subsidiary of Clal Energy Limited Partnership, which is wholly-owned by the Company, with Sun Ease Solar Energy Ltd. (hereinafter: "Sun"), which are engaged in generating electricity from solar energy (hereinafter: "The merger"). The merger procedure will be carried out in accordance with Section 103c of the Income Tax Ordinance, in which course Sun will be merged into Clal PV (hereinafter: "the merged company"). Subsequent to the said merger, Clal Energy will hold 50% of the ownership and control in the merged company.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

a. **Board of Directors' Report Regarding the State of the Corporation (Continued)**

3. **Principal Changes in Investments and in Investee Companies (Continued)**

Under the aforesaid approval, the Company will provide undertakings to the Electricity Authority to provide shareholders' equity to the merged company in the amount of up to \$33.3 million and an approval to inject the funds generated therefrom in order to obtain licenses from the Electricity Authority for several solar energy projects using photovoltaic technology, in whose development the merged company will engage (hereinafter: "undertakings to the Electricity Authority"). This amount includes the undertakings that will be effectively provided until the date of finalization of the merger. In addition, the Company will undertake to inject up to \$5.5 million to finance the merged company.

On November 25, 2010, the board of directors of the Company decided that the total undertakings to the Electricity Authority with respect to the amount of shareholders' equity that the Company will be eligible to provide to Clal PV until the date of the merger, shall be \$33.3 million.

True to the date of approval of these financial statements, undertakings have been provided for the aggregate amount of \$32 million.

In November 2010, Clal Energy signed an agreement to merge Clal PV with Sun. Closing of this merger is subject to obtaining statutory approvals.

For additional details, see Note 11h5 to the Company's financial statements as at December 31, 2010.

4. **The Financial Position, Financing Resources and Liquidity**

a. Total assets in the consolidated balance sheets of the Company as of December 31, 2010, amounted to NIS 11,984 million, as compared with NIS 11,251 million as of December 31, 2009. Most of the increase originates from the first-time consolidation of Hadera Paper – Printing and Writing Paper Ltd. and the recording of MediWound as an associated company at fair value.

b. As of December 31, 2010, the Group's long-term external financing sources (net of current maturities) amounted to NIS 4,200 million, as compared With NIS 4,072 million as of December 31, 2009.

As of December 31, 2010, the Group's short-term financing sources (including current maturities) amounted to NIS 919 million, as compared With NIS 898 million as of December 31, 2009.

c. The Company's shareholders' equity totaled NIS 4,499 million at December 31, 2010, as compared with NIS 4,233 million as at December 31, 2009. The equity attributed to the shareholders totaled NIS 2,474 million at December 31, 2010, as compared with NIS 2,425 million as at December 31, 2009.

The Company's equity as of December 31, 2010 represents a source for financing 38% of the Company's assets, similarly to December 31, 2009.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

4. The Financial Position, Financing Resources and Liquidity (Continued)

- d. The working capital in the consolidated balance sheets totaled NIS 1,840 million at December 31, 2010, as compared with NIS 1,986 million as at December 31, 2009. Total liquid assets (cash and cash equivalents and short-term investments) as at December 31, 2010, amounted to NIS 1,766 million, as compared with NIS 2,220 million as at December 31, 2009. The quick ratio in the consolidated financial statements is equal to 1.29, as compared with 1.52 as at December 31, 2009.
- e. The main sources of cash income during the reported period included cash flows from operating activities of NIS 674 million, issuance of capital to holders of non-controlling interests in subsidiaries of NIS 153 million and receipt of loans and other long-term liabilities in the amount of NIS 846 million. The cash sources served primarily for investments in fixed assets and intangible assets in the total sum of NIS 426 million, interest payments and the repayment of long-term loans in the sum of NIS 963 million, dividend payments to the minority interests in the sum of NIS 131 million, distribution of dividends to the company shareholders in the sum of NIS 408 million and the repayment of short-term credit from banks and others in the sum of NIS 128 million.
- f. The total balances of liquid assets (cash and cash equivalents and short-term investments) as of December 31, 2010 of the Company and its wholly-owned headquarter companies amounted to NIS 375 million (December 31, 2009 - NIS 686 million).
- g. As at December 31, 2010, the balance of liabilities, net, of the Company and its wholly-owned headquarter companies (mainly debentures) amounted to NIS 1,665 million (December 31, 2009 - NIS 1,532 million).

5. Dividend

- a. On March 21, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 180 million, representing NIS 1.1430766 per each NIS 1 par value of shares. The dividend was distributed on April 13, 2010.
- b. On May 17, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 108 million, representing 0.685846 per each NIS 1 par value of shares. The dividend was distributed on June 15, 2010.
- c. On August 18, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 120 million, representing 0.7620511 per each NIS 1 par value of shares. The dividend was distributed on September 15, 2010.
- d. On March 22, 2011, the Board of Directors of the Company decided to distribute a cash dividend on NIS 180 million, representing NIS 1.1430766 per each NIS 1 par value of shares, to be distributed on April 14, 2011. The determining date was set as March 30, 2011 and the X-date was set as March 31, 2011.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

6. Shelf Prospectuses

- a. On May 26, 2009, the Company published a prospectus based on its financial statements as of December 31, 2008, for the purpose of an offering in the context of a shelf prospectus of shares, convertible debentures, non-convertible debentures and stock options that are exercisable into shares and debentures and commercial securities. Regarding the issue of debentures through the shelf offering report according to the aforementioned shelf prospectus, see Section E8, below.
- b. On February 13, 2011 the Company's Board of Directors decided to submit a request to receive permission for a shelf prospectus on the basis of the financial statements as of December 31, 2010.

7. Summarized sensitivity analysis tables

For the complete tables, see Appendix A to the management discussion.

a. December 31, 2010

Instrument	Profit (loss) from change					Fair value as at Dec-31- 10	Profit (loss) from change				
	Up 2% (abs.)	Up 10%	Up 5%	Up 2%	Up 1%		Down 1%	Down 2%	Down 5%	Down 10%	Down 2% (abs.)
Total sensitivity to changes in US dollar exchange rate	-	34	17	-	-	348	-	-	(18)	(35)	-
Total sensitivity to changes in euro exchange rate	-	(1)	(2)	-	-	(66)	-	-	2	1	-
Total sensitivity to changes in interest rates	314	61	31	-	-	(4,830)	-	-	(32)	(64)	(229)
Total sensitivity to changes in stock market rates	-	90	44	-	-	896	-	-	(44)	(90)	-
Total sensitivity to changes in Israeli CPI	-	-	-	17	9	4	(9)	(17)	-	-	-



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

a. Board of Directors' Report Regarding the State of the Corporation (Continued)

7. Summarized sensitivity analysis tables (Continued)

b. December 31, 2009

Instrument	Profit (loss) from change					Fair value as at Dec- 31-09	Profit (loss) from change				
	Up 2% (abs.)	Up 10%	Up 5%	Up 2%	Up 1%		Down 1%	Down 2%	Down 5%	Down 10%	Down 2% (abs.)
Total sensitivity to changes in US dollar exchange rate	-	51	24	-	-	467	-	-	(24)	(51)	-
Total sensitivity to changes in euro exchange rate	-	(2)	(2)	-	-	(74)	-	-	-	-	-
Total sensitivity to changes in interest rates	161	70	35	-	-	(4,494)	-	-	(35)	(73)	(173)
Total sensitivity to changes in stock market rates	-	60	30	-	-	599	-	-	(30)	(60)	-
Total sensitivity to changes in Israeli CPI	-	-	-	10	5	4	(5)	(10)	-	-	-

b. Exposure and Management of Market Risks

1. The following report relates to the Company and its wholly-owned headquarter companies whose exposure to market risks is managed by the Company ("the Corporation"). Regarding the principal subsidiaries, see Section 8, below.
2. The officer responsible for managing the markets risks to which the Corporation is exposed is Mr. Gonen Biber, CFO ("The Responsible Officer").
3. **Market Risks to which the Corporation is Exposed**

The Corporation is exposed to a variety of market risks during the ordinary course of its business. Such risks relate primarily to changes in the prices of marketable securities that could affect the value of the Corporation, and that could also affect its operating results and shareholders' equity. In addition, the Corporation is exposed to changes in interest rates, inflation rates and currency exchange rates, all of which affect, both directly and indirectly, its operating results and the value of its assets and liabilities.

Direct exposure to a rise in the CPI - As at December 31, 2010, the company possesses CPI-linked liabilities totaling some NIS 1.7 billion with an average life span of approximately 4.3 years, as compared with CPI-linked liabilities totaling approximately NIS 1.8 billion, with an average life span of 5.5 years, as at December 31, 2009.

The company partially hedges this exposure by acquiring forward contracts on the CPI. True to the date of the report, such contracts amounted to NIS 502 million, with an outstanding average weighted term of approximately 17 months. True to December 31, 2009, such contracts amounted to NIS 344 million, with an outstanding average weighted term of approximately 16 months.

As to the State of the Economy, please refer to Section A1d, above.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

b. **Exposure and Management of Market Risks (Continued)**

4. **Corporation's Market Risk Management Policy**

The Corporation holds a considerable volume of marketable securities in investee companies. As a general rule, the Company does not hedge its investments in marketable securities, in view of, amongst other factors, the large extent to which the Company has invested in marketable securities, the diversification of investments both in and outside of Israel, the diversification of investments in different sectors of operation, the diversification of investments in different securities, as well as the legal restrictions on the purchase of various derivative instruments. The Corporation attempts to match – to the extent possible – the linkage bases of its financial assets with those of its liabilities, and the length of the average life-span of its financial assets with the length of the average life-span of its liabilities.

