

Tel-Aviv, November 20, 2007

CLAL INDUSTRIES AND INVESTMENTS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD JANUARY – SEPTEMBER 2007

1. COMPANY DESCRIPTION

Clal Industries and Investments Ltd. ("the Company") is a holding company, whose principal holdings are in the manufacturing and high-technology industries. The Company is controlled by IDB Development Corporation Ltd. ("IDB Development").

This report reviews the principal changes in the Company's activities for the period between January and September 2007 ("the reported period"). The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 and is based on the assumption that the readers have in their possession management's discussion and analysis and the consolidated financial statements as of December 31, 2006 ("annual financial statements").

The Company is engaged, directly and through its subsidiaries, in the establishment, acquisition, development and upgrading of companies in various industries. The Company strives to be involved in the management and formulation of the strategy in its investees, primarily when the Company possesses significant holdings in these companies. The Company strives to enhance and maximize the value of its existing investments, with a view to realizing those investments at the appropriate time. The Company has access to a variety of business opportunities, being constantly alert for investments with a suitable potential return, in those sectors where it is experienced and knowledgeable.

The Clal Industries and Investments Group companies are engaged in a variety of industries, including primarily: cement, high technology, electronics and venture capital funds, textile, biotechnology, communication services, real estate and other industries.

The Company's activities are conducted through subsidiaries (companies in which the Group holds 50% of the rights, either directly or indirectly), jointly controlled entities (companies in respect of which the Group has contractual consent with other entities for joint control), affiliates (companies in which the Group exercises significant influence and which are accounted for by the equity method), and through other companies wherein the Company does not exercise significant influence (included in the financial statements at cost).

The Company's principal targets are:

- Improve business performance in order to achieve maximum return on capital in the long run, with regular economic evaluations of business alternatives and advantageous opportunities.
- In the coming years - complete the process for redesigning the Company as an investment company which focuses on holdings in the following industries: basic manufacturing, high technology and biotechnology, logistics, consumer products and infrastructure.
- Contribute to and assist the community in Israel.

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

- Focus on a limited number of material holdings possessing stable growth potential, in respect of which the Company can exert a significant influence.
- Continue to evaluate investment opportunities in leading companies, including in investees.
- Utilize opportunities in relevant markets in order to realize investments.
- Continue to search for opportunities to increase value of investees.
- Intensify international operations, including those of investees.
- 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.
- Outsource periodically the management of certain activities, while exercising appropriate controls.

The Company is a holding company, mainly engaged in holding shares in investees. As such, its net income mainly includes and is affected by the following elements:

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

The Company's profits are liable to fluctuate considerably during 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 market; and due to changes in the financial expenses of the Company and its investees, whose scope is affected by the net debt amount, by the debt's linkage terms and the net monetary assets and by the change rate in the Israeli Consumer Price Index ("CPI") and the exchange rate of the U.S. dollar in the reported period.

The Group's major segments of operations are as follows¹:

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% owned).

Textiles – This segment includes Golf & Co. Group Ltd. (75% owned) and Kitan Consolidated Ltd. (100% owned).

High-technology, electronics and venture capital funds - This segment includes, among others, Saifun Semiconductors Ltd. ("Saifun") (9% owned), Fundtech Ltd. ("Fundtech") (35% owned), Jordan Valley Semiconductors Ltd. ("Jordan Valley") (46% owned), Power Paper Ltd. (15% owned), Clal Venture Capital Fund (67% owned), Israel Infinity Venture Capital Fund and F.B.R. Infinity II Ventures (Israel) ("FBR Infinity") (31% and 39% owned, respectively), Infinity Israel – China Fund ("Infinity Israel – China") (12% owned) and ECTel Ltd. (9% owned).

¹ The data relates to the ownership interests as of September 30, 2007. 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.

Biotechnology – Operations in this segment are conducted through Clal Biotechnology Industries Ltd. ("CBI"), (67% owned) whose holdings include Mediwound Ltd. (55% owned), D-Pharm Ltd. ("D-Pharm") (34% owned), Curetech Ltd. (46% owned, also through Clal Venture Capital Fund, 26% owned), Compugen Ltd. (11% owned), Andromeda Biotech Ltd. (100% owned) and BioCancell Therapeutics, Inc. (23% owned).

Real estate - Operations in this segment are conducted mainly through KBA Townbuilders Group Ltd. ("KBA") (53% owned), that operates in Ashdod in the construction and real estate sector.

Communication services - This segment includes mainly Netvision Ltd.¹ ("Netvision") (19% owned) and Clalcom Ltd. ("Clalcom") (72% owned), which holds, directly and indirectly, among others, Netvision (8% owned) and Arcadian Networks Inc. (12% owned), engaged in supplying wireless data communications systems for suppliers of public utilities in rural USA.

Other - Operations in this segment include American Israeli Paper Mills Ltd. ("AIPM") (38% owned) and Cargal Ltd. (27% owned), that are mainly engaged in the production and marketing of paper and cardboard products and flexible packages; Jaf-Ora Ltd. ("Jaf-Ora") (30% owned), that is engaged in the production and marketing of soft drinks; Taavura Holdings Ltd. ("Taavura") (37.5% owned), that operates primarily in transportation, infrastructure projects, logistics and in the import and marketing of trucks; and Beit Shemesh Engines Holdings (1997) Ltd. (36% owned) which is engaged in manufacture, maintenance and renovation of jet engines.

The Group's activities are affected by many external factors (see section 23 to part A - a description of the Company's business as of December 31, 2006).

2. RESULTS OF OPERATIONS

a. Statements of income:

The Company's net income in the reported period amounted to NIS 419 million, compared to a net income of NIS 217 million in the corresponding period of the previous year and a net income of NIS 265 million in all of 2006.

In the reported period, current income amounted to NIS 120 million, compared to NIS 93 million in the corresponding period of the previous year. The increase in current income compared to the corresponding period of the previous year is primarily a result of

¹ In January 2007, the merger between Barak I.T.C (1995) - The International Telecommunications Services Corp. Ltd. and Netvision Ltd. was completed, see 3.4 below.

improvements in the results of the cement, textile and other segments, offset by an increase in the loss of the biotechnology segment.

The income in the reported period from realization of investments, adjustment of the value of investments and other net non-recurring factors, net amounted to NIS 299 million, compared to income of NIS 124 million in the corresponding period of the previous year.

The non-recurring factors in the reported period resulted mainly from a gain from the sale of the entire holdings in ECI totaling NIS 225 million, the Veraz issuance (ECI's affiliate) (NIS 23 million), equity in the gain from the sale of a plot of land in Cargal (NIS 21 million), a gain from the decrease in the holding rate in Golf (NIS 18 million), a gain from the sale of Mediwound by CBI (NIS 18 million), a gain from the dilution and the Nana 10 transaction in Netvision (NIS 12 million), a gain from disposals in venture capital funds (NIS 9 million), a gain from selling start-up companies to Newbury Partners LLC ("Newbury") (NIS 8 million) and the exercise of deferred gains in respect of Teva's investment in CBI and CBI's offering (NIS 17 million) net of a provision for impairment of the investment in Saifun (NIS 51 million).

In the corresponding period of last year, the main non-recurring factors included a gain from the sale of the Company's holdings in Scailex (NIS 62 million), a gain from the issuance of Golf (NIS 33 million), a decrease in the provision for impairment of CBI's investment in Compugen (NIS 18 million) and the cancellation of the provision for loss in respect of convertible securities in investees, net (NIS 9 million), offset by the Company's share in the provision for streamlining measures in Neshet (NIS 12 million).

The Company's net income in the third quarter of 2007 amounted to NIS 252 million compared to a net income of NIS 86 million in the corresponding quarter of the previous year. The current income for the quarter amounted to NIS 22 million compared to income of NIS 34 million in the corresponding quarter of the previous year. The decrease in current income is mainly due to an increase in financial and headquarter expenses and a loss in the biotechnology segment, offset by the improvement in the textile and other segments.

The income in the third quarter from realization of investments, adjustment of the value of investments and other net non-recurring factors, net amounted to NIS 230 million, compared to income of NIS 52 million in the corresponding quarter of the previous year.

The non-recurring factors in the quarter resulted mainly from a gain from the sale of ECI (NIS 225 million), equity in the sale of a plot of land in Cargal (NIS 21 million), a gain from the sale of Mediwound by CBI (NIS 18 million), a gain from the sale of start-up companies to Newbury (NIS 8 million) and realization of deferred gains in respect of

Teva's investment in CBI and the CBI offering (NIS 9 million) and less a provision for impairment of the investment in Saifun (NIS 51 million).

In the corresponding quarter of last year, the main non-recurring factors included a gain from the sale of the Company's holdings in Scailex.

Net earnings per NIS 1 par value of shares in the reported period amounted to NIS 2.76, compared to net earnings of NIS 1.38 in the corresponding period of the previous year and net earnings of NIS 1.69 in all of 2006.

b. Analysis of income by business segments (NIS in millions):

	Three months ended September 30, 2007			Three months ended September 30, 2006		
	Current	Other ¹	Total	Current	Other ³	Total
Business segments:						
Cement	49	-	49	49	-	49
Textiles	20	-	20	7	-	7
High technology, electronics and venture capital funds	-	183	183	3	63	66
Biotechnology	(13)	30	17	(2)	(6)	(8)
Real estate	-	-	-	-	-	-
Communication services	7	(5)	2	2	(2)	-
Other	21	22	43	15	(3)	12
	84	230	314	74	52	126
Financing and headquarter	(62)	-	(62)	(40)	-	(40)
Net income	22	230	252	34	52	86
	Nine months ended September 30, 2007			Nine months ended September 30, 2006		
	Current	Other ³	Total	Current	Other ³	Total
Business segments:						
Cement	129	(3)	126	116	(12)	104
Textiles	54	21	75	30	33	63
High technology, electronics and venture capital funds	9	210	219	8	91	99
Biotechnology	(36)	40	4	(15)	16	1
Real estate	6	-	6	8	-	8
Communication services	8	9	17	7	(2)	5
Other	50	22	72	36	(2)	21
	220	299	519	190	124	314
Financing and headquarter	(100)	-	(100)	(97)	-	(97)
Net income	120	299	419	93	124	217

¹ Includes results of realization of investments, updating of value of investments and non-recurring factors.

Cement – See analysis of the results of companies of the cement segment in section d below.

Textiles – This segment has shown an increasing contribution to current income due to the improved results of Golf and Kitan Industries. The increase in this segment's contribution to income compared to the corresponding period of the previous year resulted mainly from a positive non-recurring effect of Golf's issuance of NIS 33 million compared to a positive effect of NIS 21 million in this period. See also the analysis of Golf's results in section d below.

High technology, electronics and venture capital funds – The increase in this segment's contribution compared to the corresponding period of the previous year resulted mainly from a considerable increase in non-recurring factors.

The reported period includes positive non-recurring effects totaling NIS 211 million mainly NIS 225 million from the sale of ECI, NIS 23 million from Veraz's issuance, the sale of investments in venture capital funds totaling NIS 9 million (mainly a gain from the sale of the funds' holdings in Xintec Inc. in an amount of NIS 8 million), the sale of start-up companies to Newbury net of a provision for impairment in respect of Saifun of NIS 51 million. The amount of positive non-recurring effects in the corresponding period of 2006 was NIS 91 million (mainly a non-recurring effect of the sale of the Company's holdings in Scailex of NIS 62 million).

Biotechnology – The results of companies of this segment are mainly affected by their investments in research and development, from the adjustment of the value of investments and from realization of investments. The increase in the current loss in the period compared to the corresponding period of the previous year derived from an increase in the investees' expenses. On the other hand, an increase was recorded in positive non-recurring factors, net arising from a total of NIS 17 million included in the reported period from the realization of deferred gains in respect of CBI and a gain of NIS 18 million from the sale of Mediwound's shares. In the corresponding period of the previous year, the segment's results included a positive non-recurring effect of NIS 21 million following the decrease in the provision for the impairment of CBI's investment in Compugen, this in addition to the realization of a deferred gain of NIS 6 million arising from Teva's investment in CBI offset by a provision for impairment of companies of NIS 7 million. As for CBI's public offering of its shares, see 3.3 below.

Real estate - The principal company in this segment is KBA whose operating results are generally characterized by fluctuation, resulting from the timing of sales of its real estate. In the first quarter of 2007, the retained earnings included NIS 55 million as a result of revaluation of investment property, see Note 2b(4) to the financial statements.

Communication services – The major company in the communication services segment was Barak. At the end of January, the merger of Barak, Netvision and Globecall was completed. The results for the reported period include Barak's results for January and the results of the merged company from the date of merger through September 30, 2007. The second quarter included a non-recurring effect of NIS 12 million of a gain from the dilution and the Nana 10 transaction. See also the analysis of the results of Netvision in section d below.