The Corporation has a surplus of CPI-linked liabilities arising from the nature of its activities – investment in real assets as opposed to raising mainly CPI-linked funds. Accordingly, the Corporation acts to reduce its exposure through the following areas of activity:

- a. From time to time and subject to market conditions and prices of hedging transactions, the Corporation acts to minimize its exposure to Consumer Price Indices in respect of CPI-linked loans using forward NIS/CPI transactions.
- b. Simultaneously, the Corporation acts to recycle a portion of the debt through index-free loans, subject to the market's supply and demand while reviewing alternatives.
- c. The Corporation also purchases/sells foreign currencies from time to time under immediate and future transactions based on the expected cash flows (particularly in respect of investments/realizations) in order to reduce its exposure to foreign currency risks.

5. **Control of Market Risk Management Policy and its Mode of Execution**

In accordance with the resolution of the Corporation's Board of Directors and Audit Committee, the management is authorized:

- a. To enter into hedging transactions, from time to time, at its discretion, including forward exchange transactions, options and other financial instruments (with respect to principal or interest), for the purpose of reducing or completely eliminating such exposures as may arise from time to time in consequence of the financial structure of the Corporation and/or in order to reduce financial expenses.
- b. With respect to exposure to CPI-related risks - The Corporation, subject to the market's supply of hedging transactions, the terms of these transactions and the future CPI forecasts, aspires to occasionally determine the volume of hedging against CPI exposure.
- c. These hedging transactions will be held until they expire or until the time the debt expires so that, in any event, the hedging transactions will be in an amount and for a period not exceeding the index-linked debt amount and term.

In order to address the exposure in respect of foreign currencies and to reduce financial expenses, only against the base asset and/or projected cash flows, the Corporation's management may purchase/write forward transactions and foreign currency options from time to time.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

b. Exposure and Management of Market Risks (Continued)

The transactions are carried out by the responsible officer who is authorized to enter into hedging transactions that are necessary in order to implement the Corporation's policy. The responsible officer reports to the Chairman and/or to the CEO on a regular basis with respect to the hedging transactions that were entered into. Management is required to report to the Board of Directors as necessary, and must, in any event, report at least once a year. The issue of currency exposure is presented on an ongoing basis in the meetings of the Company's Board of Directors and is elaborately discussed in the meetings of the Company's Board of Directors and Balance Sheet Committee.

6. Report of linkage bases of the Company and its wholly-owned headquarter companies as at December 31, 2010, for which the Company manages the currency exposure:

	CPI- linked	Linked to the US\$	Unlinked	Non- monetary balances	Total
	NIS Millions				
Current assets	76	27	303	4	410
Non-current assets	-	2	-	4,153	4,155
Current liabilities	(1,547)	-	(250)	(13)	(1,810)
Non-current liabilities	(225)	(2)	(30)	(24)	(281)
Total balance sheet amounts, net	<u>(1,696)</u>	<u>27</u>	<u>23</u>	<u>4,120</u>	<u>2,474</u>

7. Report of linkage bases of the Company and its wholly-owned headquarter companies as at December 31, 2009, for which the Company manages the currency exposure:

	CPI- linked	Linked to the US\$	Unlinked	Non- monetary balances	Total
	NIS Millions				
Current assets	116	87	516	2	721
Non-current assets	6	16	34	3,928	3,984
Current liabilities	(1,601)	-	(252)	(9)	(1,862)
Non-current liabilities	(359)	-	(58)	(1)	(418)
Total balance sheet amounts, net	<u>(1,838)</u>	<u>103</u>	<u>240</u>	<u>3,920</u>	<u>2,425</u>

8. Subsidiaries

- a. Subsidiaries are exposed to fluctuations in prices of raw materials, energy and changes in exchange rates, interest rates and inflation that affect the revenues and expenses of these companies. Some subsidiaries adjust their sources of revenues and expenses to the same currency. Certain subsidiaries enter into hedging transactions in foreign currency derivatives designated to reduce exposure to foreign currency and into hedging transactions in order to reduce exposure to CPI-related risks. A subsidiary utilizes contracts for periods of up to one year in various commodities and energy products in order to hedge against unexpected increases in prices on the global market.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

b. Exposure and Management of Market Risks (Continued)

8. Subsidiaries (Continued)

- b. The Group's overall risk management plan focuses on an attempt to minimize potentially adverse influences on the financial performance of the Group, while taking into consideration that it is impossible to forecast the behavior of the financial markets.

Risk management is performed by the financial directors of the group companies, in line with the policy approved by the Board of Directors or committee appointed by the boards of those companies. The group companies identify, assess and hedge the financial risks - to the degree necessary. The boards of directors provide written principles for the overall management of risks, along with written policy handling more specific areas, such as exchange rate risks, interest rate risks, credit risks, the use of derivative and non-derivative financial instruments and the investment of surplus funds. The group companies maintain their balance of financial assets appearing in the Report of Financial Situation under the section cash and cash equivalents, deposits with banks and financial assets at fair value, through the statement of income, in accordance with the future cash flows of each company.

9. Report of Linkage Bases of the statement of financial position as at December 31, 2010:

	<u>CPI- linked</u>	<u>Linked to the US\$</u>	<u>Linked to other foreign currency</u>	<u>Unlinked</u>	<u>Non- monetary balances</u>	<u>Total</u>
	NIS Millions					
Current assets	310	409	286	2,257	1,169	4,431
Non-current assets	31	128	1	12	7,381	7,553
Current Liabilities	(502)	(158)	(276)	(1,291)	(364)	(2,591)
Non-current liabilities	(2,576)	(31)	(23)	(1,623)	(641)	(4,894)
Total balance sheet amounts, net	<u>(2,737)</u>	<u>348</u>	<u>(12)</u>	<u>(645)</u>	<u>7,545</u>	<u>4,499</u>

10. Report of Linkage Bases of the statement of financial position as at December 31, 2009:

	<u>CPI- linked</u>	<u>Linked to the US\$</u>	<u>Linked to other foreign currency</u>	<u>Unlinked</u>	<u>Non- monetary balances</u>	<u>Total</u>
	NIS Millions					
Current assets	284	497	182	2,393	896	4,252
Non-current assets	48	137	1	56	6,757	6,999
Current Liabilities	(718)	(104)	(211)	(1,182)	(53)	(2,268)
Non-current liabilities	(2,864)	(63)	(47)	(1,182)	(594)	(4,750)
Total balance sheet amounts, net	<u>(3,250)</u>	<u>467</u>	<u>(75)</u>	<u>85</u>	<u>7,006</u>	<u>4,233</u>



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. Corporate Governance Issues

1. Donations and Community Assistance

The Company views contributing to and assisting the community in Israel as a very important element that should be integrated in its full range of activities. The Company, as a member of the IDB Group of companies, views contributing to and assisting the community in Israel as a key element of its business vision and believes that it has a responsibility towards Israeli society, and recognizes that business leadership comes part and parcel with social, value-oriented leadership.

Based on its commitment to contributing to the development of the country and to strengthening its resilience, and based on the Company's social and moral commitment to act in the benefit of Israeli society, the Company contributes to projects in various fields in which it has chosen to focus. Within this framework, preference is given to contributions in the fields of education, healthcare and welfare, culture and sport.

Some of the Company's contributions are made through the IDB Foundation for the Community, a non-profit organization that coordinates the contributions of the Group's major companies, for projects in different areas that the Group, in its vision and outline of its social responsibility policy, has targeted for its focus.

Against the backdrop of the crisis that plagued the communities in Northern Israel as a result of the Second Lebanon War, and in view of the ongoing reality of the communities neighboring the Gaza Strip, the Company decided, as part of the IDB Group, to continue to provide wide-ranging assistance to communities on the northern and southern borders, and to strengthen the resilience of their residents, stemming from a sense of identification and belonging, involvement and unity.

The Company's assistance to the cities and communities in the northern and southern borders, Sderot and the communities neighboring the Gaza Strip in 2010, totaled NIS 3,127 thousand.

The main contributions made by the Company in 2010 were to the "Matan – Your Way to Give" organization of NIS 340,000 and to the Aguda Lemaan HaChayal BeYisrael Organization of NIS 302,000.

In September 2005, the general meeting of the Company, further to the approval of the Audit Committee and the Board of Directors, approved that the Company's contribution to the IDB Foundation for the Community ("the Foundation") in every calendar year will be at the level of 66.66% of the Company's annual charitable contribution budget for that year, and will not exceed the higher of: (a) 2/3% of the Company's annual net income per the audited consolidated financial statements for the prior calendar year and (b) NIS 660 thousand.

Furthermore, in August 2005, the Board of Directors decided on a policy for making contributions that stipulates that the Company's annual budget for charitable contributions will be determined annually by the Company's Board of Directors, and will be the higher of: (a) NIS 1 million and (b) up to 1% of the Company's annual net income according to the audited consolidated financial statements for the previous calendar year (hereinafter: "the 2005 Resolution").



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

c. Corporate Governance Issues (Continued)

1. Donations and Community Assistance (Continued)

In 2010, the Company and its consolidated subsidiaries made contributions according to the following breakdown (of which the Company paid NIS 5,000 thousand):

	NIS thousands
IDB for the Community Fund	2,900
Education	1,873
Healthcare	496
Culture and sports	127
Welfare	1,237
Community and others	85
Total	6,718

On March 22, 2011, the Company's Board of Directors decided to increase the Company's total annual budget for charitable contributions for 2011 above the amounts proposed in the 2005 Resolution, such that it will stand at NIS 5 million, of which the Company will contribute NIS 2.73 million through the Fund.

See also Note 31h of the Company's financial statements as of December 31, 2010.

2. The Members of the Board of Directors

a. Board members with accounting and financial expertise

The minimum number of company directors possessing accounting and financial expertise, qualifications and skills was determined to be three directors for the company, in consideration of the nature of the accounting and financial issues that are raised in the preparation of the company's financial statements, in view of the company's areas of operation and the order of magnitude and complexity of the company, and in consideration of the composition of the board of directors as a whole, that includes individuals possessing business, management and professional experience that enables them to effectively deal with the tasks of managing the company, including reporting duties.

According to the Board's estimate, after taking into consideration the directors' statements specifying their education, experience and skills in accounting and accounting control issues which characterize the sector in which the Company operates, the Company's magnitude and complexity, in understanding the duties of the auditor and in the preparation of the financial statements and their approval according to the Securities Law, the members of the Company's Board that possess accounting and financial skills, along with the facts by virtue of which they may be seen as such, are as follows:



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

c. Corporate Governance Issues (Continued)

2. The Members of the Board of Directors (Continued)

Nochi Dankner - Holds a Bachelor's degree in Law and in Political Science. Serves as the Chairman of the Boards of IDB Holdings Co. Ltd., IDB Development Corporation Ltd., the Company and Discount Investment Corporation Ltd. Served as CEO of IDB Holding Corporation from December 2003 until September 2009. Serves and/or has served as a director of private and public companies of the IDB Group and as Chairman of the Board of private companies of the Ganden Group. Previously served as director and chairman of the credit committee of the Board of Bank Hapoalim Ltd.

Eliahu Cohen - Holds a Master's degree in Law. Served as CEO of IDB Development Corporation until April 1, 2011 and as director of public and private companies in the IDB Group. Served as Chairman of the Board of Clal Insurance Enterprises Holdings Ltd. from July 2000 through to March 2008.

Itzhak Manor - Holds an MBA. Serves as Deputy Chairman of the Board of Directors of IDB Holding Corporation Ltd. and as a director in public and private companies in the IDB Group. Serves as Chairman of the Board of Directors of companies in the automotive sector in the David Lubinsky Group Ltd., and as a director and member of the Balance Sheet Committee of Union Bank of Israel Ltd.

Dori Manor - Holds a Bachelor's Degree in industrial engineering and management and an MBA. Serves as CEO and director of companies in the auto segment in the David Lubinsky Group Ltd. Serves as director of publicly traded companies of the IDB Group and serves as a director in private companies. Served as an Assistant to the CEO and Vice-President in the Lubinsky Group.

Yehezkel Dovrat - Holds a Bachelor's Degree in Economics and Accounting and is a CPA. Serves as a director in private and public companies including in the IDB Group. Served as Deputy CEO of the Company. Serves as a member of the Company's Balance Sheet Committee.

David Leviathan - Holds an MBA. Served as a director and a member of the Audit Committee and the Balance Sheet Committee of the First International Bank of Israel Ltd. Served as a director and member of the Audit Committee in other public companies. Serves as Chairman of the Company's Audit Committee.

Ze'ev Ben-Asher - Holds an MBA. Served in the past as Deputy CEO, Vice President of the Retail Division and member of executive management of Bank Hapoalim. Deputy CEO, Director of Business at First International Bank of Israel. Served as member of the Board and investment committee of Atudot Pension Fund of the Clal Group. Serves as Chairman of the Company's Audit Committee.

- b.** The Company has not adopted in its articles of association a provision regarding the proportion of independent directors as the term is defined in Article 219 (e) of the Companies Law, 1999.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

c. Corporate Governance Issues (Continued)

3. The Internal Auditor

Details of Internal Auditor

Name:	Ilan Amit
Appointment Date:	August 24, 1997
Job qualifications:	Bachelor's degree in accounting from the Hebrew University in Jerusalem, CPA, a member of the Israeli Institute of Internal Auditors, possesses some 37 years of experience and training in auditing, accounting and systems analysis.
Employment status:	Full-time employee of the parent company, also serves as the internal auditor of the parent company, of KBA Townbuilders Group Ltd. and of additional companies in the IDB Group, and is a member of the Audit Committee of the IDB Foundation for the Community (Registered Charity). He does not serve in any other position other than as internal auditor. The cost of his salary as an auditor is included in the management fees that the Company pays to the parent company.
The auditor's organizational supervisor:	Co-CEOs of the Company

Professional standards used as guidelines for audit work

According to the internal auditor, the internal audit work was performed according to accepted professional internal auditing standards, and professional guidelines and briefings as approved and published by the Israeli Institute for Internal Auditors.

The work plan of the internal auditor

Since the Company is a holding company, the annual and multi-annual audit plan of the Company is divided into two major elements:

- a) Audit of the Company's activities (compliance with procedures, control of operating costs, management of Company funds, reporting procedures, compliance with laws and control of the implementation of decisions). This audit is performed based on the annual work plan approved by the Company's Audit Committee.
- b) Ongoing oversight over the auditing activities in investees. All the companies have their own internal auditors.
At the companies: Neshet, Golf, Kitan Industries, and CBI the internal auditor participates in the meetings of their Audit Committee as an observer. As for other Group companies, the oversight is performed through the Company's representatives on the boards and contact with the internal auditors including the receipt of information on the scope of the audit work, the existence and performance of work plans, key issues and reports on extraordinary audit events.
Company management instructs the Company's representatives on the Boards of the investees to emphasize proper performance of internal audit work in all the companies.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

c. Corporate Governance Issues (Continued)

3. The Internal Auditor (Continued)

The people involved in the setting of the work plan are: The internal auditor, Company management, and the Audit Committee which approves the plan. The internal auditor has the discretion to deviate from the work plan, subject to him reporting to the Audit Committee and receiving approval for the proposed change.

As part of the implementation of the provisions of the Securities Regulations (Periodic and Immediate Reports) - 1970, regarding the effectiveness of internal audit on the financial reporting and on disclosure.

This control activity was carried out in the reporting year by the internal auditor of the Company and by external firms that specialize in internal auditing.

Hours invested into internal auditing at the Company and its key investees:

<u>The Company</u>	<u>Hours of Work</u>
Clal Industries	800 (by the CII Auditor)
Mashav	920
Taavura	2,000
Hadera Paper	3,000
Golf	1,300
Fundtech	700
CBI	350
Netvision	700

Internal Auditor's Report

The internal auditor's reports are submitted in writing. With respect to 2010, the auditor has submitted seven audit reports. The audit reports are communicated on an ongoing basis to the Chairman of the Board, the Chairman and members of the Audit Committee and to Company management. The reports were distributed prior to the meetings of the Audit Committee held on January 19, 2010, April 13, 2010, May 13, 2010, August 19, 2010, December 8, 2010. The Company's Audit Committee convened for seven meetings in which the audit reports were discussed.

The Audit Committee monitors on an ongoing basis the implementation of the audit recommendations made by the committee. The Audit Committee receives a report which consists of a review of the audit activity in the principal investees and meetings are held with the internal auditors for the purposes of reporting, hearing the reviews and discussing audit issues in the companies.

The Board's Evaluation

It is the opinion of the Company's Board that the scope, nature and continuity of the internal auditor's activity and work plan are reasonable in the circumstances and are sufficient to meet the Corporation's internal audit objectives.

Access to Information

The activity of the internal auditor is not subject to any restriction whatsoever and he has free, continuous and direct access to the Corporation's information systems and financial data.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. Corporate Governance Issues (Continued)

4. Details Regarding the Corporation's Auditor

a. Determining the Fees of the Auditing CPAs

The fee of the CPA on account of the auditing services is determined by the Board of Directors. The fee for the auditing services is determined after negotiations with the auditing CPAs, within whose framework the volume of auditing and its complexity is examined, while relating to the generally accepted fees of the auditing CPA. The fee for services that are not related to auditing is determined in accordance with the type of work, the volume of hours and the topic being audited.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

b. Data Regarding the Fees of the Auditing CPAs

Company Name	CPA Name	2010				2009			
		Fees (NIS K)		Work hours		Fees (NIS K)		Work hours	
		On account of audit and tax services*	Other services	Audit and tax services	Other services	On account of audit and tax services*	Other services	Audit and tax services	Other services
The Company and wholly owned HQ companies	Kost Forer Gabbay and Kasierer	830	296	3,974	837	998	223	4,042	839
Other consolidated subsidiaries:									
Mashav and wholly owned companies	Kost Forer Gabbay and Kasierer	632	69	3,272	146	384	53	963	74
	Somekh Chaikin	293	20	920	69	564	-	2,500	-
	Kesselman & Kesselman	-	172	-	689	-	-	-	-
	Giora Lentz	40	-	140	-	-	-	-	-
Taavura and subsidiaries	Moalem Glazer Inbar Chunyo	784	210	6,964	1,410	710	-	6,188	-
	Brightman Almagor & Assoc.	791	140	6,169	715	750	-	5,200	-
	Kesselman & Kesselman	599	30	4,101	100	487	23	4,229	126
	Other CPA firms	369	22	2,064	98	405	22	2,062	95
Kitan Textile	Kost Forer Gabbay and Kasierer	191	-	1,124	-	191	46	1,018	59
Golf	Kost Forer Gabbay and Kasierer	272	135	1,906		420	139	1,740	350
CBI and subsidiaries	Kost Forer Gabbay and Kasierer	376	-	1,664	-	514	-	2,017	-
	Kesselman & Kesselman	514	-	3,100	-	291	-	2,720	-
KBA	Brightman Almagor	220	-	550	-	150	32	682	143
Fundtech	Brightman Almagor (Deloitte overseas)	1,215	-	3,814	-	1,581	649	4,086	987
	Ziv Haft (BDO overseas)	478	-	642	-	638	-	812	-
	Other CPA firms	206	-	344	-	-	-	-	-
CureTech	Kost Forer Gabbay and Kasierer	65	-	350	-	70	-	388	-
Global Wind Energy Ltd. (PWC overseas)	Kesselman & Kesselman	352	-	2,250	-	242	-	555	-
Hadera Paper	Brightman Almagor	993	27	5,913	140	513	327	4,506	1,521

* Auditing services - fees for auditing services, services related to auditing and tax services.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. **Corporate Governance Issues (Continued)**

5. **Process of approval of the financial statements**

The Company's Board of Directors is the organ charged with ultimate control over the Company and the approval of its financial statements.