Other – The increase in the contribution from current activities in the reported period compared to the corresponding period of last year stems from the companies' improved results. See also the analysis of the results of AIPM in section d below.

c. Data of principal investees¹ and their contribution to income:

The following are data from the financial statements of principal investees. The data are presented in the functional currency of each company (in millions):

	Revenues				Net income (loss)²			
	Nine months ended		Three months ended		Nine months ended		Three months ended	
	September 30		September 30		September 30		September 30	
	2007	2006	2007	2006	2007	2006	2007	2006
Companies that prepare financial statements in NIS:								
Mashav	1,699	1,464	577	513	200	158	74	74
Golf	474	443	163	152	52	36	12	10
AIPM	429	396	151	137	13	(1)	10	(4)
Netvision *)	905	898	309	299	40	25	2	7
CBI	22	(6)	27	(2)	(16)	(10)	11	(16)
Barak *)	-	545	-	179	3	234	-	153
Companies that prepare financial statements in \$:								
Fundtech	\$75	\$ 62	\$ 27	\$ 21	\$4	\$2	\$ 2	\$1

*) The consolidated financial statements of Netvision were accounted for similarly to a pooling of interests and they include figures for Barak and Globecall, see d below. Barak's results are included up to January 25, 2007.

¹ Relates to financial statements published by Fundtech, according to generally accepted accounting principles in the United States. The Company includes the results of Fundtech according to generally accepted accounting principles in Israel.

² Net income (loss) includes non-recurring effects.

Contribution to income from principal investees (NIS in millions):

	<u>Nine months ended September 30,</u>		<u>Three months ended September 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Mashav	150	119	55	55
Golf	40	31	9	9
AIPM	4	-	3	(2)
Fundtech	6	6	3	3
Barak/Netvision	-	5	6	(2)
CBI	4	1	17	(8)

d. Review of operations of principal companies during the reported period:

Cement segment companies – Revenues in the reported period totaled NIS 1,136 million, compared to NIS 1,060 million in the corresponding period of the previous year (an increase of about 7%), mainly due to price update in sales to local and export markets, particularly a significant increase in the price of cleancare for export. Net income in the reported period totaled NIS 168 million compared to a net income of NIS 137 million in the corresponding period of 2006 after a negative non-recurring effect of NIS 16 million due to streamlining measures. The increase in current income compared to last year arises from an increase in revenues as above partly offset by the increase in fuel input prices, maintenance costs and financial expenses.

Revenues this quarter amounted to NIS 399 million compared to NIS 372 million in the corresponding quarter of the previous year (a 7% increase) mainly due to an update in the prices in sales to local and export markets, particularly a significant increase in the price of cleancare for export. The net income in the third quarter of 2007 amounted to NIS 65 million similar to the corresponding quarter of the previous year. Despite the increase in sales, there has been no change in current income compared to last year due to the increase in fuel input prices and financial expenses.

AIPM – Sales in the reported period amounted to NIS 429 million compared to sales of NIS 396 million in the corresponding period of the previous year. The increase in sales, amounting to NIS 33 million, resulted from the increase in prices of some of the products and an increase in sold quantities of other products. The gross profit totaled NIS 104 million compared to NIS 84 million in the corresponding period of the previous year. The increase in gross profit resulted mainly from higher selling prices, increase in quantities sold and the decrease in energy prices. Operating income during the reported period amounted to NIS 54 million compared to NIS 42 million in the corresponding period of the previous year.

Net income in the reported period totaled NIS 13 million compared to a loss of NIS 1 million in the corresponding period of the previous year. The increase in net income is a

result of the increase in operating income compared to the corresponding period of the previous year, a decrease in financial expenses and a decrease in losses of affiliates owing to improved results and offset by an increase in taxes on income.

Sales in the quarter totaled NIS 151 million compared to sales of NIS 137 million in the corresponding quarter of 2006.

Operating income for the quarter totaled NIS 24 million, compared to NIS 17 million for the corresponding quarter of the previous year. The increase in operating income resulted mainly from an increase in gross profit this quarter compared to the corresponding quarter of last year. Net income for the quarter totaled NIS 10 million compared to a loss of NIS 4 million in the corresponding quarter of the previous year. The transition to income was mainly a result of the improved operating income and a decrease in equity in losses of affiliates.

As for a private placement in AIPM, see 13 below.

Golf – Sales in the reported period totaled NIS 475 million compared to sales of NIS 443 million in the corresponding period of the previous year. The increase in sales in the reported period is mainly a result of the increase in sales in existing stores and of adding selling spaces. The gross profit in the period amounted to NIS 276 million compared to NIS 245 million in the corresponding period of the previous year. The increase in the gross profit rate (from 55.2% to 58.2%) resulted from the decrease in purchase prices due to the increase in acquired quantities and the transition to direct acquisition from suppliers and from the decrease in the exchange rate of the U.S. dollar.

The net income for the period totaled NIS 52 million, compared to NIS 36 million in the corresponding period of the previous year. The increase in net income was mainly a result of the growth in the sales turnover, the growth in gross profit offset by a more moderate increase in selling and marketing expenses and a reduction in the corporate tax rate.

Sales in the quarter totaled NIS 163 million compared to sales of NIS 152 million in the corresponding quarter of the previous year. The increase in sales this quarter is mainly a result of the increase in sales in existing stores and from adding selling spaces, and from the difference in the timing of Rosh Hashana, which was celebrated in the third quarter of 2007 compared to last year when it was celebrated mostly in the third quarter and partly in the fourth quarter. The gross profit this quarter amounted to NIS 92 million compared to NIS 81 million in the corresponding quarter of the previous year. The increase in the gross profit rate (from 53.4% to 56.2%) resulted from the decrease in purchase prices due to the increase in acquired quantities and the transition to direct acquisition and from the decrease in the exchange rate of the U.S. dollar. The net income for the quarter totaled NIS 12

million, compared to NIS 10 million in the corresponding quarter of the previous year. The increase in net income was mainly a result of the growth in sales turnover, an increase in gross profit offset by a more moderate increase in selling and marketing expenses and a reduction in the corporate tax rate.

As for the issue of Golf's shares in March 2007, see 3 below.

Fundtech – Sales in the reported period totaled \$ 75 million compared to \$ 62 million in the corresponding period of the previous year. Net income for the period amounted to \$ 4 million, compared to net income of \$ 2 million for the corresponding period of the previous year. The increase in income was due principally to an increase in operating income as a result of an increase in sales compared to the corresponding period of the previous year.

Sales in the quarter totaled \$ 27 million compared to \$ 21 million in the corresponding quarter of the previous year. Net income for the quarter amounted to \$ 2 million, compared to net income of \$ 1 million for the corresponding quarter of the previous year. The increase in income was due principally to an increase in operating income as a result of an increase in sales compared to the corresponding quarter of the previous year.

Netvision – On January 25, 2007, the merger transaction between Barak and Globecall Communication Ltd. ("Globecall") was effected. As of the date of this report, Netvision holds the entire issued share capital of Barak and Globecall.

According to the directives of the Securities Authority regarding the accounting treatment of business combination of companies under common control, the operating results of Netvision, Barak and Globecall have been consolidated as of the date when the Company and Discount Investments Ltd. ("Discount Investments") took over. Accordingly, comparative data of Netvision relating to previous years have been restated.

Since the consummation of the merger transaction, Netvision is acting to formulate reorganization and streamlining measures of the business activity, in the context of which fixed assets with estimated current total value of NIS 23 million will no longer be in use. In the second quarter, an amount of NIS 12 million was depreciated and in the third quarter, an amount of NIS 5 million. The balance will be depreciated by the end of 2007. Under streamlining and cutback measures, while adopting retirement principles, payments to retiring employees in an estimated total of approximately NIS 6 million are anticipated. Until balance sheet date, Netvision recorded approximately NIS 4 million as an expense as a result of said proceedings. Furthermore, as part of the streamlining measures, in September 2007, Netvision completed its engagement with Tikshuvim – Business Communication Center Ltd. ("Tikshuvim"), which provided Barak management and operation services for its various call centers. Accordingly, in the third quarter of 2007,

Netvision recorded merger and reorganization expenses in respect of the transition totaling approximately NIS 3 million.

Revenues for the reported period amounted to approximately NIS 905 million, compared to revenues of NIS 898 million in the corresponding period of the previous year. The operating income in the period before negative non-recurring effects (merger and reorganization expenses of NIS 29 million) amounted to NIS 54 million, compared to revenues of NIS 84 million before negative non-recurring effects (merger and reorganization expenses of NIS 2 million) in the corresponding period of the previous year.

Net income for the reported period amounted to NIS 40 million, compared to net income of NIS 25 million in the corresponding period of the previous year. The net income in the reported period also includes income in the second quarter of approximately NIS 22 million from the Nana 10 transaction and non-recurring merger and reorganization expenses of approximately NIS 29 million.

Revenues for the quarter amounted to approximately NIS 309 million, compared to revenues of NIS 307 million in the corresponding quarter of the previous year. The increase in sales turnover in the third quarter of 2007 derives mainly from an increase in the number of customers offset by the appreciation in the NIS in relation to the U.S. dollar in the third quarter of 2007 compared to the corresponding quarter of the previous year.

The operating income in the quarter before negative non-recurring effects (merger and reorganization and other expenses of NIS 19 million) amounted to NIS 24 million compared to NIS 25 million before negative non-recurring effects (merger and reorganization expenses of NIS 2 million) in the corresponding period of the previous year. Net income for the quarter amounted to NIS 2 million, compared to a net income of NIS 7 million in the corresponding quarter of the previous year. The net income in the third quarter was mainly affected by non-recurring expenses of NIS 19 million including mostly non-recurring reorganization expenses of NIS 9 million.

CBI – The loss in the reported period amounted to NIS 16 million, compared to a loss of NIS 10 million in the corresponding period of the previous year. The increase in loss this period resulted from an increase in CBI's share in the losses of investees (NIS 13 million). The results of the investees were affected by an increase in expenses in connection with the advanced clinical trials carried out by Andromeda based on the technology acquired in the second quarter from Develogen, from an increase in the losses of D-Pharm mainly due to recording expenses in respect of a reward plan from January 2007 and an increase in financial expenses in certain companies due to the erosion in the exchange rate of the U.S. dollar. This effect was partly offset by a gain of NIS 31 million from the sale of Mediwound's shares. In the corresponding period of the previous year, CBI included a reversal of a write down of NIS 22 million in respect of its investment in Compugen.

CBI completed the third quarter with income of NIS 11 million, compared to a loss of NIS 16 million in the corresponding quarter of the previous year. The transition from loss to income in the quarter mostly stemmed from a gain from the sale of Mediwound's shares totaling NIS 31 million, an effect which was offset in part by an increase in expenses in connection with the advanced clinical trials carried out by most of the portfolio companies and from an increase in financial expenses. In the corresponding quarter of 2006, the results included a provision for impairment of companies totaling NIS 9 million against a write down of NIS 2 million in the current quarter.

Generally speaking, the results of most of the Group companies were affected by maintaining the demand levels in the local market. The Group companies operating in the hi-tech sector were generally affected by the continued growth in the amount of acquisitions of capital equipment overseas, which contributed to the growth in the volumes of sales in this segment. Maintaining the level of activities at relatively high volumes, along with the positive impact of the streamlining measures being implemented by most of the Group companies despite the increase in energy prices compared to previous periods and the increase in financial expenses, have resulted in improved operating results and net income in the reported period and quarter for all of the principal companies.

3. PRINCIPAL CHANGES IN INVESTMENTS AND IN INVESTEES

3.1 The textile segment:

Golf & Co. Ltd. ("Golf")

In April 2007, Golf & Co. Ltd. ("Golf") completed a private placement to institutional investors of 969,857 Golf shares representing about 3% of its issued share capital in consideration of NIS 19.7 per share for total (gross) proceeds of approximately NIS 19 million. As a result of this issuance and in view of the exercise of options in the second quarter of 2007, in the second quarter of 2007, the Company recorded a gain of approximately NIS 18 million (of which approximately NIS 11 million in respect of the issuance) and its stake in Golf decreased to about 75%.

3.2 The High technology and electronics segment:

- ECI Telecom Ltd. ("ECI")

In July 2007, ECI, an affiliate held by the Company at a rate of about 13%, signed a merger agreement whereby ECI will be sold in full to a consortium of foreign

investors ("the buyers") in a transaction totaling approximately \$ 1.2 billion ("the merger transaction").

On September 28, 2007, the merger transaction was consummated. Upon the date of consummation, the buyers paid \$ 10 per share in cash to all of ECI's shareholders. Consequently, ECI's shares were de-listed from the NASDAQ and ECI became a private company. In respect of the Company's stake in ECI shares, it received approximately NIS 610 million. Following the consummation of the transaction, the Company included in its financial statements for the third quarter of 2007 a gain totaling approximately NIS 225 million.

- Prospectus for an initial public offering ("IPO") of the shares of Veraz Networks Inc. ("Veraz")

In April 2007, Veraz, which had been 40% held by ECI, completed its IPO on the NASDAQ in the context of which it offered the public 9 million shares of Veraz at a price of \$ 8 per share (before underwriting commissions), including the issuance of 6.75 million shares and the sale of 2.25 million shares of Veraz by ECI.

Following the above IPO, ECI holds 27.6% of Veraz (23% on a fully diluted basis).

The Company included its share in ECI's gain from the above IPO in a total of NIS 23 million, of which a total of NIS 16 million in the second quarter of 2007 and a total of NIS 7 million in the first quarter of 2007.