On February 13, 2010, the Company's Board of Directors appointed a Balance Sheet Committee that provides recommendations regarding the discussion of the financial statements and their approval to the Board.

Members of the Balance Sheet Committee:

The Balance Sheet Committee consists of three directors:

Ze'ev Ben-Asher: Chairman of the committee, an external director with accounting and financial skills (see details in Section 2b, above). Prior to his appointment, Mr. Ben-Asher provided the Company with a declaration regarding his accounting and financial skills.

Yehezkel Dovrat: A (non-independent) director with accounting and financial skills (see details in Section 2b, above). Prior to his appointment Mr. Dovrat provided the Company with a declaration regarding his accounting and financial skills.

Liora Polchek: An external director. The Company regards Ms. Liora Polchek as someone with the ability to read and understand financial statements, based on the declaration that she provided prior to her appointment regarding her skills and experience of many years as a self-employed lawyer representing companies in the commercial field.

Process of approval of the financial statements:

The meetings of the Balance Sheet Committee, as well as the board meetings during which the financial statements are discussed and approved, are attended by the company's auditing CPAs and its external consultants, who are instructed to present the principal findings - if there are any - that surfaced during the audit or review process, as well as by the Internal Auditor - Mr. Ilan Amit.

Following detailed presentations by officers and others in the Company, including the Company's VP Comptroller, Yehuda Ben Ezra, and the CFO, Gonen Biber, the Balance Sheet Committee provides recommendations to the Board of Directors on all of the following: Evaluations and estimates made in relation to the financial statements, the internal controls connected with financial reporting, the completeness and proper manner of disclosure in the financial statements, the accounting policy adopted and accounting treatment implemented in regard to material affairs of the corporation, and valuations which support the information in the financial statements, including the assumptions and estimates upon which the valuations are based. The Balance Sheet Committee also examines the material financial reporting issues, including transactions that are not in the ordinary course of business, should there be any, various aspects of control and risk management, both those reflected in the financial statements (such as financial risk reporting) by way of a review by Mr. Gonen Biber, and those that affect the reliability of the financial statements. In case necessary, the Balance Sheet Committee demands to receive comprehensive reviews of matters with especially relevant impact.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. **Corporate Governance Issues (Continued)**

5. **Process of approval of the financial statements (Continued)**

Meetings and recommendations of the Balance Sheet Committee:

The approval of the financial statements involved several meetings, as follows:

- a. On March 3, 2011, the Balance Sheet Committee met together with the Audit Committee to discuss the accounting policy adopted and the accounting treatment implemented in respect of material affairs of the corporation, as well as the issue of the internal controls relating to financial reporting. In the preparation of the annual financial statements. The following directors took part in the meeting: Ze'ev Ben-Asher, Liora Polchek, Yehezkel Dovrat and David Leviathan.

The following people also participated in the meeting: Ilan Amit, Yehuda Ben Ezra, Gonen Biber, Guy Rosen – Senior VP, Boaz Simons – Senior VP, Nitza Einan – VP and legal counsel, Dror Dotan – Assistant to CEO, the Company's auditors and external consultants. Following this meeting, and on the basis of the presentations and discussions that took place during said meeting, on March 7, 2011 the Balance Sheet Committee's recommendations were submitted to the Board of Directors regarding the accounting policy adopted and the accounting treatment implemented in respect of material affairs of the corporation, as well as the issue of the internal controls relating to financial reporting.

- b. On March 16, 2011, the Balance Sheet Committee met to discuss the valuations which support the information in the financial statements, including the assumptions and estimates upon which the valuations are based. At the meeting various appraisers presented their work. The following directors took part in the meeting: Ze'ev Ben-Asher, Liora Polchek, Yehezkel Dovrat.

The following people also participated in the meeting: Ilan Amit, Yehuda Ben Ezra, Gonen Biber, Guy Rosen, Boaz Simons, Nitza Einan, Daniel Shenar – Assistant to the CEO, Dror Dotan, Dr. Eyal Solegnik - Deputy CEO and CFO at IDB Development Ltd. (the controlling shareholder in the Company), the Company's auditors and external consultants.

Following this meeting, and on the basis of the presentations and discussions that took place during the meeting, on March 17, 2011, the Balance Sheet Committee's recommendations were submitted to the Company's Board of Directors regarding the valuations which support the information in the financial statements, including the assumptions and estimates upon which the valuations are based.

On March 17, 2011, the Balance Sheet Committee met to discuss the evaluations and estimates made in connection with the annual financial statements, the completeness and fairness of the disclosure in the annual financial statements and the accounting treatment used for material affairs of the corporation. The following directors took part in the meeting: Ze'ev Ben-Asher, Liora Polchek, Yehezkel Dovrat.

The following people also participated in the meeting: Ilan Amit, Yehuda Ben Ezra, Gonen Biber, Guy Rosen, Boaz Simons, Nitza Einan, Daniel Shenar, Dror Dotan, Dr. Eyal Solegnik, the Company's auditors and external consultants.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. **Corporate Governance Issues (Continued)**

5. **Process of approval of the financial statements (Continued)**

Following this meeting, and on the basis of the presentations and discussions that took place during the meeting, on March 18, 2011, the Balance Sheet Committee's recommendations were submitted to the Company's Board of Directors regarding the evaluations and estimates made in connection with the annual financial statements, the completeness and fairness of the disclosure in the annual financial statements and the accounting treatment used for material affairs of the corporation.

At the meeting of the Board of Directors which took place on March 22, 2011, the aforementioned recommendations of the Balance Sheet Committee that were submitted to the directors were discussed and accepted and the financial statements as of December 31, 2010 were approved. It was also approved that the Balance Sheet Committee's recommendations were submitted to the Company's Board of Directors a reasonable amount of time prior to the Board of Directors' discussion, given their scope and complexity. The following directors participated in the meeting: Mr. Nochi Dankner (Chairman of the Board), Avi Fisher - director and Co-CEO, Shai Livnat, Eliyahu Cohen, Itzhak Manor, Dori Manor, Yehezkel Dovrat, Mark Schimmel, Rafi Bisker, Adiel Rosenfeld, David Leviathan, Liora Polchek and Ze'ev Ben-Asher.

The following people also participated in the meeting: Ilan Amit, Yehuda Ben Ezra, Gonen Biber, Guy Rosen, Boaz Simons, Nitza Einan, the Company's auditors and external consultants.

6. **Procedures**

a. **Update of the company policy for examining the materiality regarding the need to submit an immediate report upon the occurrence of an event or matter outside the scope of the normal course of affairs:**

1. As detailed in Section 19 of the Management Discussion of the company for 2007, the Board of Directors of the company ratified a procedure on March 23, 2008, determining guidelines and rules for the company to examine whether a particular event or matter of the company and or an investee company ("The Event") is material to the company in terms of the obligation to submit an immediate report by virtue of Regulation 36 to the Securities Regulations (Periodical and Immediate Reports), 1970 ("The Procedure"). According to the procedure that was adopted, a quantitative and qualitative examination will be conducted with respect to the relevant event, while taking into consideration all of the relevant information and circumstances. Pursuant to the procedure, the quantitative examination will be conducted according to quantitative parameters relevant to the event, on the basis of the consolidated financial statements and the data appearing therein, including asset ratios, profit ratios, shareholders' equity ratios and liability ratios.
2. On March 21, 2010, the Board of Directors of the company approved the amendment of a procedure, to the effect that from the date of the resolution and thereafter, the profit ratio will be calculated as follows: The actual or forecasted profit or losses attributed to the event divided by the average annual profit or loss (i.e. in four quarters) in the preceding three years, calculated on the basis of the last 12 quarters in which audited or reviewed financial statements were published; in this respect, the profit or loss attributed to the event and the profit or loss in each quarter will be calculated in their absolute value. It should be noted, that prior to the amendment of the procedure, the calculation of the average annual profit was based on the quarterly profit or loss data as is (positive or negative). There are no changes to the remaining directives of the procedure.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. **Corporate Governance Issues (Continued)**

6. **Procedures (Continued)**

3. It should be noted, that subsequent to this decision, this method of calculating the profit ratio also serves for the purpose of the procedure for classifying transactions as marginal (see Section C3b, below) in those circumstances where the relevant parameter for examining the marginality of the transaction is based on the profit or loss data.

b. **Procedure for classifying transactions as marginal**

On August 18, 2010, the Company's Board of Directors decided to update the rules and guidelines for the classification of an interested party transaction as a negligible transaction. See Note 32 of the Company's financial statements as of December 31, 2010.

7. **Remuneration of Interested Parties and Senior Executives**

a. **General**

The Company's Board of Directors has approved the criteria on the basis of which the remuneration terms of these officers will be examined, including their reasonableness, the correlation between them and the officer's contribution and their fairness.

1. **Criteria for the examination of remuneration terms (excluding discretionary bonuses) of officers, including the CEO:**

a. The presumption is that while there has been no significant change in the officer's position or function during the year, the terms of his present employment are fair and reasonable.

b. The salary terms will be examined based on the following parameters:

1. The officer's contribution to the Company's business, profits, strength and stability.
2. The Company's need to retain an officer with special skills, know-how and expertise.
3. The amount of responsibility assigned to the officer.

2. **Criteria for the examination of bonuses for officers, including the CEO, which are not based on a pre-defined formula, but are discretionary:**

a. The bonus will be determined according to multiples of gross monthly salary.

b. The maximum bonus (in general and in the absence of special considerations as described below) shall not exceed 15 months gross salary.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. **Corporate Governance Issues (Continued)**

7. **Remuneration of Interested Parties and Senior Executives (Continued)**

- c. The bonus will be determined based on the following parameters:
1. The Company's business performance during the year.
 2. The officer's contribution to the Company's business, profits, strength and stability.
 3. The Company's need to retain an officer with special skills, know-how and expertise.
 4. The amount of responsibility assigned to the officer.
 5. Changes in the level of responsibility assigned to the officer during the year.
 6. The level of satisfaction from the officer's performance (including an assessment of the level of involvement and care demonstrated by the officer in the course of his work).
 7. An assessment of the officer's ability to work in cooperation with the team.
 8. The officer's contribution to corporate governance and a proper control and ethics environment.
- d. In cases where the officer has made a unique business contribution with real significance to the Company's business, or in cases of special challenge(s) that are significant to the Company with which the officer had to contend during the year, the Board of Directors will have the option of paying the officer a bonus that exceeds 15 gross monthly salaries.
- e. Regarding the CEO, the bonus may be determined not according to multiples of the monthly salary, and there will be no limit as to the bonus.
3. As previously reported by the holding companies in the Group, the Group holding companies are unique and it is therefore very difficult to compare them to other holding companies in the Israeli market in terms of the type, scope and complexity of their activities. It should be noted that this position has been expressed by Group holding companies in relation to other matters as well, such as the rating of debt. Nonetheless, there is some similarity between these companies.

The salary environment in the Group's holding companies is also different from that of other holding companies in the Israeli market, as unlike the norm in other companies, the Group's holding companies do not provide equity-based remuneration/share-based remuneration (other than in exceptional cases).

Without derogating from the generality of the foregoing, at the request of the Group's holding companies, an analysis was conducted by Kesselman Finance PriceWaterhouseCoopers Ltd. ("Kesselman"), which included the collection and statistical analysis of publicly available data regarding the amounts and mechanisms for compensation plans of senior officers of Israeli public companies, distinguishing between the various positions of the officers and relating to relevant parameters (parameters taken into consideration include the following: market cap of the sampled companies, their revenues, total equity and number of employees).

Kesselman also prepared an analysis of the application of the compensation mechanism for discretionary bonuses, as proposed above, under market conditions.

The results of this analysis were presented to the Company's Audit Committee and Board of Directors. They were also presented with data regarding the total remuneration received by each of the officers discussed.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

c. Corporate Governance Issues (Continued)

7. Remuneration of Interested Parties and Senior Executives (Continued)

As detailed below, The Audit Committee and the Board of Directors examined the remuneration provided under Regulation 21, in relation to each of the officers serving the Company and private companies under its control, and also in respect of the interested parties mentioned in that regulation. ARTE Venture Group, Reuven Ben-Menachem, Mike Segro, Ilana Kaufmann who received the remuneration mentioned in Regulation 21, serve as officers in public companies and their employment terms are discussed and approved by the organs of those public companies.

In the opinion of the Company's Board of Directors, taking into account all the considerations detailed above, and taking into account the complex position that each of the officers fulfills, their skills, experience, an appreciation of their work and their contribution to the Company in 2010, the remuneration of the officers in 2010 is in line with the best interest of the Company and is fair and reasonable relative to their contribution to the Company in their positions during this period.

b. Mr. Simons – Senior VP

In 2010, the cost of Mr. Simons' salary amounted to NIS 1,987 thousand.

For further details regarding the remuneration given to Mr. Simons, see Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

For the purposes of the examination and assessment of Mr. Simons' remuneration terms and for the examination of his bonus, the Company's Board of Directors examined the criteria detailed above.

Mr. Simons assists the Co-CEO Mr. Livnat, in leading the Company, in the management and development of the Company's business activity, leading its business strategy and achieving its goals, coordinates (together with Mr. Rosen) the work of the headquarters of the Company, and is heavily involved in the activities of the investee companies, mainly in the areas of basic industry, logistics, consumer products and infrastructures. To this end, Mr. Simons is a member of the Board of Directors of the following Company investees: Bet Shemesh Engines (Chairman), Golf, Mashav, Neshet, Jaf-Ora, Taavura, Cargal, Plasto Sac and headquarter companies of the Company.

c. Attorney Nitza Einan – VP and legal counsel (in 2010 also VP and legal counsel of CBI)

In 2010, the cost of Ms. Einan's salary came to NIS 1,925 thousand. This amount includes an expense in respect of options which Ms. Einan received from CBI, as part of the CBI options plan.

For further details regarding the remuneration provided to Ms. Einan, see Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

For the purposes of the examination and assessment of Ms. Einan's remuneration terms and for the examination of her bonus, the Company's Board of Directors examined the criteria detailed above.

Ms. Einan serves as VP and legal counsel of the Company and of Clal Biotechnology Industries (until May 15, 2011). Ms. Einan is involved in all the Company's transactions, both the legal aspect and the business aspect. Ms. Einan manages the implementation of new legislation, from time to time assists in the provision of legal advice to companies in the CII Group, is an active partner on the subject of the implementation of work processes and procedures in the Company and is responsible for the secretariat of the Company.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. **Corporate Governance Issues (Continued)**

7. **Remuneration of Interested Parties and Senior Executives (Continued)**

d. **Avi Fisher, Co-CEO**

Mr. Fisher serves as Co-CEO of the Company, under a management services agreement between the Company and IDB Holdings from 2003. In 2010, the cost of Mr. Fisher's salary amounted to NIS 1,858 thousand.

For further details regarding the remuneration given to Mr. Fisher in 2010 and regarding the management services agreement between the Company and IDB Holdings, see Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

For the purposes of the examination and assessment of Mr. Fisher's remuneration terms and for the examination of his bonus, the Company's Board of Directors examined the criteria detailed above.

Mr. Fisher is heavily involved in the activities of subsidiaries, mainly in the fields of technology, biotechnology, communication, venture capital funds and companies in the field of energy. Mr. Fisher is a member of the Board of Directors of the following subsidiaries: CBI (Chairman), Fundtech (Chairman), Infinity Israel-China (Co-Chairman), Clal Energy (Co-Chairman) and headquarter companies – CII. He also served as a director in Hadera Paper until December 22, 2010. Mr. Fisher has contributed significantly from his broad experience and professionalism to the activities of the Company and its subsidiaries and to the advancement of their businesses.

e. **Zvika Livnat, Co-CEO:**

Mr. Livnat serves as Co-CEO of the Company, under a management services agreement between the Company and IDB Holdings from 2003.

In 2010, the cost of Mr. Livnat's salary amounted to NIS 1,856 thousand. For further details regarding the remuneration given to Mr. Livnat in 2010 and regarding the management services agreement between the Company and IDB Holdings, see Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

For the purposes of the examination and assessment of Mr. Livnat's remuneration terms and for the examination of his bonus, the Company's Board of Directors examined the criteria detailed above.

Mr. Livnat, together with the Co-CEO Mr. Fisher, is responsible for leading the Company, for the management and development of the Company's business activities, for leading its business strategy and achieving its targets.

Mr. Livnat is heavily and regularly involved in the activities of the subsidiaries, mainly in the fields of basic industry, logistics, energy, consumer products and infrastructures. To this end, Mr. Livnat is a member of the Board of Directors of the following Company investees: Hadera Paper (Chairman), Golf (Chairman), Mashav, Neshet, Kitan Textile Industries, Jaf-Ora, Taavura, KBA and the Company's headquarter companies. Mr. Livnat has contributed significantly from his broad experience and professionalism to the activities of the Company and its subsidiaries and to the advancement of their businesses.

Taking into account that which is stated regarding Mr. Avi Fisher and Mr. Zvika Livnat, the Audit Committee and the Company's Board of Directors have reached the conclusion that the remuneration in respect of the management services agreement with IDB Holdings is fair and reasonable.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

c. **Corporate Governance Issues (Continued)**

7. **Remuneration of Interested Parties and Senior Executives (Continued)**

f. **Examination of the management services agreement with IDB Development Corporation Ltd. ("the Management Agreement"):**

According to the Management Agreement from 2000, management services are provided to the Company by IDB Development Corporation, including: The appointment of candidates recommended by IDB Development and who will serve as its employees and/or as employees of IDB Holdings (the controlling shareholder of IDB Development, which is the controlling shareholder of the Company) and/or its subsidiaries as directors of the Company, including a director who will serve as Chairman of the Board of Directors; the provision of management assistance and consulting, economic and accounting consulting on matters such as the preparation of the annual budget, the strategic plan, and key strategic and business processes of the Company. In addition, in practice, internal audit services are also provided by IDB.