- The sale of start-up companies to Newbury

On September 20, 2007, an agreement was signed between the Company and Newbury Partners LLC ("the buyer") whereby the Company and Clal Venture Capital, Limited Partnership, a partnership controlled by the Company and held by it at a rate of 67% and at a rate of 33% by IDB ("CVC"), will sell their holdings in several start-up companies ("the sold companies") managed for the Company and CVC by the management company, IMS, in consideration of approximately \$ 20 million. The sale of certain companies is subject, among other things, to refusal rights granted to other shareholders holding a stake in some of the sold companies.

Shortly thereafter, a transaction was consummated in respect of one of the sold companies. Consequently, in the third quarter of 2007, the Company included a net gain of NIS 8 million (considering the provision for adjustment of value of companies whose sale has not yet been completed).

Until the date of the approval of the financial statements, as a result of the sale of additional companies, in the fourth quarter of 2007, the Company will record a gain of NIS 6 million. The remaining gain of NIS 5 million will be recorded in the Company's books upon consummation of their sale. Most of the sold companies are held by the Company and a few are held by CVC.

Although all the companies will be sold, there is no certainty that the sale of all of the sold companies to the buyer will be completed and it is possible that some of these companies will be sold to third parties if the above refusal rights are exercised.

- Nova Measuring Instruments Ltd. ("Nova")

In March 2007, the Company invested in Nova \$ 3 million under a private placement held by Nova. Subsequent to the investment, the Company's interest in Nova is about 21%.

- Infinity Israel-China Fund ("the fund")

In May 2007, the transaction for investing in the investment fund, Infinity Israel-China Fund ("Infinity Israel-China") was completed according to which the Company committed to invest \$ 20 million (of which \$ 2 million had already been invested). The scope of commitment for initial investment in Infinity Israel-China is approximately \$ 165 million. Infinity Israel-China's management estimates that the final total scope of investments in the fund is expected to reach approximately \$ 250 million.

After consummation of the transaction, the Company holds 25% of the general partner managing the fund. The Company is also entitled to nominate one of three directors as the chairman of the board of the general partner. The fund will focus mainly on investments in companies located in Israel and in China that are semiconductor, medical supplier, internet, software and communication companies.

- Xintec Inc.

In June 2007, several venture capital funds held by the Company sold their holdings in the Korean Xintec Inc. in consideration of approximately \$ 12 million. The Company's share in the resulting gain amounted to NIS 8 million.

- Fundtech Ltd.

During the third quarter of 2007, in the course of trade on the NASDAQ, the Company acquired shares of Fundtech in consideration of NIS 17 million. Consequently, the Company's stake in Fundtech increased to about 35.2%, creating an excess of cost of NIS 12 million whose attribution is currently being examined by the Company.

Subsequent to balance sheet date, the Company acquired additional shares of Fundtech in consideration of approximately \$ 8 million. Following said acquisition, the Company's stake in Fundtech increased to about 39.2%.

3.3 The biotechnology segment:

- The IPO prospectus of Clal Biotechnology Industries Ltd. ("CBI")

On May 30, 2007, according to a prospectus published on May 21, 2007, CBI executed its IPO. The (gross) immediate proceeds from the securities issued according to the prospectus approximate NIS 200 million. The total immediate proceeds received by the Company after issuance expenses amounted to approximately NIS 187 million. As a result of the issuance, the Company recorded a deferred gain of approximately NIS 89 million and its stake in CBI decreased to about 67% (56% on a fully diluted basis). For more information, see Note 3a to Company's financial statements as of September 30, 2007.

- The investment of Teva Pharmaceutical Industries Ltd. ("Teva") in CBI

In September 2005, the Company, Teva and CBI signed an agreement ("the original Teva agreement") regarding Teva's investment in CBI. On May 16, 2007, the parties signed an amendment to the original Teva agreement to become effective subject to completing CBI's public offering, if executed. The original Teva agreement and its amendment ("the amendment to the Teva agreement") arrange the relations between the Company and Teva as shareholders in CBI as well as the relations between CBI and Teva, including commercial cooperation and granting of various services by Teva to CBI.

According to the original Teva agreement, Teva will invest in CBI a total of approximately \$ 19 million ("the investment amount") and in return, the Company will allocate to Teva 19% of CBI's share capital (on a fully diluted basis). Upon the

closing, in October 2005, Teva transferred approximately \$ 8.5 million of the investment amount to CBI.

On May 15, 2007, Teva transferred an amount of \$ 5 million on account of the investment amount according to the original Teva agreement. Consequently, the Company derived a deferred gain of approximately NIS 16 million. As for the treatment of the deferred gain, see below.

After said transfer, the amount of investment that has not yet been paid for Teva's shares in CBI will be \$ 5.68 million. The remaining investment amount will be transferred to CBI upon the earlier of: based on CBI's financial needs, on the date Teva sells its interest in CBI or at the end of three years from closing, namely in October 2008.

According to the original Teva agreement, Teva and the Company have undertaken to invest an additional \$ 31 million in CBI pro rata to their holdings in CBI (namely, on every call, the Company will invest about 81% and Teva will invest about 19%) so that Teva will invest an additional \$ 6 million and the Company an additional \$ 25 million. According to the amendment to the Teva agreement, this commitment was cancelled when the amendment became effective.

As of the second quarter of 2007 and until the end of 2007, the Company's income statements will reflect a deferred gain in respect of the public offering and Teva's investment as above totaling approximately NIS 26 million or at the Company's share in CBI's losses for the period, whichever is higher. In the reported period, an amount of approximately NIS 17 million was recorded in the Company's income statement.

With the adoption of International Financial Reporting Standards ("IFRS") in 2008, the entire deferred gain in respect of the issuance and Teva's investment (approximately NIS 105 million) will be carried to the income statement for 2007 upon the completion of the transaction and the comparative data of 2007 in this context will be restated.

- Andromeda Biotech Ltd. ("Andromeda")

In June 2007, CBI, through Andromeda, a wholly owned subsidiary, entered into an agreement with Develogen Israel Ltd. and Develogen AG (together "Develogen"). The agreement was signed in furtherance to a memorandum of understandings signed in April 2007 according to which Andromeda acquired Develogen's technological activity designed to develop a product for treating type 1 diabetes, including tangible assets, intellectual property and usage rights (together "the technology" and "type 1

diabetes", respectively). Based on the technology, advanced clinical trials are currently being conducted on humans (phase III). There is no guarantee that the trials will be successful and therefore it is possible that the technology-based product will not be commercially distributed.

As for the terms of the agreement, see Note 3a to Company's financial statements as of September 30, 2007.

- BioCancell Therapeutics, Inc. ("BioCancell")

In the reported period, CBI acquired 2,863,165 Ordinary shares of BioCancell in an off-the-market transaction representing 23.3% of BioCancell's issued share capital in consideration of approximately NIS 12 million. BioCancell develops drugs for treatment of cancer. BioCancell's shares have been listed for trade on the Tel Aviv Stock Exchange as of August 2006.

On September 24, 2007, BioCancell reported receiving a final report of the clinical test results (Phase I/IIa) which it had conducted in a drug for treating superficial bladder cancer. According to BioCancell's report, the clinical test results show success in achieving the experiment's targets which consisted of evaluating the drug's safety and determining the optimal dosage of treatment. An initial effectiveness test of the drug for treating superficial bladder cancer was also conducted.

It should be noted that the drug's development phase has yet to be completed and there is no certainty that it will be commercially marketed.

BioCancell is examining the possibility of raising capital in order to finance its operations. The capital raising will probably be effected by an issuance on the Tel-Aviv Stock Exchange. Among other things, the possibility of raising capital by way of issuing rights to existing shareholders is also being examined.

- Mediwound Ltd. ("Mediwound")

In June 2007, Mediwound, a company held by CBI at a rate of 74% (about 65% on a fully diluted basis) signed an agreement arranging Teva's investment in Mediwound. The transaction was completed in August 2007.

As for the terms of the agreement and their possible effect on the Company's financial statements, see Note 3a to Company's interim financial statements as of September 30, 2007.

- D-Pharm Ltd. ("D-Pharm")

On June 21, 2007, D-Pharm, which is indirectly held by CBI at a rate of 33.8% (31.7% on a fully diluted basis), announced that it had received the final report of the results of advanced clinical trials on humans (Phase IIb), which it had conducted on a drug to treat strokes (DP-b99). The analysis of the results of the final report of the clinical testing shows that administering the drug to patients who had suffered a stroke yielded positive statistical results that are considerably higher in relation to the control groups. D-Pharm also announced that it is considering several strategic alternatives regarding the continued development of DP-b99. In November 2007, D-Pharm filed a request for a Pre-Investigational New Drug Meeting with the FDA prior to conducting a clinical trial (Phase III) in the DP-b99 drug for treating ischemic stroke ("the drug"). The purpose of the meeting is to present the clinical test results achieved by D-Pharm to date and reaching understandings with the FDA for the continued clinical trials. It should be noted that the drug's development phase is still in process and there is no certainty that the drug will attain marketing on a commercial basis.

3.4 The communication services segment:

- In September 2006, the Company, Clalcom, Sky Fund, Barak and Netvision signed an agreement for the merger of Barak with Netvision, whereby Netvision will acquire from Barak's shareholders, including from the Company and from Clalcom, Barak's entire issued share capital in consideration of the allocation of Netvision shares to Barak's shareholders, representing about 47% of Netvision's issued share capital as it will be immediately following the merger ("Barak's merger"). This rate was determined based on valuations of a joint independent appraiser according to which Netvision is valued at between NIS 533 million and NIS 621 million and Barak is valued at between NIS 465 million and NIS 529 million.

Further, Netvision and Discount Investments signed an agreement, whereby Netvision will acquire from Discount Investments the entire issued share capital of Globecall Communications Ltd. ("Globecall") in consideration of the issuance of Netvision shares to Discount Investments ("Globecall's merger"). According to the agreement in respect of Globecall's merger, Netvision shares representing about 7% of Netvision's issued share capital as it will be immediately following Barak's and Globecall's mergers are effected will be allocated to Discount Investments. This rate was determined based on Barak's and Netvision's valuations, as mentioned above, and on a valuation of a joint independent appraiser according to which Globecall is valued at between NIS 70 million and NIS 90 million. Globecall's merger is expected to be

effected immediately after the purchase of Barak's entire share capital and as part of a single inclusive move.

In January 2007, the merger transactions of Barak and Globecall were effected after all suspending conditions had been met and the requisite approvals prescribed by law had been obtained. Subsequent to the merger, the Company's holding rate in Netvision is about 29% (25% on a fully diluted basis), of which 9% through Clalcom.

In accordance with the decision of the Securities Authority regarding business combination of companies under common control as of January 1, 2007, the Company did not recognize a gain from the transaction. The negative difference between the investment amount in Barak prior to the merger and the investment amount in Netvision soon thereafter amounted to NIS 44 million and was carried to shareholders' equity as a reduction in the capital reserve from transactions with controlling shareholders in the amount of NIS 19 million and the balance of NIS 25 million against a reduction in retained earnings.

- On June 26, 2007, Netvision completed a transaction with Israel 10 - New Channel Broadcasting Ltd. ("Channel 10") for creating a businesses combination of companies under the common control of Netvision (50%) and of Channel 10 (50%) ("the agreement"). The agreement will be implemented in the framework of a new company under the control of Netvision and Channel 10, as aforesaid ("Nana 10") and in the scope thereof the activities of the internet websites "Nana" and "Nana shops" are regulated as well as exclusive rights to receive from Channel 10 television content (news and actuality program, local productions and foreign productions) for use on the internet. Channel 10 has a broadcasting franchise according to the Second Authority for Television and Radio Law, 1990, terminating on January 27, 2020 that may be extended for two additional two-year periods until January 27, 2014.

According to the terms of the agreement, Netvision transferred to Nana 10 all of Netvision's activities on Netvision's internet websites "Nana" and "Nana shops" against the allocation of Nana 10 shares to Netvision.

On the date of closing of the agreement, shares of Nana 10 will be allocated to Channel 10, in consideration for all the following: (1) a sum of \$ 3 million (of which \$ 2 million will be paid at the date of closing and a further \$ 1 million will be paid in accordance with the cash flows needs of Nana 10 and under all circumstances by not later than December 31, 2009); (2) a package of sales promotion services for Nana 10 on Channel 10; (3) exclusive rights of use on the internet of Channel 10's television content, in accordance with the provisions of the agreement.

Generally, the sales promotion services and the rights of use on the internet will be given without limitation of time, subject to the condition that commencing from the seventh year after the date of closing of the transaction; Channel 10 will be entitled to terminate it in the event that it ceases to hold at least 25% in Nana 10.

Concurrently with the allocation of Nana 10 shares, as aforesaid, Netvision sold shares of Nana 10 to Channel 10 in consideration for receiving advertising time on Channel 10 for a period six years from the date of closing, for an overall value of \$ 2.065 million, which will be made available for the exclusive use of Netvision and its subsidiaries in addition to the advertising time on Channel 10 in accordance with Netvision's advertising budgets. Immediately after the allocation and the sale of Nana 10 shares to Channel 10, as aforesaid, Netvision and Channel 10 each holds 50% in Nana 10.