In the reported period the Company paid IDB Development annual management fees of NIS 2,447 thousand. For details regarding the Management Agreement between the Company and IDB Development, see Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

For the examination and assessment of the remuneration terms in relation to the contribution of services that IDB Development provides to the Company, the Company's Board of Directors examined, inter alia, the services provided to the Company under the Management Agreement and their contribution to the Company.

In the opinion of the Company's Board of Directors, taking into account all the considerations detailed above, and taking into account the scope and complexity of the services provided to the Company, while paying attention to the scope of its business, and also taking into account their usefulness for the development of the Company, in the reporting period, the compensation in respect of the services in the reported period is in line with the best interest of the Company and is fair and reasonable in relation to the contribution to the Company in this period.

g. **Directors' Compensation**

In the reported period some of the directors serving in the Company were eligible to receive an annual bonus and a participation bonus in respect of their service as directors of the Company, as detailed in Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

For the purposes of examining and assessing the compensation terms of the eligible directors, the Company's Board of Directors examined, inter alia, the level of responsibility assigned to the eligible directors, their contribution to the Company, and the results of the Company's activities in 2010.

In the opinion of the Company's Board of Directors, taking into account their efforts and the responsibility assigned to the eligible directors, their experience and their contribution to the Company in 2010, and taking into account the fact that the remuneration of the directors is determined according to the Companies Regulations (Rules regarding Compensation and Expenses of External Directors) - 2000, as is accepted amongst many public companies, the compensation of the eligible directors is in line with the benefit to the Company and is fair and reasonable in relation to the contribution of the directors in their roles during the period.



**Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010**

c. Corporate Governance Issues (Continued)

7. Remuneration of Interested Parties and Senior Executives (Continued)

h. Examination of the management services agreement of Taavura with Avraham Livnat Ltd. and with Mashav ("Management Agreement")

Pursuant to the agreement, starting from 1996, Taavura pays a management fee payment to both Avraham Livnat Ltd. and Mashav Initiation and Development Ltd. ("Mashav") of NIS 250,000 each per annum, for the provision of director services by each party to Taavura, as detailed in Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

In practice, by virtue of the Management Agreement, six directors are appointed to serve as directors of Taavura by Avraham Livnat Ltd. The services provided were professional and appropriate and were at a high level. Taavura also benefited from the contribution of the know-how, experience and skills of these directors. The services provided contributed to the stability of Taavura, the advancement of its business and to the continued performance and development of Taavura.

In the opinion of the Company's Board of Directors, taking into account the scope of the services provided to Taavura and their contribution to the development of Taavura, and taking into account the scope and complexity of the Company's business, the consideration in respect of the services is fair and reasonable.

i. Mr. Avraham Livnat – CEO of Taavura Holdings Ltd. ("Taavura")

Pursuant to an employment agreement from 1996, Mr. Avraham Livnat is employed as the CEO of Taavura. In 2010, Mr. Livnat received compensation in respect of his full-time employment as CEO, as detailed in Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation).

In 2010, the cost of Mr. Avraham Livnat's employment as CEO of Taavura came to NIS 1,348 thousand. For the purposes of the examination and assessment of Mr. Livnat's remuneration terms and for the examination of his bonus, the Company's Board of Directors examined the criteria detailed above. Mr. Livnat has a great deal of knowledge and business experience. Mr. Livnat's familiarity of many years with the Company's business, its customers, employees and suppliers contributes greatly to Taavura's business and performance.

In light of all the considerations presented above, in the opinion of the Board of Directors of the Company, Mr. Livnat's compensation in 2010 is in line with the best interest of the Company and of Taavura, and is fair and reasonable in relation to Mr. Livnat's contribution to Taavura in his role in 2010.

j. Yoel Feldschuh – CEO Neshet

In 2010, the cost of Mr. Yoel Feldschuh's employment as CEO of Neshet amounted to NIS 3,124 thousand. For details regarding the remuneration given to Mr. Yoel Feldschuh, see Section 21 of Chapter D of the Periodic Report (Additional Details on the Corporation) of the Company as of December 31, 2010. For the examination and assessment of the remuneration terms of Mr. Feldschuh, the Company's Board of Directors examined, inter alia, the criteria detailed above.



c. **Corporate Governance Issues (Continued)**

7. **Remuneration of Interested Parties and Senior Executives (Continued)**

Mr. Feldschuh serves as CEO of Neshet and is responsible for the management and development of the company's business activity, the leadership of its business strategy and the achievement of its medium- and long-term goals. Mr. Feldschuh is heavily involved in Neshet's activity which is engaged in a complex business and regulatory environment.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

d. **Disclosure Directives Related to the Financial Reporting of the Corporation**

1. **Events Subsequent to the Balance Sheet Date**

- a. Regarding Nova, see Note 32 of the Company's financial statements as of December 31, 2010.
- b. Netvision

On March 13, 2010, Netvision received a proposal for conducting negotiations in relation to a merger with a subsidiary of Cellcom Israel Ltd. ("the Negotiation Proposal" and "Cellcom" respectively).

Netvision reported the details of the Negotiation Proposal as they were presented in Cellcom's letter:

Pursuant to the merger transaction proposed by Cellcom, all the shares of Netvision will be purchased, in consideration for cash, according to a valuation of the entire share capital of Netvision of NIS 1,500,000,000 (NIS 1.5 billion), such that subsequent to the completion of the proposed transaction, Netvision will become a private company wholly owned by Cellcom. This amount reflects a price per share of NIS 47.47 (taking into account the current issued share capital of Netvision). According to the Negotiation Proposal, the consideration in the agreement will be subject to adjustments as is standard in transactions of this kind, such as in the event of the distribution of a dividend.

Under the Negotiation Proposal, the engagement in the transaction will be subject, inter alia, to the execution of a due diligence examination by Cellcom, the receipt of a valuation by an objective party to be jointly appointed by Cellcom and Netvision, and the receipt of a fairness opinion that will support the valuation, the conducting of negotiations and agreement on the formulation of binding and definitive agreements, and an approval of the transaction by the Audit Committee and the Board of Directors of Netvision and Cellcom.

Netvision also reported that according to the Negotiation Proposal if a definitive agreement is reached, closing of the transaction would be subject, inter alia, to the following conditions: (1) The receipt of the requisite regulatory approvals including an approval from the Communications Ministry and an approval from the Anti-Trust Authority, as required, and conditions to the satisfaction of Cellcom; (2) The receipt of the requisite approvals for the merger at the respective general meetings of the shareholders of Cellcom and Netvision, and receipt of the approvals of the authorized organs of Netvision's controlling shareholder, Discount Investments Corporation Ltd. (a sister company of the Company) ("DIC") and of the Company; (3) Consents and other terms, including in accordance with the due diligence examination.

It should be noted that Cellcom is controlled by DIC, one of the controlling shareholders of Netvision. Approval of the transaction at the general meeting of shareholders of Netvision (to the extent that it is decided to carry it out and binding and definitive agreements are reached, as stated) will be with the majority required by law, of the shareholders that are not the controlling shareholders of Netvision.

On March 21, 2011, the Board of Directors of Netvision decided to designate a special committee of the Board of Directors to appoint, together with Cellcom, an objective appraiser and to appoint an appraiser to provide a fairness opinion.

It should be noted that at this stage there is no certainty regarding Netvision and Cellcom entering into a definitive agreement, regarding the terms including the price, or regarding its completion, should Netvision and Cellcom reach an understanding and sign an agreement.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

d. **Disclosure Directives Related to the Financial Reporting of the Corporation (Continued)**

1. **Events Subsequent to the Balance Sheet Date (Continued)**

At this stage the Company assumes that should the transaction in fact take place with the terms detailed above, it is expected to receive consideration for its holding in Netvision of NIS 446 million. In addition, on the basis of the balance of the investment in Netvision as it appears in the Company's books as of December 31, 2010, the Company is expected to record a gain of NIS 69 million, on completion of the transaction.

- c. With respect to a dividend declared subsequent to the balance sheet date, see Note a5, above.

2. **Disclosure of critical estimates**

Estimates and assumptions

The preparation of the Group's financial statements in conformity with IFRS requires the managements of the Company and investees to make judgments, estimates and assumptions that affect the application of the accounting policy and the amounts of assets, liabilities, income and expenses. It should be clarified that the actual results could differ from these estimates. When formulating the accounting estimates used in preparation of the Company's financial statements, the managements of the Company and investees must make certain adjustments regarding circumstances and events that entail significant uncertainty.

The managements base their judgment when determining the estimates on past experience, various facts, external factors and reasonable assumptions, conforming to the appropriate circumstances for each estimate.

The estimates and assumptions on the basis of which these financial statements were prepared, are reviewed regularly. Changes in accounting estimates are recognized in the period in which the estimates were modified and in every affected future period.

For the principal assumptions that were made in the financial statements related to the uncertainty as at the balance sheet date and crucial estimates that were calculated by the group, where material change in the estimates and assumptions may serve to alter the value of assets and liabilities in the financial statements during the next reported year.

See Note 2b of the Company's financial statements as of December 31, 2010.

3. **Contingent Liabilities**

a. Kitan

In April 2008, a lawsuit and motion to certify it as a class action was filed against Kitan, a wholly owned investee of the Company, under the Class Actions Law (hereinafter: "The Lawsuit").

The lawsuit alleges non-compliance with pollutant emissions standard at Kitan's plant in Dimona (hereinafter: "The Non-Compliance"). The plaintiffs are seeking financial damages for impairment of autonomous will and placing the residents' health at risk and request that Kitan establish a fund for medical supervision.



Board of Directors' Report on the Corporation's State of Affairs
as at December 31, 2010

d. **Disclosure Directives Related to the Financial Reporting of the Corporation
(Continued)**

2. **Disclosure of critical estimates (Continued)**

The plaintiffs estimate the damage caused to the people of Dimona as a result of the non-compliance up to the date of filing the claim at approximately NIS 234 million.

For additional details, see Note 24b3 to the Company's financial statements as at December 31, 2010.

b. **Netvision**

As for claims and motions to approve those claims as class actions filed against Netvision, see Note 24c1 to the Company's financial statements as of December 31, 2010.

In their review report of the financial statements, the Company's auditors draw attention to the claims as aforesaid in sections 'a' and 'b', above.

4. **Engagements**

See Notes 25 and 31 of the Company's financial statements as of December 31, 2010.



Board of Directors' Report on the Corporation's State of Affairs as at December 31, 2010

e. Dedicated Disclosure to Debenture Holders1. Debentures

a. Debenture data (appearing in NIS millions, rounded off to the nearest million):

Name of Debenture	Issue date (*)	Issued par value	Par value balance	Linked par value balance	Accrued interest	Book value	Fair value	Interest type	Principal payment dates	Interest payment dates	Linkage	Material series
Series I	13.08.2001	86	25	30	1	30	33	Fixed 5.7%	7 annual installments starting Aug-30-06	Annual Aug-30	Index	No
Series K	12.11.2003	137	59	69	2	69	76	Fixed 5.95%	7 annual installments starting May-31-07	Annual May-31	Index	No
Series L	02.05.2005	333	339	398	17	398	417	Fixed 4.35%	5 annual installments starting Jan-10-09	Annual Jan-10	Index	Yes
	25.05.2005	140										
	11.04.2006	91										
	Total L	564										
Series M ⁶	02.06.2005	70	533	621	16	598	693	Fixed 4.5%	5 annual installments starting Jun-10-13	Annual Jun-10	Index	Yes
	11.04.2006	151										
	13.07.2006	342										
	Total M	563										
Series N ⁷	16.01.2007	500	477	545	26	544	608	Fixed 4.9%	5 annual installments starting Jan-16-18	Annual Jan-16	Index	Yes
Series O	06.12.2009	250	250	250	8	248	260	Fixed 5.59%	5 annual installments starting Jun-10-13	Annual Jun-10	Unlinked	Yes

⁶ The balance presented (except "issued par value" data) is net of NIS 30 million par value held by a wholly-owned subsidiary.

⁷ The balance presented (except "issued par value" data) is net of NIS 23 million par value held by a wholly-owned subsidiary.

(*) The initial date of issue. Some of the series were extended on a later date.



**Board of Directors' Report on the Corporation's State of Affairs as at
December 31, 2010**

e. Dedicated Disclosure to Debenture Holders (Continued)

2. Details of trustee

- a. Series I, K: SAG Trust Company Ltd., contact person: David Gottlieb, Adv. 7 Menachem Begin Street, Ramat Gan 5251, Tel: 03-6113000
- b. Series L: Hermetic Trust (1975) Ltd., contact person: Dan Avnon, Adv. 113 Hayarkon St.; Tel-Aviv 63573; Tel: 03-5274867
- c. Series M: Reznik Paz Nevo Trusts Ltd., contact person: Yossi Reznik, CPA. 14 Yad Harutzim Street, Tel Aviv; Tel: 03-6389200
- d. Series N: Kaldan Trust Company Ltd.; contact person: Moran Shachar, Adv. 7 Menachem Begin Street, Ramat Gan 52681; Tel: 03-6109000, regarding the resignation of the trustee, see Section F2, below.
- e. Series O: Strauss Lazar Trust Company (1992) Ltd.; contact person: Uri Lazar, Adv., 17 Itzhak Sadeh Street, Tel Aviv; Tel: 03-6237777

3. Rating

- a. Rating of outstanding series of liability certificates:

Name of Debenture	Rating Company	Rating Set Upon Issue (**)	Examination of Rating Update, January 2011 (**)
Series I	Maalot	(*)AA +	A+/Negative\ il
Series K	Maalot	AA/Stable	A+/Negative\ il
Series L	Maalot	AA/Stable	A+/Negative\ il
Series M	Maalot	AA/Stable	A+/Negative\ il
Series N	Maalot	AA/Stable	A+/Negative\ il
Series O	Maalot	A+/Stable	A+/Negative\ il

(*) Series K was issued in November 2003, the rating of Series I was updated in the Maalot report to AA.

(**) Attached here as Appendix B, is a Maalot report from January 2011.

- b. Development in the Rating of Company Debentures

In January 2007, Maalot rated the Company's long-term debt solvency as AA. Said rating is based on a variety of quantitative and qualitative parameters which examine the business positioning and financial stability of the Company and its investees. The rating report is attached as an appendix to the Company's Board of Directors report as of December 31, 2008.



e. **Dedicated Disclosure to Debenture Holders (Continued)**

In July 2009 Maalot downgraded the rating of CII's Series I, K, L, M and N debentures from AA/CW Negative to a rating of A+ with a stable outlook (this was as part of the downgrading also of the series of debentures of IDB Holdings, IDB Development and Discount Investments to A+ with a stable outlook and a rating of A+ for Koor). Maalot's rating report from July 2009 stated that according to their methodological approach, they are referring to and examining the five headquarter companies of IDB as a single unit, for the purpose of evaluating credit risks, in view of the holding structure and characteristics of control and management in the IDB Group, the importance of the strategy of each headquarter company to the Group and the identity attributed to the headquarter companies as part of the "IDB Group". Maalot further stated that the downgrading reflects mainly the increase in the level of aggregate leverage of the IDB Group. This rating is based on a range of qualitative and quantitative parameters, which examine the aggregate financial leverage and liquidity of the IDB Group.

In January 2011 Maalot approved a rating of il/A+ for CII's Series I, K, L, M, N and P debentures, and updated the rating outlook from stable to Negative (il/A+ Negative). This was as part of the ratification of the rating and updating of the rating outlook similarly for the debenture series of IDB Holdings, IDB Development, DIC and Koor. In this rating report, Maalot noted that the negative rating outlook reflects the fact that the aggregate level of leverage of the IDB Group exceeds 60% which Maalot sees as appropriate for the present rating, given the level of business risk of the IDB Group. Maalot also noted that it expects that the leverage level of CII will not exceed the aggregate level of the group.

Regarding changes in the rating of the debt solvency of CII's material holdings, see Section 9, below.

4. **Details of compliance with terms and liabilities to holders of debentures:**

In 2010, the Company complied with all the terms and liabilities to holders of debentures.

5. **Breach of obligations or terms stipulated in deed of trust:**

There were no breaches of obligations or terms stipulated in the deeds of trust in 2010.

6. **Disclosure of actions taken in the reported period in connection with liability certificates based on the trustee's requirements:**

Series N

On February 11, 2010, the company received notice from Kaldan Trust Company Ltd. ("the trustee") regarding its resignation from trusteeship over the debentures (Series N) of the company.

The reason for the resignation, as related to the company by the Trustee, was the fact that on February 7, 2010, the Board of Directors of the Trustee decided that it would discontinue its trust operations and transfer the trusteeship accounts of debentures with which it was entrusted to an alternate trustee.

The Trustee further related in its message, that according to the directives of the trust certificate, the company must act to appoint a new trustee. This resignation will become effective only after obtaining court approval and appointing an alternate trustee.



Board of Directors' Report on the Corporation's State of Affairs as at
December 31, 2010

e. **Dedicated Disclosure to Debenture Holders (Continued)**

True to the date of approval of these financial statements, a new trustee has yet to be appointed.

7. **Description of assets under lien to holders of liability certificates:**

There are no assets under lien.

8. **Issues and purchases of the Company's debentures**

a. **Issue of additional debentures by the Company**

In December 2009, the Company issued, through a shelf offering report, 250,000,000 debentures (Series O), each of NIS 1 par value. The debentures (Series O) are unlinked, bear annual interest at the rate of 5.59%, and will be repaid in five equal annual installments commencing June 2013. The interest on the debentures will be paid annually, commencing June 2010.

b. **Company debentures held through a subsidiary:**

As of December 31, 2010, a wholly owned subsidiary holds 52,500,000 debentures of NIS 1 par value, the value of which in the books amounts to NIS 59 million and their value on the Stock Exchange is NIS 68 million.