As a result of closing the transaction with Channel 10, Netvision recorded a gain of approximately NIS 22 million in the second quarter of 2007. In the second quarter of 2007, the Company recorded its share in the above gain in a total of approximately NIS 5 million.

In June 2007, Netvision completed a private placement of 1,220,000 Ordinary shares of NIS 1 par value each ("the allocated shares") representing about 4.52% of its issued share capital and voting rights after the allocation (3.99% on a fully diluted basis) in consideration of NIS 42.86 per share and a total of NIS 52 million. As a result of the issuance, the Company derived a gain of NIS 7 million included in the results of the second quarter of 2007 and its stake in Netvision decreased to about 27% (about 24% on a fully diluted basis).

3.5 The real estate segment:

K.B.A. Townbuilders Group Ltd. ("K.B.A.")

On May 29, 2007, K.B.A., which is 53% held by the Company, signed an agreement with Hiron Trade Investments and Industrial Buildings Ltd. for the sale of land with an area of some 23.3 thousand sq. m. held for industrial purposes in consideration of NIS 19.5 million.

As a result of the sale, K.B.A. recorded a gain of approximately NIS 12 million in its books in the second quarter of 2007. The Company's share in said gain amounted to approximately NIS 6 million and was recorded in its books in the second quarter of 2007.

3.6 The other segment:

- Cargal Ltd. ("Cargal")

On July 2, 2007, Cargal, which is 27% held by the Company, completed a transaction according to which Isralom Properties Ltd. ("Isralom") will acquire from it the leasehold rights to land located in Lod's northern industrial zone ("the land") in consideration of approximately NIS 130 million.

Simultaneously with the sale of the leasehold rights to Isralom, Isralom will lease the land to Cargal for an overall period of 25 years for annual lease fees of NIS 10 million, linked to the Israeli CPI.

As a result of the sale, in the third quarter of 2007, Cargal recorded a gain of approximately NIS 75 million. The Company's share in said gain is NIS 20 million, included in its books in the third quarter of 2007.

- Gold Bond Group Ltd. ("Gold Bond")

In July 2007, an agreement was signed between the Company and some of the controlling shareholders in the Gold Bond Group whereby the Company will sell its entire holdings in Gold Bond representing about 17.8% of the issued share capital of Gold Bond in consideration of a cash payment of approximately NIS 21 million, reflecting a price per share of NIS 29 ("the transaction").

In September 2007, the transaction was completed and the Company recorded a net gain of NIS 5 million in the third quarter of 2007.

4. FINANCIAL POSITION AND SOURCES OF FINANCING

Total assets in the consolidated balance sheet as of September 30, 2007 amounted to NIS 7,159 million, compared to NIS 6,412 million as of December 31, 2006.

Consolidated working capital amounted to NIS 2,392 million. As of September 30, 2007, short-term liquid assets amounted to NIS 2,255 million, and are included in cash and cash equivalents and in short-term investments. The quick ratio of the consolidated Group companies is 2.61 (December 31, 2006 – 1.06). The principal sources of cash were from the issuance of debentures in the amount of NIS 631 million, net, the sale of investments in the amount of NIS 669 million, the issuance of capital to minority in subsidiaries in the amount of NIS 319 million and cash flows from operating activities of NIS 197 million. Cash was utilized principally for investments in marketable securities in the amount of NIS 204 million, repayment of long-term loans in the amount of NIS 28 million and purchase of fixed and other assets in a total of NIS 155 million.

Shareholders' equity as of September 30, 2007 amounted to NIS 1,895 million, compared to NIS 1,696 million as of December 31, 2006. The increase in equity totaling NIS 199 million resulted mainly from the current income of NIS 419 million, the revaluation of investment property and fixed assets in the amount of NIS 65 million offset by the effect of a business combination transaction of entities under common control totaling NIS 44 million and less a dividend paid totaling NIS 240 million.

Minority interest as of September 30, 2007 amounted to NIS 535 million (December 31, 2006 – NIS 350 million). Shareholders' equity and minority interest, together, constituted sources for financing 34% of the Group's assets (December 31, 2006 – 32%).

As of September 30, 2007, the Group's long-term external financing sources amounted to NIS 3,369 million (December 31, 2006 – NIS 2,470 million), 39% of which are repayable in the coming year. As of September 30, 2007, the Group's short-term financing sources amounted to NIS 111 million (December 31, 2006 – NIS 247 million).

As of September 30, 2007, the balance of liabilities, net, of the Company and its wholly owned headquarter companies (mainly debentures) amounted to NIS 750 million (December 31, 2006 – NIS 1,207 million).

5. DIVIDENDS

On August 19, 2007, the Company declared the distribution of a dividend of NIS 240 million representing NIS 1.5241 per Ordinary share of the Company. The record date is August 27, 2007 and the ex date is August 28, 2007. The dividend was distributed on September 10, 2007.

On the date of the approval of the financial statements, the Company's board of directors decided to distribute a cash dividend of approximately NIS 250 million representing NIS 1.5876 per NIS 1 par value. The dividend will be paid on December 18, 2007. The record date is December 2, 2007 and the ex date is December 3, 2007.

6. QUALITATIVE REPORT REGARDING EXPOSURE TO AND MANAGEMENT OF MARKET RISKS

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 subsidiaries, see 6.7 below.

6.1 Consolidated linkage basis report

The following qualitative report refers to the Company and its wholly-owned headquarter companies ("the Corporation"). As for principal subsidiaries, see 6.7 below.

6.2 The officer responsible for managing the financial risks of the Corporation is Mr. Gonen Biber, CFO ("the responsible officer").

6.3 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, rate of inflation and currency exchange rates, all of which affect, both directly and indirectly, its operating results and the value of its assets and liabilities.

6.4 The Corporation's policies with respect to the management of market risks:

The Corporation owns a large number of marketable securities of investees. In general, the Company does not hedge its investments in marketable securities, in view of, among others, the extent size amount of the Company's investments in marketable securities, the diversity of investments both in and outside of Israel, the diversity of investments in different

business segments, the diversity of investments in various securities, as well as the legal restrictions on the purchase of certain 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 average maturities of its financial assets with those of its liabilities.

The Corporation has excess of index-linked liabilities arising from the nature of its activities – investment in real assets. Accordingly, the Corporation acts to reduce its exposure in 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 dollar-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.

6.5 Methods of supervision and implementation of policies:

In accordance with the resolution of the Corporation's Board 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 index related risks - the Corporation, subject to the market's supply of hedging transactions, the terms of these transactions and the forward looking index projections, aspires to reduce exposure in respect of index risks.

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

The responsible officer is authorized and enters into hedging transactions that are necessary in order to implement the Corporation's policy. The responsible officer reports 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 as necessary, and in any event at least once a year.

6.6 Report of linkage bases as of September 30, 2007 - consolidated (NIS in millions):

	Linked to the Israeli CPI	Linked to U.S. dollar	Linked to other foreign currencies	Unlinked	Non- monetary balances	Total
Current assets	307	1,039	52	1,342	743	3,483
Non-current assets	73	11	8	19	3,565	3,676
Current liabilities	(204)	(70)	(95)	(707)	(15)	(1,091)
Non-current liabilities	(2,952)	-	(14)	(69)	(1,138)	(4,173)
Total balance sheet, net	(2,776)	980	(49)	585	3,155	1,895

6.7 Subsidiaries:

Nesher, Golf, Taavura and Kitan 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. Nesher, Kitan and Taavura adjust their sources of revenues and expenses to same currency. Kitan sometimes enters into hedging transactions in foreign currency derivatives designated to reduce exposure. Nesher utilizes forward contracts for periods of up to one year in various commodities and energy products in order to hedge unexpected increases in prices on the global market. Nesher and Taavura both enter into hedging transactions in order to reduce their exposure to index risks.

7. FINANCIAL INSTRUMENTS

7.1 Sensitivity tests regarding changes in market factors:

Market risks were defined in accordance with International Financial Reporting Standards. Pursuant to the Securities Regulations, market risks that represent the potential loss or gain resulting from the changes in the fair value of financial instruments consist of the following risk types:

1. Currency risk - resulting from changes in the exchange rates of foreign currencies.
2. Fair value risk in respect of interest rate - resulting from changes in market interest rates.
3. Price risk - resulting from changes in market prices, whether as a result of specific factors relating to a single instrument or the result of factors that affect every marketable instrument.
4. Cash flow risk in respect of interest rate - resulting from fluctuations in the amount of future cash flows of a financial instrument arising from changes in market interest rates.

As of the balance sheet date, the Company has performed five sensitivity tests regarding changes at upper and bottom ranges of 5%, 10% and 25% in market factors. The market tests were performed in accordance with the prescribed model.

7.1.1 The changes in the fair value of the financial instruments which are sensitive to changes in the exchange rate of the U.S. dollar (test A) (NIS in millions):

The sensitive instrument	10%	5%	Fair value	-5%	-10%
	Gain (loss) from changes	Gain (loss) from changes	NIS/U.S. \$	Gain (loss) from changes	Gain (loss) from changes
Cash	101	51	1,013	(51)	(101)
Trade receivables	2.5	1.2	24	(1.2)	(2.5)
Long-term deposits, loans and receivables	0.9	0.5	9	(0.5)	(0.9)
Credit from banks	(0.1)	(0.07)	(1.4)	0.07	0.1
Trade and other payables	(7)	(3)	(69)	3	7
Total balance sheet	97.3	49.63	975.6	(49.63)	(97.3)
NIS/U.S. \$ forward transactions	0.7	0.3	(2)	(0.3)	(0.7)
U.S. \$ options for hedging	2	1	(1)	(1)	(2)
Total	100	50.93	972.6	50.93	(100)

7.1.2 The changes in the fair value of the financial instruments which are sensitive to changes in the exchange rate of the Euro (test B) (NIS in millions):

<u>The sensitive instrument</u>	<u>10% 5%</u>		<u>Fair value</u> <u>NIS 5.564/€</u>	<u>-5% -10%</u>	
	<u>Gain (loss) from changes</u>			<u>Gain (loss) from changes</u>	
Cash	2.5	1.2	24	(1.2)	(2.5)
Short-term deposits and loans	0.1	0.05	1	(0.05)	(0.1)
Trade and other receivables	1.2	0.6	12	(0.6)	(1.2)
Long-term deposits, loans and receivables	0.7	0.3	7	(0.3)	(0.7)
Credit from banks	(0.2)	(0.1)	(2)	0.1	0.2
Trade and other payables	(7)	(3)	(67)	3	7
Long-term loans	(1.4)	(0.7)	(14)	0.7	1.4
Total	(4.1)	(1.65)	(51)	1.65	4.1

7.1.3 The changes in the fair value of financial instruments which are sensitive to changes in the interest rate (test C) (NIS in millions):

<u>The sensitive instrument</u>	<u>Increase in interest rate</u>		<u>Fair value</u>	<u>Decrease in interest rate</u>	
	<u>10%</u>	<u>5%</u>		<u>5%</u>	<u>10%</u>
	<u>Gain (loss) from changes</u>			<u>Gain (loss) from changes</u>	
Long-term deposits, loans and receivables	(5)	(3)	57	3	5
Debentures	84	46	(3,013)	(34)	(75)
Long-term loans	2	1.2	(203)	(1.2)	(2)
Other long-term liabilities	0.1	0.05	(1)	(0.05)	(0.1)
Total	81.1	44.25	(3,160)	(32.25)	(72.1)

7.1.4 The changes in the fair value of the financial instruments which are sensitive to changes in quoted market prices (test D) (NIS in millions):

<u>The sensitive instrument</u>	<u>Increase in interest rate</u>			<u>Fair value</u>	<u>Decrease in interest rate</u>		
	<u>25%</u>	<u>10%</u>	<u>5%</u>		<u>5%</u>	<u>10%</u>	<u>25%</u>
	<u>Gain from changes</u>				<u>Loss from changes</u>		
Marketable securities	N/A	48	24	484	(24)	(48)	N/A
Investments in other companies:							
Marketable shares	10	3	1.5	30	(1.5)	(3)	(7)
Marketable shares	N/A	15	8	151	(8)	(15)	N/A
Total		66	33.5	665	(33.5)	(66)	

7.1.5 The changes in the fair value of the financial instruments which are sensitive to changes in the CPI (test E) (NIS in millions):

<u>The sensitive instrument</u>	<u>Increase</u>		<u>Fair value</u>	<u>Decrease</u>	
	<u>0.2%</u>	<u>0.1%</u>		<u>0.1%</u>	<u>0.2%</u>
	<u>Gain from changes</u>			<u>Loss from changes</u>	
Forward contracts to hedge against the increase in the CPI	3	1	14	(1)	(3)

Comments:

1. The fair value of marketable securities is measured at their quoted market prices as of September 30, 2007.
2. The fair value of debentures was calculated using the current value of future cash flows including capitalized 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 based on the effective interest in respect of the marketable debentures or a quotation received by the Company from a financial institution as of balance sheet date.
3. 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, capitalized at the interest that the Company would have received from a bank had it borrowed a similar amount with a similar maturity term.
4. The fair value of NIS/CPI forward contracts was presented at a quotation received by the Company from a financial institution.

8. UPDATE ON THE EFFECTS OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Discussions are currently being held in the matter of accounting for grants received for participation in research and development expenses. According to one of the alternatives being examined, the grants received in respect of participation in research and development expenses that are expected to be reimbursed will be presented as a liability in their capitalized amount.

The Company is still reviewing this issue, yet should the Company be required to change the relevant accounting treatment, the expected outcome of the change on the Company's consolidated balance sheet as of January 1, 2007 (the opening balance according to IFRS) is a reduction in the investment in affiliates and will require increasing the long-term liabilities against reducing the retained earnings by approximately NIS 50 million.

Of said amount, a total of approximately NIS 37 million relates to an investment in ECI, which was sold in the third quarter of 2007.

9. SHARE CAPITAL

During the reported period, an additional 52,718 shares were issued following the exercise of 92,575 options. As of the date of the approval of the financial statements, the Company's share capital amounts to 157,469,762 Ordinary shares.

10. ADDITIONAL INFORMATION

a. Debentures:

- In January 2007, the Company issued to institutional and private investors through a private placement approximately NIS 500 million debentures (series N) (of which NIS 23 million to interested parties). The debentures (principal and interest) are linked to the Israeli CPI, redeemable in five equal annual payments as from January 2018 and bear annual interest of 4.9% per annum on the unpaid balance. The Company informed the investors that it intends (without any commitment on its part to do so), to list the debentures (series N) through the prospectus for trade on the Tel Aviv Stock Exchange in the future. For the period during which the debentures (series N) will not be listed for trade on the Stock Exchange, the Company will pay an additional 0.5% to the basic annual interest rate payable on the unpaid balance of debentures (series N) so that the annual interest rate will be placed at 5.4%. The interest is payable in January of each of the years starting 2008. Maalot - The Israel Securities Rating Company Ltd. ranked the debentures as AA. See also b below.
- In March 2007, a subsidiary finalized a tender for the issuance to institutional and private investors through a private placement of approximately NIS 362 million debentures (of which NIS 56 million to interested parties). The debentures are linked to the Israeli CPI, bear interest of 4.95% per annum and are redeemable in six equal annual payments from 2015 to 2020. Maalot - The Israel Securities Rating Company Ltd. ranked the subsidiary's liability for the purpose of raising these debentures as AA. Out of the total proceeds from the issuance of debentures, NIS 156 million was used to replace existing debentures.

b. Fixed assets:

The Company received a valuation from an outside independent appraiser who estimated the subsidiary's real estate properties at NIS 664 million. The cost of real estate in the

Company's books (including excess of cost attributed to the real estate) totals NIS 367 million and, accordingly, an impairment of said real estate is not necessary. The valuation is attached to the financial statements as of March 31, 2007.

c. Alternative energy sources:

As of the date of this report, the Company is looking into the possibility of entering into an investment in the field of alternative energy and in this respect investing in wind energy. In this context, the Company began collaborating with Merhav Manaf Ltd. ("Merhav") in carrying out wind energy testing in Greece and in other countries. The Company and Merhav entered into agreements in principle with two Greek engineering companies for studying the potential of several sites in Greece. The Company and Merhav are in advanced stages of negotiations with one of these companies for signing a binding contract for investing in wind energy projects. Simultaneously, on November 20, 2007, the Company's board of directors approved a cooperation agreement between the Company and Merhav arranging their collaboration in wind energy activities around the world. There is no certainty that the Company will invest in alternative energy sources and/or in wind energy in particular, including in the reviewed projects in Greece and it is possible that the Company will decide not to enter this type of investment.

11. PUBLICATION OF A SHELF PROSPECTUS

On May 15, 2007, the Company published a prospectus on the basis of its financial statements as of December 31, 2006 that offers, as part of a shelf prospectus, shares, convertible debentures, non-convertible debentures and stock options exercisable into shares and debentures and that registers for trading debentures (series N) issued to institutional and other investors through a private placement, as stated in section 10 above. This prospectus is also used to release from capping debentures (series L) and debentures (series M) relating to private placements effected in 2006.

12. PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

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. The balance sheet committee consists of four directors of whom two external directors. Three of the committee's members must be financially competent. The Company's auditors, who are required to present their principal findings, if any, arising from the audit or review of the financial statements, and the Company's internal auditor must attend the meetings of the balance sheet committee and of the board of directors where the financial statements are discussed and approved.

Following detailed presentations by officers and others in the Company, including the Company's comptroller, Mr. Yehuda Ben Ezra and the CFO, Mr. Gonen Biber, the balance sheet committee examines the material financial reporting issues, including transactions not in the ordinary course of business, if any, the material evaluations and critical estimates implemented in the financial statements, the probability of data, the accounting policies adopted and changes therein and the adoption of the proper disclosure principle in the financial statements and accompanying information. The balance sheet committee reviews various aspects of risk management and control, both those reflected in the financial statements (such as financial risk reporting) and those that affect the reliability of the financial statements. If necessary, the balance sheet committee demands comprehensive reviews regarding matters of particular significance.

The approval of the financial statements involves several meetings as required: one that takes place several days prior to the date of the approval of the financial statements for a comprehensive deliberation of the material reporting issues in the balance sheet committee and the other on the date of approval on the board for discussing the results themselves.

13. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- Saifun Semiconductors Ltd. ("Saifun")

On October 8, 2007, Saifun, a company held by the Company at a rate of about 9%, reported signing a merger agreement according to which Saifun will be sold in full to Spanson Inc., a publicly-traded American company ("the buyer"), in a transaction of approximately \$ 370 million. The consideration will be paid part in cash and part in shares of the buyer ("the merger transaction"). Saifun's board of directors approved the merger transaction and decided to recommend to Saifun's shareholders to approve it.

As Saifun reported, according to the terms of the merger transaction, upon completing the merger transaction, each of Saifun's shareholders will receive in return for each Saifun share held by them the following two consideration components: a total of \$ 5.05 in cash and 0.7429 shares of the buyer. Based on the price of the buyer's share as of October 5, 2007, the overall consideration reflects a total of approximately \$ 11.26 for each Saifun share.

In the event that the merger transaction is consummated, the Company is expected to receive for its holdings in Saifun's shares approximately \$ 14.3 million in cash and 2,105,274 shares of the buyer, which as of October 5, 2007 are valued at \$ 17.6 million, bringing the overall consideration, based on the price of the buyer's share as of October 5, 2007, to approximately \$ 31.9 million.

In the third quarter of 2007, the Company recorded in its books a provision for impairment in its investment in Saifun totaling approximately NIS 51 million based on Saifun's value derived from the merger transaction at closing. The final transaction results will be determined based on the changes in the price of the buyer's share and according to the changes in the exchange rate of the U.S. dollar against the NIS as they will be on the date of completing the merger.

As of the date of these financial statements, as a result of the decrease in the buyer's share price, there is a negative gap (totaling approximately NIS 31 million) between the consideration that the Company is supposed to receive for its holdings in Saifun under the merger transaction (approximately NIS 97 million) and the balance of its investment in Saifun as it is recorded in the Company's books (approximately NIS 128 million).

The completion of the merger transaction is subject to the approval of the general meeting of Saifun's shareholders scheduled for December 20, 2007, the approval of the court and certain regulatory approvals as well as to other standard contingencies. It should be noted that there is no certainty that the merger transaction will be consummated.

- American Israeli Paper Mills Ltd. ("AIPM")

On November 19, 2007, AIPM, an affiliate held at a rate of 37.82%, completed a private placement to controlling shareholders (the Company and Discount Investments Ltd., "Discount Investments") and to institutional investors of 1,012,585 shares of AIPM representing about 20% of its issued share capital in consideration of approximately NIS 210 per share ("the share price") and an overall (gross) sum of approximately NIS 213 million ("the placement").

According to the terms of the placement as published by AIPM, the share price offered to Discount Investments and the Company is 0.5% higher than the share price determined in the bid, NIS 211.05. Accordingly, the overall sum that the Company undertook to pay for the acquisition of AIPM's shares under the placement approximates NIS 82 million. Following the placement, Discount Investments and the Company currently hold 21.43% and 37.93% in AIPM, respectively. The placement is subject to obtaining various approvals, including the approval of AIPM's general meeting scheduled for November 25, 2007.

14. DONATIONS

On March 26, 2007, the Company's board of directors resolved to increase the Company's donations budget bringing the total donations budget for 2007 to NIS 5 million representing 1.9% of the Company's annual income for 2006. The board also decided that the Company's donations through the IDB Foundation for the Community will not exceed NIS 1,767 thousand, representing 2/3% of the Company's annual income for 2006.

We wish to thank the Group's management and employees for their contribution to the advancement and development of the Group.

Nochi Dankner

Chairman of the Board
of Directors

Avi Fisher

Director and Co-CEO

Zvika Livnat

Co-CEO

CLAL INDUSTRIES AND INVESTMENTS LTD.

JUNE 30, 2007

- **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE PERIOD
JANUARY - JUNE 2007**
- **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The English version of the 2nd quarter of 2007 is a translation of part of the Hebrew version, and is made for convenience purposes only. Please note that the Hebrew version constitutes the binding version.

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

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ATTACHMENT - FINANCIAL STATEMENTS OF AFFILIATED COMPANY

Condensed Interim Consolidated Financial Statements of ECI Telecom Ltd.

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u> <u>2007</u>	<u>2006</u>	<u>December 31,</u> <u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,282	695	597
Short-term investments	500	305	351
Trade receivables	512	643	631
Other receivables	92	128	103
Inventories	584	*) 537	600
	<u>2,970</u>	<u>2,308</u>	<u>2,282</u>
INVENTORY OF REAL ESTATE PROPERTIES	<u>51</u>	*) <u>57</u>	*) <u>55</u>
LONG-TERM DEPOSITS, LOANS AND RECEIVABLES	<u>102</u>	<u>89</u>	<u>85</u>
INVESTMENTS:			
Affiliates	1,249	1,312	983
Other companies	504	432	514
Investment property	224	*) 153	154
	<u>1,977</u>	<u>1,897</u>	<u>1,651</u>
FIXED ASSETS:			
Cost	7,028	*) 7,567	*) 7,611
Less - accumulated depreciation	5,128	*) 5,482	*) 5,544
	<u>1,900</u>	<u>2,085</u>	<u>2,067</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>85</u>	*) <u>366</u>	*) <u>272</u>
	<u><u>7,085</u></u>	<u><u>6,802</u></u>	<u><u>6,412</u></u>

*) Reclassified.

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u> <u>2007</u> <u>Unaudited</u> <u>Reported NIS in millions</u>	<u>2006</u>	<u>December 31,</u> <u>2006</u> <u>Audited</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks	168	271	319
Trade payables	355	542	514
Other payables	517	523	645
Dividend payable	-	108	-
Other current liabilities	87	162	104
	<u>1,127</u>	<u>1,606</u>	<u>1,582</u>
LONG-TERM LIABILITIES:			
Debentures	2,814	2,514	2,143
Convertible debentures of subsidiary	-	-	27
Loans	169	124	133
Deferred taxes	236	243	229
Accrued severance pay	171	172	185
Other liabilities	181	68	67
	<u>3,571</u>	<u>3,121</u>	<u>2,784</u>
MINORITY INTEREST	<u>498</u>	<u>331</u>	<u>350</u>
SHAREHOLDERS' EQUITY	<u>1,889</u>	<u>1,744</u>	<u>1,696</u>
	<u><u>7,085</u></u>	<u><u>6,802</u></u>	<u><u>6,412</u></u>

August 19, 2007				
Date of approval of the financial statements	Nochi Dankner Chairman of the Board	Zvika Livnat Co-CEO	Avi Fisher Director and Co-CEO	Yehuda Ben Ezra Comptroller