9. **Changes in the ratings of material investees of ClI**

a. In August 2009, Standard & Poor's Maalot Ltd. ("Maalot") updated the rating of the Series A-C debentures of Mashav Initiation and Development Ltd. ("Mashav") from a rating of AA to AA-. The rating forecast is stable. Ma'alot indicated that the lower rating was due to the lowering of the rating of parent company Clal Industries in July 2009. The downgrading is not due to any worsening in the financial or business profile of the Mashav Group, for which Maalot's evaluation remains as it was. In December 2010, the rating was ratified by Maalot which noted that in order to maintain the level of the current rating Mashav would be expected to maintain certain debt coverage ratios.

b. In August 2009, Maalot announced that it had updated the rating for the debentures (Series A) of Taavura from AA- to A+. The ratings outlook is stable. Maalot stated that the downgrading reflects the ongoing slump in the business environment in which the Taavura Group operates and its effect on the Group's financial profile. Nonetheless, the current rating continues to reflect the high competitive position, the broad business diversification and financial profile that are reasonable for the group's rating. In December 2010, Maalot ratified the A+ rating for the debentures issued by Taavura. The rating forecast is stable. Maalot noted that the rating outlook reflects its assessment that Taavura's operational performance is expected to remain stable due to the continued recovery of the Israeli economy. In the rating report it was noted that the ratification of the current rating continues to reflect Maalot's assessment in relation to Taavura's high competitive position, its broad business diversification and its high profitability, which, in the opinion of Maalot, are expected to continue to contribute to the stability in the financial risk profile of the Taavura group.



e. **Dedicated Disclosure to Debenture Holders (Continued)**

- c. In October 2009, Maalot announced that it had updated the rating for the debentures of Hadera Paper to A+/Negative Outlook. Maalot stated that its downgrading reflects mainly: The significant deterioration incurred by the paper products industry, expressed in falling demand and prices, the increased financial leverage of Hadera Paper compared with Maalot's expectations at the time of the previous evaluation, and the challenge facing the Hadera Paper Group in the present business climate, in finding markets and achieving profitability for the increased production capacity.

In February 2011 in light of a decrease in the financial leverage and an improvement in the business positioning of Hadera Paper, Maalot announced that it had ratified the rating of the debentures of Hadera Paper, and changed its rating outlook to Stable (iIA+/Stable).

The Company's Board of Directors and management wish to expressed their gratitude to the managers and employees of the Group companies for their contribution to the advancement and development of the Group companies and their achievements.

Nochi Dankner
Chairman of the Board of
Directors

Avi Fisher
Director and Co-CEO

Zvika Livnat
Co-CEO



Appendix A:

Sensitivity Analyses of Financial Instruments to Changes in Market Factors

1. Assumptions:

- a. The fair value of marketable securities is measured at their quoted market prices as of December 31, 2010.
- b. The fair value of debentures was calculated using the current value of future cash flows including discounted interest, at the interest that the Company would have received and at a similar debt ranking had the Company raised/borrowed liabilities with a similar average life-span based on the effective interest in respect of the marketable debentures or a quotation received by the Company from a financial institution as of the balance sheet date. The fair value of debentures listed for trade on the stock exchange is measured based on their quoted market prices as at December 31, 2010.
- c. The fair value of long-term loans and liabilities was calculated at the current value of the future cash flows including interest in respect of these liabilities, discounted by the interest that the Company would have received from a bank had it borrowed a similar amount with a similar maturity term.
- d. The fair value of NIS/CPI forward contracts and NIS/US\$ options was presented at a quotation received by the Company from financial institutions.
- e. Changes in exchange rates possess an influence both on the reported results and on the shareholders' equity of the company as a result of the allocation of translation differences, originating from the translation of financial statements published in foreign currency of the investee companies.



Board of Directors' Report on the Corporation's State of Affairs as at
December 31, 2010

2. Sensitivity analysis tables of sensitive financial instruments included in the consolidated financial statements dated December 31, 2010, to changes in market factors

Sensitivity analysis to changes in US dollar exchange rate					
Instrument	Profit (loss) from change		Fair value as at Dec-31-10	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	14	7	138	(7)	(14)
Accounts receivable	12	6	122	(6)	(12)
Short-term investments, excluding derivative financial instruments	15	7	148	(7)	(15)
Loans and receivables, including current maturities	1	1	12	(1)	(1)
Other long-term investments, excluding derivative financial instruments	2	1	20	(1)	(2)
Derivative financial instruments	10	5	99	(5)	(10)
Other Accounts Payable	(16)	(8)	(160)	8	16
Overdrawn facilities	-	-	(2)	-	-
Other long-term liabilities	(3)	(1)	(29)	1	3
Total	35	18	348	(18)	(35)
NIS/US\$ options	*	*	(1)	*	*
NIS/US\$ forward transaction	(1)	(1)	1	*	*
Total	34	17	348	(18)	(35)

Sensitivity analysis to changes in euro exchange rate					
Instrument	Profit (loss) from change		Fair value as at Dec-31-10	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	11	5	108	(5)	(11)
Accounts receivable	6	3	57	(3)	(6)
Short-term loans and deposits	3	1	29	(1)	(3)
Other Accounts Payable	(22)	(11)	(223)	11	22
Bank loans, including current maturities	(3)	(2)	(32)	2	3
Other liabilities, including current maturities	-	-	(5)	-	-
Total	(5)	(4)	(66)	4	5
NIS/€ forward transaction	4	2	*	(2)	(4)
Total	(1)	(2)	(66)	2	1



**Board of Directors' Report on the Corporation's State of Affairs as at
December 31, 2010**

Sensitivity analysis to changes in NIS interest rate							
Instrument	Profit (loss) from change			Fair value as at Dec-31-10	Profit (loss) from change		
	Absolute rise of 2% in interest rate	10% rise in interest rate	5% rise in interest rate		5% decrease in interest rate	10% decrease in interest rate	Absolute decrease of 2% in interest rate
Loans and receivables, including current maturities	(2)	*	*	27	*	*	2
Debentures	261	48	24	(3,781)	(25)	(50)	(170)
Loans from banks and other creditors, including current maturities	55	13	7	(1,068)	(7)	(14)	(61)
Current financial liabilities	*	*	*	(8)	*	*	*
Total	314	61	31	(4,830)	(32)	(64)	(229)

Sensitivity analysis to changes in stock market rates					
Instrument	Profit (loss) from change		Fair value As at Dec-31-10	Profit (loss) from change	
	10% rise in prices	5% rise in prices		5% decrease in prices	10% decrease in prices
Current short term investments - marketable securities	79	39	789	(39)	(79)
Available-for-sale financial assets	11	5	107	(5)	(11)
Total	90	44	896	(44)	(90)

Sensitivity analysis to changes in the CPI					
Instrument	Profit (loss) from change		Fair value as at Dec-30-10	Profit (loss) from change	
	2% rise in CPI	1% rise in CPI		1% decrease in CPI	2% decrease in CPI
Forward on unknown index as accounting hedge	17	9	4	(9)	(17)

(*) Represents an amount of less than NIS 1 million.



Board of Directors' Report on the Corporation's State of Affairs as at
December 31, 2010

3. Sensitivity analysis tables of financial instruments included in the consolidated financial statements dated December 31, 2010, to changes in market factors

Sensitivity analysis to changes in US dollar exchange rate					
Instrument	Profit (loss) from change		Fair value as at Dec-31-09	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	25	12	247	(12)	(25)
Accounts receivable	10	5	98	(5)	(10)
Short-term investments, excluding derivative financial instruments	10	5	102	(5)	(10)
Loans and receivables, including current maturities	5	3	50	(3)	(5)
Other Investments	13	6	127	(6)	(13)
Other Accounts Payable	(11)	(6)	(114)	6	11
Other Liabilities	(4)	(2)	(43)	2	4
Total	48	23	467	(23)	(48)
NIS/US\$ forward transaction	3	1	-	(1)	(3)
Total	51	24	467	(24)	(51)

Sensitivity analysis to changes in euro exchange rate					
Instrument	Profit (loss) from change		Fair value as at Dec-31-09	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	5	2	48	(2)	(5)
Accounts receivable	4	2	39	(2)	(4)
Short-term loans and deposits	4	2	37	(2)	(4)
Other Accounts Payable	(13)	(7)	(133)	7	13
Bank loans, including current maturities	(4)	(2)	(39)	2	4
Other liabilities, including current maturities	(3)	(1)	(25)	1	3
Total	(7)	(4)	(73)	4	7
NIS/€ forward transaction	5	2	(1)	(4)	(7)
Total	(2)	(2)	(74)	-	-



Board of Directors' Report on the Corporation's State of Affairs as at
December 31, 2010

Sensitivity analysis to changes in NIS interest rate							
Instrument	Profit (loss) from change			Fair value as at Dec-31-09	Profit (loss) from change		
	Absolute rise of 2% in interest rate	10% rise in interest rate	5% rise in interest rate		5% decrease in interest rate	10% decrease in interest rate	Absolute decrease of 2% in interest rate
Loans and receivables, including current maturities		-	-	94	-	-	
Debentures	145	61	31	(3,875)	(31)	(64)	(156)
Loans from banks and other creditors, including current maturities	4	2	1	(301)	(1)	(2)	(4)
Current financial liabilities	12	7	3	(412)	(3)	(7)	(13)
Total	161	70	35	(4,494)	(35)	(73)	(173)

* Represents an amount of less than NIS 1 million.

Sensitivity analysis to changes in stock market rates							
Instrument	Profit (loss) from change			Fair value as at Dec-31-09	Profit (loss) from change		
	35% rise in prices	10% rise in prices	5% rise in prices		5% decrease in prices	10% decrease in prices	31% decrease in prices
Current short term investments - marketable securities	-	58	29	584	(29)	(58)	-
Available-for-sale financial assets	-	2	1	15	(1)	(2)	-
Total	-	60	30	599	(30)	(60)	-

Sensitivity analysis to changes in the CPI					
Instrument	Profit (loss) from change		Fair value as at Dec-31-09	Profit (loss) from change	
	2% rise in CPI	1% rise in CPI		1% decrease in CPI	2% decrease in CPI
Forward on unknown index as accounting hedge	10	5	4	(5)	(10)
Total	10	5	4	(5)	(10)

* Represents an amount of less than NIS 1 million.

2010

כלל תעשיות והשקעות בע"מ



**Board of Directors' Report on the Corporation's State of Affairs as at
December 31, 2010**

Appendix B – Maalot announcement from January 2011