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in millions (except per share amounts)				
Revenues, net:					
Sales and services	1,701	1,764	824	920	3,672
Other income	39	22	37	-	59
Group's equity in earnings of affiliates	60	16	54	10	51
	<u>1,800</u>	<u>1,802</u>	<u>915</u>	<u>930</u>	<u>3,782</u>
Costs and expenses:					
Cost of sales and services	1,166	1,193	562	593	2,483
Selling and marketing expenses	181	194	85	97	400
General and administrative expenses	119	117	59	61	239
Other expenses, net	-	-	-	2	-
Financial expenses, net	46	81	19	41	160
	<u>1,512</u>	<u>1,585</u>	<u>725</u>	<u>794</u>	<u>3,282</u>
Income before taxes on income	288	217	190	136	500
Taxes on income	81	76	41	58	157
Income after taxes on income	207	141	149	78	343
Minority interest in earnings of subsidiaries, net	(40)	(33)	(23)	(23)	(101)
Income before cumulative effect of change in accounting principles	167	108	126	55	242
Cumulative effect as of the beginning of the period of change in accounting principles, net	-	23	-	-	23
Net income	<u>167</u>	<u>131</u>	<u>126</u>	<u>55</u>	<u>265</u>
Basic and diluted net earnings per share (in NIS):					
Earnings before cumulative effect as of the beginning of the period of change in accounting principles, net	1.06	0.69	0.80	0.35	1.56
Earnings from cumulative effect as of the beginning of the period of change in accounting principles, net	-	0.14	-	-	0.13
	<u>1.06</u>	<u>0.83</u>	<u>0.80</u>	<u>0.35</u>	<u>1.69</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital Reported	Capital reserves (*) NIS in millions	Retained earnings		Total
			Dividend declared subsequent to balance sheet date	Undistributed retained earnings	
Unaudited					
Balance as of January 1, 2007 (audited)	1,257	382	-	57	1,696
Issuance of share capital	**) -	-	-	-	**) -
Adjustment of value of investment property (see Note 2b(4))	-	-	-	55	55
Effect of measurement of fixed assets at fair value as deemed cost (see Note 2b(2))	-	-	-	10	10
Foreign currency translation adjustments of investees	-	5	-	-	5
Business combination transaction between entities under common control	-	(19)	-	(25)	(44)
Net income	-	-	-	167	167
Dividend declared subsequent to balance sheet date	-	-	240	(240)	-
Balance as of June 30, 2007	<u>1,257</u>	<u>368</u>	<u>240</u>	<u>24</u>	<u>1,889</u>
Balance as of January 1, 2006 (audited)	1,257	437	270	61	2,025
Issuance of share capital	**) -	-	-	-	**) -
Foreign currency translation adjustments of investees	-	(34)	-	-	(34)
Dividend	-	-	(270)	(108)	(378)
Net income	-	-	-	131	131
Dividend declared subsequent to balance sheet date	-	-	84	(84)	-
Balance as of June 30, 2006	<u>1,257</u>	<u>403</u>	<u>84</u>	<u>-</u>	<u>1,744</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Share capital</u>	<u>Capital reserves *)</u>	<u>Retained earnings</u> <u>Dividend declared subsequent to balance sheet date</u>	<u>Undistributed retained earnings</u>	<u>Total</u>
	<u>Reported NIS in millions</u>				
Unaudited					
Balance as of April 1, 2007	1,257	356	-	132	1,745
Foreign currency translation adjustments of investees	-	12	-	-	12
Adjustment for revaluation in affiliate	-	-	-	6	6
Net income	-	-	-	126	126
Dividend declared subsequent to balance sheet date	-	-	240	(240)	-
Balance as of June 30, 2007	<u>1,257</u>	<u>368</u>	<u>240</u>	<u>24</u>	<u>1,889</u>
Balance as of April 1, 2006	1,257	449	108	29	1,843
Issuance of share capital	**) -	-	-	-	**) -
Foreign currency translation adjustments of investees	-	(46)	-	-	(46)
Dividend	-	-	(108)	-	(108)
Net income	-	-	-	55	55
Dividend declared subsequent to balance sheet date	-	-	84	(84)	-
Balance as of June 30, 2006	<u>1,257</u>	<u>403</u>	<u>84</u>	<u>-</u>	<u>1,744</u>
Audited					
Balance as of January 1, 2006	1,257	437	270	61	2,025
Foreign currency translation adjustments of investees	-	(55)	-	-	(55)
Issuance of share capital	**) -	-	-	-	**) -
Dividend	-	-	(270)	(269)	(539)
Net income	-	-	-	265	265
Balance as of December 31, 2006	<u>1,257</u>	<u>382</u>	<u>-</u>	<u>57</u>	<u>1,696</u>

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*) Composition:

	<u>June 30,</u> <u>2007</u>	<u>2006</u>	<u>December 31,</u> <u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
Capital reserves:			
Share premium	574	574	574
Capitalized earnings	23	23	23
Expired stock options of investees	12	12	12
Capital reserve from transactions with controlling shareholder	-	19	19
	609	628	628
Foreign currency translation adjustments of investees	(241)	(225)	(246)
	<u>368</u>	<u>403</u>	<u>382</u>

**) Less than NIS 1 million.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited		Unaudited		Audited
	Reported NIS in millions				
<u>Cash flows from operating activities:</u>					
Net income	167	131	126	55	265
Adjustments to reconcile net income to net cash provided by operating activities (a)	(26)	(77)	23	(26)	169
Net cash provided by operating activities	141	54	149	29	434
<u>Cash flows from investing activities:</u>					
Purchase of fixed and other assets	(103)	(82)	(61)	(35)	(178)
Acquisition of newly consolidated subsidiaries (b)	-	-	-	-	(5)
Previously consolidated companies (c)	(4)	-	-	-	(30)
Acquisition of minority rights in subsidiary	-	-	-	-	(157)
Investments in affiliates and other companies	(36)	(46)	(12)	(12)	(6)
Decrease (increase) in marketable securities, net	(205)	6	(167)	4	28
Proceeds from disposal of fixed assets	15	16	8	12	407
Proceeds from disposal of investments	9	40	3	35	(24)
Decrease (increase) in short-term deposits, loans and investments, net	57	8	52	74	-
Short-term investments in IDB Group companies, net	-	4	-	(33)	-
Increase in long-term loans and deposits	(23)	-	(5)	-	-
Collection of other long-term loans and receivables to others, including long-term loans and debts to affiliates	-	2	-	-	21
Net cash provided by (used in) investing activities	(290)	(52)	(182)	45	56
<u>Cash flows from financing activities:</u>					
Receipt of loans and other long-term liabilities:					
From banks and others	79	25	35	8	53
From issuance of debentures	861	250	-	250	284
Repayment of loans and other long-term liabilities:					
From banks and others	(59)	(63)	(12)	(43)	(148)
Redemption of debentures	(216)	(66)	(51)	(51)	(477)
Short-term credit from banks, net	(41)	43	(39)	41	107
Decrease in other current liabilities, net	-	(1)	-	-	-
Issuance of shares to minority in a subsidiary	237	100	237	29	192
Dividend paid to minority in subsidiaries	(27)	(38)	-	(14)	(78)
Dividend paid	-	(270)	-	(270)	(539)
Net cash provided by (used in) financing activities	834	(20)	170	(50)	(606)
Increase (decrease) in cash and cash equivalents	685	(18)	137	24	(116)
Cash and cash equivalents at the beginning of the period	597	713	1,145	671	713
Cash and cash equivalents at the end of the period	1,282	695	1,282	695	597

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in millions				
(a) <u>Adjustments to reconcile net income to net cash provided by operating activities:</u>					
Income and expenses not involving operating cash flows:					
Minority interest in earnings of subsidiaries, net	40	33	23	23	101
Group's equity in losses (earnings) of affiliates, net of dividends received *)	(57)	72	(54)	3	87
Gains on sale of investments, net	(8)	(5)	(6)	(16)	(53)
Gain from early redemption of Company debentures	-	-	-	-	(25)
Gain from issuance to minority in subsidiary	(28)	(40)	(26)	(7)	(63)
Decrease (increase) in value of investments and assets, net	8	(27)	4	(1)	(4)
Depreciation and amortization	87	145	42	78	294
Gain on sale of fixed and other assets, net	(5)	(4)	(4)	(2)	(9)
Deferred taxes, net	(3)	(21)	-	(8)	(43)
Increase in accrued severance pay, net	(11)	18	(6)	-	31
Cost of share-based payment	5	-	5	-	2
Erosion of assets and liabilities, net	1	18	22	13	18
Cumulative effect as of the beginning of the period of change in accounting principles, net	-	(23)	-	-	(23)
Changes in operating assets and liabilities:					
Decrease (increase) in other receivables	(34)	(50)	13	(56)	(18)
Decrease (increase) in inventories	7	(77)	36	(31)	(101)
Decrease in other payables	(28)	(116)	(26)	(22)	(25)
	<u>(26)</u>	<u>(77)</u>	<u>23</u>	<u>(26)</u>	<u>169</u>
*) Dividends received	<u>3</u>	<u>88</u>	<u>-</u>	<u>13</u>	<u>138</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in millions				
(b) <u>Acquisition of newly consolidated subsidiaries (including transition from proportionate to full consolidation):</u>					
Assets and liabilities of the subsidiaries at date of acquisition:					
Working capital deficiency, excluding cash	-	-	-	-	(10)
Investments in investees and other companies	-	-	-	-	-
Fixed assets, other assets and deferred charges	-	-	-	-	(11)
Long-term liabilities	-	-	-	-	23
Less - liability for acquisition	-	-	-	-	(7)
Minority interests	-	-	-	-	-
	-	-	-	-	(5)
(c) <u>Sale of previously consolidated companies:</u>					
Assets and liabilities of subsidiaries at date of sale:					
Working capital deficiency, excluding cash	(171)	-	-	-	-
Investments, fixed assets, other assets and deferred charges	274	-	-	-	-
Long-term liabilities	(107)	-	-	-	-
	(4)	-	-	-	-
(d) <u>Significant non-cash activities:</u>					
Dividend receivable from investee	-	43	-	43	5
Dividend declared	-	108	-	108	-
Transfer of inventories to fixed assets	5	2	-	4	4
Investments in investees and other companies and purchase of properties on credit	5	11	-	11	5
Sale of investments in companies, fixed and other assets on credit	5	-	5	-	-
Payables for acquisition of newly consolidated subsidiary	-	-	-	-	7
Acquisition of technology rights from another company against allocation of options	47	-	47	-	-

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. These financial statements have been prepared in a condensed format as of June 30, 2007 and for the six and three months then ended. These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2006 and for the year then ended ("annual financial statements").
- b. The Company is a subsidiary of IDB Development Corporation Ltd. ("IDB"). The term "IDB Group company" in these financial statements refers to an investee of the parent company, other than companies in the Clal Industries and Investments Ltd. Group ("investees"). The term "Group companies" in these financial statements refers to the Company and its investees.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board and in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements, except as described in b below.

- b. Initial adoption of new Accounting Standards:

1. Accounting Standard No. 26 - Inventories:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 26, "Inventories" ("the Standard") of the Israel Accounting Standards Board regarding the accounting treatment of inventories.

The Standard applies to all types of inventories, except work in progress arising from construction contracts, which is subject to the provisions of Accounting Standard No. 4, "Construction-type Contracts", inventory of buildings for sale, which is subject to the provisions of Accounting Standard No. 2, "Construction of Buildings for Sale" and financial instruments.

According to the Standard, inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined based on the "first in - first out" (FIFO) method or weighted average cost.

In accordance with the Standard, when inventories are purchased under credit terms whereby the arrangement involves a financing element, the inventories should be presented at cost reflecting the cash purchase price and the financing element should be recognized as a financial expense over the period of the financing.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If in a particular period production is not at normal capacity, the cost of inventories should not include an allocation of fixed overhead costs in excess of the amount that would have been allocated based on normal capacity. Such unallocated overhead costs should be recognized as an expense in the statement of income in the period in which they are incurred. Furthermore, cost of inventories should not include abnormal amounts of materials, labor and other costs resulting from inefficiency.

The initial adoption of the Standard had no material effect on the interim financial statements.

2. Accounting Standards No. 27 - Fixed Assets and No. 28 - Amendment to the Transition Provisions of Accounting Standard No. 27, "Fixed Assets":

In September 2006, the Israel Accounting Standards Board published Accounting Standard No. 27, "Fixed Assets" ("the Standard"). The Standard is applicable to financial statements for periods commencing on January 1, 2007 ("the effective date") or thereafter. Also, in April 2007, Accounting Standard No. 28, "Amendment to the Transition Provisions of Accounting Standard No. 27, 'Fixed Assets'" was published whose purpose is to allow companies that intend to adopt the exemptions prescribed by IFRS 1 regarding fixed assets in the financial statements for periods commencing on January 1, 2008 to adopt such exemptions upon the adoption of the Standard on the effective date.

The initial recognition of fixed assets will be based on the cost of purchase. After initial recognition, the Standard permits an entity to choose between the cost model or the revaluation model as its accounting policy and to apply it consistently to a class of fixed assets of a similar nature and use. According to the revaluation model, fixed assets are to be presented at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation of fixed assets is recorded in a capital reserve in shareholders' equity, net of income taxes. This capital reserve may be transferred directly to retained earnings once the asset has been disposed of or during the period of use of the asset (according to the rate of depreciation). Revalued assets will be depreciated based on the revalued amount.

According to the Standard, each component of a fixed asset with a different useful life and that has a cost that is significant in relation to the total cost of the fixed asset (the components method) is to be depreciated separately. The asset is to be depreciated based on its useful life as determined by the Company, which will be reviewed at each year-end. Depreciation will be discontinued at the earlier of the date of the asset's classification as held for sale or the date of the asset's disposal. An asset held for sale is an asset which is available for immediate sale in its present condition, as to which the Company has a commitment to sell and in respect of which the sale is expected to be completed within a year from the date of classification. Furthermore, upon the adoption of the Standard, a change in the method of depreciation will be accounted for as a change in accounting estimate, that is prospectively, rather than by recording the cumulative effect of retrospective application, as was customary prior to the effective date.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of a fixed asset received in an exchange for another fixed asset will be measured at fair value unless the transaction lacks commercial substance or if the fair value of the fixed asset received or given up cannot be reliably measured. The Standard replaces the "similar assets" exception to fair value measurement with an exception based on a lack of commercial substance. A transaction has commercial substance if it results in a change in the amount, timing and risk of future cash flows from the asset.

The cost of a fixed asset will also include an initial estimate of the costs of dismantling and removing the asset and restoring the site on which the asset is located, for which the Company has incurred an obligation. The estimated amount will be recorded at its present value using a discount rate reflecting the Company's risk.

The transitional provisions of the Standard require retrospective application with restatement of comparative data; however, companies that intend to adopt in the financial statements for periods commencing after January 1, 2008 the exemptions allowed by IFRS 1 regarding the adoption of IFRS which enables to present a fixed asset item based on the fair value as deemed cost may do so already on the effective date without restating comparative data.

Certain of the Company's affiliates have elected to adopt said exemption. Accordingly, the Company's investment account in these affiliates increased by approximately NIS 9 million against a corresponding increase in retained earnings, of which approximately NIS 5 million were carried to retained earnings in the reported period as a result of the adjustment for the revaluation of an affiliate.

3. Accounting Standard No. 23 - Accounting Treatment of Transactions between an Entity and its Controlling Shareholder:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 23, "Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" of the Israel Accounting Standards Board ("the Standard"). The Standard is applicable, among others, to transactions involving the transfer of assets, the assumption of liabilities, indemnification, and the waiver of loans between a company and its controlling shareholder and between companies under common control that occur subsequent to January 1, 2007 as well as to a loan granted or received from the controlling shareholder prior to January 1, 2007.

The Standard is not applicable to business combinations involving companies under common control. According to a decision promulgated by the Israel Securities Authority, as of January 1, 2007, business combinations involving entities controlled by the same shareholder will be accounted for similar to a pooling of interests and not based on the use of fair values. In cases of transactions that have the characteristics of shareholders' investments, the Standard may also apply to transactions with non-controlling shareholders in their capacity as shareholders. As for the effect of said decision, see Note 3a(4) below.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Accounting Standard No. 16 - Investment Property:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 16, "Investment Property" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the accounting treatment and disclosure requirements for investment property.

An investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation (or both) and not for use in manufacture or the supply of goods or services or for administrative purposes or sale during the ordinary course of business.

The principal changes promulgated by the Standard in contrast to the principles applied prior to January 1, 2007 are:

Investment property is to be presented using the cost model or the fair value model. The Company has elected to adopt the fair value model in accounting for its investment property. The Company has reported the effect of the adoption of the Standard as of January 1, 2007 as an adjustment of the opening balance of retained earnings as of that date.

Real estate rights held by a lessee in an operating lease from the Israel Lands Administration are classified as investment property. The Company has adopted the fair value model in the respect of those rights.

As a result of the initial adoption of the provisions of the Standard, the Company recorded the difference between the carrying amount of investment property (including differences attributed to investment property) and its fair value as of January 1, 2007, amounting to approximately NIS 77 million, as an adjustment to retained earnings as of that date with a corresponding increase in investment property. The Company also recognized a deferred tax liability amounting to approximately NIS 13 million, minority interest of approximately NIS 11 million and affiliates of approximately NIS 2 million with a corresponding adjustment of retained earnings as of that date. The net balance carried to retained earnings totaled NIS 55 million.

5. Accounting Standard No. 30 - Intangible Assets:

On January 1, 2007, the Company adopted the provisions of Accounting Standard No. 30, "Intangible Assets" of the Israel Accounting Standards Board ("the Standard") that prescribes the accounting treatment, recognition, measurement and the disclosure requirements regarding intangible assets.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

An intangible asset is an identifiable non-monetary asset without physical substance. The definition of an intangible asset requires that such an asset be identifiable to distinguish it from goodwill. An asset is identifiable when it complies with one of the following criteria: it is separable - it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

In a business combination, the acquirer recognizes the intangible assets of the acquiree separately from goodwill even if the assets had not been recognized by the acquiree prior to the business combination. Accordingly, the acquirer recognizes the acquiree's in-process research and development project as an asset separately from goodwill provided it meets the definition of an asset and it is identifiable (the separable criterion or the legal criterion).

Goodwill that is internally generated is not recognized as an asset because it does not represent an identifiable resource controlled by the entity that can be measured reliably at cost.

In order to assess whether an internally generated intangible asset meets the recognition criteria, the entity must distinguish the research stage from the development stage.

No intangible asset arising from research is recognized. Expenses in respect of research are recognized in the income statement as incurred. An intangible asset arising from development is recognized if, and only if, the conditions stipulated in the Standard are met, including technical feasibility, the intent and ability to complete the intangible asset and use or sell it, probable future economic benefits deriving from the asset, the availability of technical, financial and other resources and the ability to reliably measure the expenditures attributable to the asset during its development.

Measurement after initial recognition is by application of the cost model or the revaluation model. The revaluation model may be applied only when there is an active market. The Standard defines an active market as a market in which all the following conditions exist: the items traded in the market are homogenous; willing buyers and sellers can normally be found at any time; and the prices are available to the public.

According to the Standard, an intangible asset's useful life must be assessed as either finite or indefinite. An intangible asset with a finite useful life is systematically amortized and the amortization period and method are reviewed at each year-end. In contrast, an intangible asset with an indefinite useful life is not systematically amortized but is subject to a test for impairment annually (or more frequently if there are changes in circumstances).

The initial adoption of the Standard had no material effect on the interim financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- c. Disclosure of the effect of a new Accounting Standard in the period prior to its adoption:

Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS):

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard").

International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

- a) International Financial Reporting Standards (IFRS)
- b) International Accounting Standards (IAS)
- c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

Companies that prepare their financial statements for the first time in accordance with IFRS will be required upon transition to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing in 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:

- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

There are differences between IFRS and generally accepted accounting principles in Israel in the recognition and measurement of assets and liabilities and in reporting and disclosure requirements. These differences could have a material impact on the Company's financial position and results of operations. The first-time adoption of IFRS will require the Company to identify such differences, a process that will entail a significant amount of time and resources.

- d. Following are data regarding the Israeli CPI and the exchange rate of the U.S. dollar:

As of	Israeli CPI Points *)	Exchange rate of one U.S. dollar NIS
June 30, 2007	111.0	4.249
June 30, 2006	111.7	4.440
December 31, 2006	109.9	4.225
Change during the period	%	%
June 2007 (six months)	1.0	0.6
June 2007 (three months)	1.5	(3.5)
June 2006 (six months)	1.3	2.3
June 2006 (three months)	1.0	(4.8)
December 2006 (12 months)	(0.1)	(8.2)

*) The index is on an average basis of 2000 = 100.

NOTE 3:- INVESTMENTS

- a. Principal changes during the reported period:

1. The textile segment:

In April 2007, Golf & Co. Ltd. ("Golf") completed a private placement to institutional investors of 969,857 Golf shares representing about 3% of its issued share capital in consideration of NIS 9.7 per share for total (gross) proceeds of approximately NIS 19.1 million. As a result of this issuance and in view of the exercise of options in the second quarter of 2007, in the reported period, the Company recorded a gain of approximately NIS 18 million (of which approximately NIS 11 million in respect of the issuance) and its stake in Golf decreased to about 75% (71.3% on a fully diluted basis).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

2. The high technology and electronics segment:

- In May 2007, the transaction for investing in the investment fund, Infinity Israel-China Fund ("Infinity Israel-China") was completed according to which the Company committed to invest \$ 20 million (of which \$ 2 million had already been invested). The scope of commitment for initial investment in Infinity Israel-China is approximately \$ 150 million. The fund's management estimates that the final total scope of investments in the fund is expected to reach approximately \$ 250 million.

After completion of the transaction, the Company holds 25% of the general partner managing the fund. The Company is also entitled to nominate one of three directors as the chairman of the board of the general partner. The fund will focus mainly on investments in companies located in Israel and in China that are semiconductor, medical supplier, internet, software and communication companies.

- During the reported period, the quoted market share price of Saifun Semiconductors Ltd. ("Saifun") dropped below its book value (NIS 173 million), see b below. In view of the continuing decrease in Saifun's share price, the Company received an evaluation in May 2007 from an independent appraiser that evaluated Saifun's share price as of March 31, 2007 at \$ 16.2 to \$ 19.1 per share (reflecting an investment of between NIS 186 million and NIS 220 million). In view of the fact that Saifun's investment as reflected by the evaluation is higher than its value in the Company's books, no provision for impairment is required. The evaluation was attached to the financial statements as of March 31, 2007.
- In June 2007, several venture capital funds held by the Company sold their holdings in the Korean Xintec Inc. in consideration of approximately \$ 12 million. The Company's share in the resulting gain amounted to NIS 8 million.

3. The biotechnology segment:

- The issuance of Clal Biotechnology Industries Ltd. ("CBI"):

On May 30, 2007, according to a prospectus published on May 21, 2007, CBI executed its initial public offering ("IPO"). Under the IPO, CBI offered the public 376,000 units, each containing 40 Ordinary shares of NIS 0.01 par value each, 10 stock options (series 1), 20 stock options (series 2) and 2 stock options (series 3). In total, 15,040,000 Ordinary shares of NIS 0.01 par value each, 3,760,000 stock options (series 1), 7,520,000 stock options (series 2) and 752,000 stock options (series 3) were issued.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

The stock options (series 1) are exercisable on each trading day from their listing for trade until November 30, 2007 (inclusive) in such a manner that each stock option (series 1) is exercisable into one Ordinary share of NIS 0.01 par value of CBI, subject to adjustments, for a cash exercise price of NIS 13.3 per share, unlinked to the Israeli CPI. Any stock option (series 1) not exercised by November 30, 2007 will expire.

The stock options (series 2) are exercisable on each trading day from their listing for trade until May 30, 2011 (inclusive) in such a manner that each stock option (series 2) is exercisable into one Ordinary share of NIS 0.01 par value of CBI, subject to adjustments, for a cash exercise price of NIS 19.95 per share, unlinked to the Israeli CPI. Any stock option (series 2) not exercised by May 30, 2011 will expire.

The stock options (series 3) are exercisable on each trading day from their listing for trade until May 30, 2011 (inclusive) in such a manner that each stock option (series 3) is exercisable into one Ordinary share of NIS 0.01 par value of CBI, subject to adjustments, for a cash exercise price of NIS 26.60 per share, unlinked to the Israeli CPI. Any stock option (series 3) not exercised by May 30, 2011 will expire.

The (gross) immediate proceeds from the securities issued according to the prospectus approximate NIS 200 million. The total immediate proceeds received by the Company after issuance expenses amounted to approximately NIS 186 million.

As a result of the issuance, the Company recorded a deferred gain of approximately NIS 89 million and its stake in CBI decreased to about 67% (56% on a fully diluted basis). As for the treatment of the deferred gain, see below.

- The investment of Teva Pharmaceutical Industries Ltd. ("Teva") in CBI:

In September 2005, the Company, Teva and CBI signed an agreement ("the original Teva agreement") regarding Teva's investment in CBI. On May 16, 2007, the parties signed an amendment to the original Teva agreement to become effective subject to completing CBI's public offering, if executed. The original Teva agreement and its amendment ("the amendment to the Teva agreement") arrange the relations between the Company and Teva as shareholders in CBI as well as the relations between CBI and Teva, including commercial cooperation and granting of various services by Teva to CBI. According to the original Teva agreement, Teva will invest in CBI a total of approximately \$ 19 million ("the investment amount") and in return, the Company will allocate to Teva 19% of CBI's share capital (on a fully diluted basis). Upon the closing, in October 2005, Teva transferred approximately \$ 8.5 million of the investment amount to CBI.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

On May 15, 2007, Teva transferred an amount of \$ 5 million on account of the investment amount according to the original Teva agreement. Consequently, the Company derived a deferred gain of approximately NIS 16 million. As for the treatment of the deferred gain, see below.

After said transfer, the amount of investment that has not yet been paid for Teva's shares in CBI will be \$ 5.68 million. The remaining investment amount will be transferred to CBI upon the earlier of: based on CBI's financial needs, on the date Teva sells its interest in CBI or at the end of three years from closing, namely in October 2008.

According to the original Teva agreement, Teva and the Company have undertaken to invest an additional \$ 31 million in CBI pro rata to their holdings in CBI (namely, on every call, the Company will invest about 81% and Teva will invest about 19%) so that Teva will invest an additional \$ 6 million and the Company an additional \$ 25 million. According to the amendment to the Teva agreement, this commitment was cancelled when the amendment became effective.

As of the second quarter of 2007 and until the end of 2007, the Company's income statements will reflect a deferred gain in respect of the public offering and Teva's investment as above totaling approximately NIS 26 million or at the Company's share in CBI's losses for the period, whichever is higher. In the reported period, an amount of approximately NIS 8 million was recorded in the Company's income statement.

- Andromeda Biotech Ltd. ("Andromeda"):

In June 2007, CBI, through Andromeda, a wholly owned subsidiary, entered into an agreement with Develogen Israel Ltd. and Develogen AG (together "Develogen"). The agreement was signed in furtherance to a memorandum of understandings signed in April 2007 according to which Andromeda acquired Develogen's technological activity designed to develop a product for treating type 1 diabetes, including tangible assets, intellectual property and usage rights (together "the technology" and "type 1 diabetes", respectively). Based on the technology, advanced clinical trials are currently being conducted on humans (phase III). There is no guarantee that the trials will be successful and therefore it is possible that the technology-based product will not be commercially distributed.

According to the agreement, Andromeda acquired from Develogen the technology rights in return for royalties paid to Develogen Israel. In addition, the parties were granted options whereby Andromeda will invest in Develogen Israel ("the investment option"). The investment options are exercisable by either Develogen Israel or Andromeda, according to the terms of the agreement, upon the successful achievement of certain milestones relating to the development phases of the technology and/or upon obtaining certain regulatory approvals based on the technology.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

The amounts that Andromeda is liable to invest in Develogen Israel, if and as far as the milestones are achieved and the investment options exercised, may reach up to € 18 million ("the additional amounts") in consideration for about 25% of Develogen Israel's issued share capital.

Andromeda and Teva have also signed a letter of understandings whereby, among other things, Teva was granted an option to acquire the entire interest in Andromeda within about six months from receiving an interim report regarding the clinical trials, in return for royalties and a one-time payment. The one-time payment will range, at Teva's discretion, from three times to seven times ("the multiple") the total expenses incurred by Andromeda from signing the memorandum of understandings through the date of exercising the option and the percentage of royalties will be determined based on a formula whereby the royalties with the addition of the multiple will equal ten. According to past agreements signed between Develogen and Teva, Teva has the right to receive royalties at certain percentages of sales of Develogen's said product, which have been reduced according to the letter of understandings upon closing.

The financial statements include liabilities in respect of the options granted according to the agreement between Develogen and Teva (as above), based on an evaluation obtained from an independent outside appraiser, in a total of \$ 10.9 million, against an intangible asset in respect of the rights to use the acquired technology.

- BioCancell Therapeutics, Inc. ("BioCancell"):

On April 22, 2007, an off-the-market transaction was completed whereby CBI acquired 2,582,530 Ordinary shares of BioCancell representing 21.58% of BioCancell's issued share capital in consideration of approximately NIS 11 million. BioCancell develops drugs for treatment of cancer. BioCancell's shares have been listed for trade on the Tel Aviv Stock Exchange as of August 2006.

- Mediwound Ltd. ("Mediwound"):

In June 2007, Mediwound, a company held by CBI at a rate of 74% (about 65% on a fully diluted basis) signed an investment agreement with Teva, institutional investors and other private investors (together: "the investors" and "the transaction", respectively). According to the agreement, during the first stage, Teva will acquire from Mediwound's shareholders shares totaling \$ 10 million and will invest a sum of \$ 5 million in Mediwound in return for the allocation of shares in Mediwound. In addition, Mediwound will allocate shares to the investors in consideration for approximately \$ 15 million. The acquisition of shares and the allocation as above will be executed at a price per share reflecting a pre-investment valuation of Mediwound of approximately \$ 100 million. Under said investment, Teva will be granted an exclusive right for marketing and distributing Mediwound's main product in certain countries ("the license" and "the product", respectively). Following said acquisition and allocation, CBI will have a 55.5% interest in Mediwound (about 50% on a fully diluted basis).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

In respect of the acquisition of Mediowound shares by Teva, the Company is expected to record a gain of approximately NIS 21 million in the third quarter of 2007, when closing is carried out. In respect of the investments of Teva and the investors in Mediowound, the Company will record its share in CBI's deferred gain totaling approximately NIS 33 million. The data of the gain, deferred revenue and proceeds from the exercise of options as below were calculated based on the net value of the options hereby specified according to assumptions of the exercise of options by employees in Mediowound during each stage of the transaction and according to the exchange rate of the U.S. dollar upon the date of the approval of the interim financial statements.

Furthermore, with the receipt of the permit to market the product in EU countries, as far as it is obtained, Teva will be entitled to extend the license to these countries ("the European option"). As far as Teva chooses to exercise this right, all the shareholders in Mediowound (excluding Teva) will have a Put option to sell their shares to Teva. Following the exercise of the Put option, Teva shall hold 25% of Mediowound (on a fully diluted basis) at a price per share reflecting a company valuation of \$ 200 million. The option is exercisable upon the decision of the majority of shareholders (excluding Teva) or upon the decision of one of two certain investors. As far as the shareholders (excluding Teva) decide not to exercise their selling right, Teva will be granted a Call option for the same number of shares at a price reflecting a company valuation of \$ 250 million.

If the European option is exercised, CBI will hold 46% (42% on a fully diluted basis) of Mediowound's share capital and CBI's share in the proceeds is expected to reach between \$ 15.5 million and \$ 19 million, based on Mediowound's current holding structure.

Upon receipt of the permit to market the product in the U.S., as far as it is obtained, Teva will be entitled to extend the license to North America ("the American option"). Insofar as Teva chooses to exercise this right, Mediowound's entire shareholders (excluding Teva) will receive a Put option for selling Teva 26% of Mediowound's share capital (on a fully diluted basis) at a price per share reflecting a company valuation of \$ 245 million. The option is exercisable at the decision of the majority of shareholders (excluding Teva) or at the decision of one of two certain investors. Should the shareholders (excluding Teva) decide not to exercise this right, Teva will be granted a Call option for the same number of shares at a price reflecting a company valuation of approximately \$ 306 million.

If the American option is exercised, and assuming that the European option had been exercised, CBI will hold 29% (19.28% on a fully diluted basis) of Mediowound's share capital and CBI's share in the proceeds from the exercise of the American option is expected to reach between \$ 36 million and \$ 45 million, based on Mediowound's current holding structure.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

If the European option is not exercised, following the exercise of any of the above options, CBI will hold 35% of Mediwound's share capital (on a fully diluted basis). CBI is expected to record a gain in respect of the exercise of the European and the American options, yet in view of the transition in 2008 to international financial reporting and the uncertainty regarding the exercise date of the options, at this stage, it is difficult to assess the amount of such gain.

Furthermore, if the majority of Mediwound's shareholders (excluding Teva) request that Mediwound offer its securities to the public after receiving the product's approval in the U.S. (subject to veto rights of certain investors), Teva will cooperate as far as the public offering is concerned but it will have the right to acquire the interests of the other shareholders according to the mechanism established in the agreement, at a company valuation that is the average of the price's highest price and lowest price, as determined by the underwriters for the public offering and subject to other provisions in the agreement.

It was further agreed that Mediwound and Teva will be responsible for the continued development, Mediwound will be in charge of product manufacture and Teva will purchase the product from Mediwound for a percentage of the selling price to the end customer and will also be in charge of marketing and distributing the product, all subject to the fees and other terms determined in the agreement.

The agreement also stipulates that certain of the shareholders (including CBI, Teva and some of the investors) will be granted certain veto, refusal and tag along rights in connection with transactions for the sale of their shares in Mediwound.

Closing is conditional on the occurrence of a series of prerequisites, including obtaining the approvals required by law, and there is no certainty that closing will take place.

4. The communication services segment:
 - In connection with the merger of Barak I.T.C. (1995) - International Telecommunications Company Ltd. ("Barak") and Netvision Ltd. ("Netvision"), as discussed in Note 8g(4) to the annual financial statements, in January 2007, and after the legally required approvals had been obtained, the merger transactions of Barak and Netvision and of Globecall and Netvision were effected. Subsequent to the merger, the Company's holding rate in Netvision is about 29.5% (25.1% on a fully diluted basis), of which 9% through Clalcom Ltd. (7.8% on a fully diluted basis).

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3:- INVESTMENTS (Cont.)**

Since at the level of the merged companies the merger is considered a business combination of companies under common control and pursuant to the decision of the Securities Authority as stated in Note 2b(3) above, the Company did not recognize a gain from the transaction. The negative difference between the investment amount in Barak prior to the merger and the investment amount in Netvision soon thereafter amounted to NIS 44 million and was carried to shareholders' equity as a reduction in the capital reserve from transactions with controlling shareholders in the amount of NIS 19 million and the balance of NIS 25 million against a reduction in retained earnings.

Upon the date of the merger, the Company ceased consolidating the accounts of Barak. Following are data relating to the investment in Barak near the date of the merger:

	January 31, 2007
	Reported NIS in millions
Assets	380
	For the month ended December 31, 2007
	Reported NIS in millions
Sales	61
Net loss	1

- In June 2007, Netvision allocated 1,220,000 shares representing about 4.5% of its issued share capital in consideration of NIS 52 million. As a result of the issuance, the Company derived a gain of NIS 7 million included in the results of the second quarter of 2007. Following said issuance, the Company's direct and indirect stake in Netvision is about 27.3% (24.1% on a fully diluted basis).

5. The real estate segment:

- K.B.A. Townbuilders Group Ltd. ("K.B.A."):

In May 2007, K.B.A., which is 53% held by the Company, signed an agreement with Hiron Trade Investments and Industrial Buildings Ltd. for the sale of land with an area of some 23.3 thousand sq. m. held for industrial purposes in consideration of NIS 19.5 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3:- INVESTMENTS (Cont.)**

As a result of the sale, K.B.A. recorded a gain of approximately NIS 12 million in its books in the reported period. The Company's share in said gain amounted to approximately NIS 6 million and was recorded in its books in the second quarter of 2007.

b. Investments in listed companies:

	Carrying amount at June 30, 2007	Market value		
		June 2007	30, August 2007	16,
	Reported NIS in millions			
Affiliates:				
ECI Telecom Ltd.	374	592		581
Netvision Ltd.	166	386		295
American Israeli Paper Mills Ltd.	184	355		326
Fundtech Ltd.	125	330		346
Maman - Cargo Terminals and Handling Ltd.	54	64		59
Beit Shemesh Engine Holdings (1997) Ltd.	40	48		40
Nova Measuring Instruments Ltd.	30	45		42
Gold Bond Group Ltd.	16	19		22
BioCancell Ltd.	10	13		13
Other companies:				
Saifun Semiconductors Ltd.	173	137		119
Compugen Ltd.	45	37		33
ECTel Ltd.	19	20		18
IDM Pharma Inc.	5	5		3
Other companies	4	9		7
Consolidated companies:				
Golf & Co. Ltd.	152	579		483
Clal Biotechnology Industries Ltd.	70	524		419

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 4:- ATTACHED FINANCIAL STATEMENTS OF AFFILIATE**

- a. The Company attaches to these financial statements the accounts of ECI Telecom Ltd. ("ECI"), the affiliate. Following is the effect of the adjustment of ECI's accounts, as reported according to generally accepted accounting principles in the United States, to generally accepted accounting principles in Israel and the accounting policy adopted by the Company:

	<u>June 30,</u> <u>2007</u> <u>Unaudited</u> <u>U.S. dollars in thousands</u>	<u>2006</u>	<u>December 31,</u> <u>2006</u> <u>Audited</u>
Shareholders' equity:			
As reported by the affiliate	694,019	626,417	643,711
Net adjustments to generally accepted accounting principles in Israel	<u>21,093</u>	<u>(3,842)</u>	<u>(3,843)</u>
As adjusted	<u><u>715,112</u></u>	<u><u>622,575</u></u>	<u><u>639,868</u></u>

	<u>Six months ended</u> <u>June 30,</u> <u>2007</u> <u>Unaudited</u> <u>U.S. dollars in thousands</u>		<u>Three months ended</u> <u>June 30,</u> <u>2006</u>		<u>Year ended</u> <u>December 31,</u> <u>2006</u> <u>Audited</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>	<u>2006</u>	<u>2006</u>
Net income for the period:					
As reported by the affiliate	43,485	12,699	24,773	9,637	22,095
Net adjustments to generally accepted accounting principles in Israel	<u>22,837</u>	<u>(8,541)</u>	<u>18,437</u>	<u>(6,088)</u>	<u>(8,960)</u>
As adjusted	<u><u>66,322</u></u>	<u><u>4,158</u></u>	<u><u>43,210</u></u>	<u><u>3,549</u></u>	<u><u>13,135</u></u>

- b. A prospectus for the IPO of Veraz Networks, Inc. ("Veraz"):

In April 2007, Veraz, which had been 40% held by ECI, completed its IPO on the NASDAQ in the context of which it offered the public 9 million shares of Veraz at a price of \$ 8 per share (before underwriting commissions), including the issuance of 6.75 million shares and the sale of 2.25 million shares of Veraz by ECI. Following the above IPO, ECI holds 27.6% of Veraz (23% on a fully diluted basis).

In the six months ended June 30, 2007, the Company included its share in ECI's gain from the above IPO in a total of NIS 23 million, of which NIS 16 million in the second quarter of 2007.

- c. As for an agreement to sell the Company's stake in ECI, see Note 7 below.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- ADDITIONAL INFORMATION

a. Debentures:

- In January 2007, the Company issued to institutional and private investors through a private placement approximately NIS 500 million debentures (series N) (of which NIS 23 million to interested parties). The debentures (principal and interest) are linked to the Israeli CPI, redeemable in five equal annual payments as from January 2018 and bear annual interest of 4.9% per annum on the unpaid balance. The Company informed the investors that it intends (without any commitment on its part to do so), to list the debentures (series N) through the prospectus for trade on the Tel Aviv Stock Exchange in the future. For the period during which the debentures (series N) will not be listed for trade on the Stock Exchange, the Company will pay an additional 0.5% to the basic annual interest rate payable on the unpaid balance of debentures (series N) so that the annual interest rate will be placed at 5.4%. The interest is payable in January of each of the years starting 2008. Maalot - The Israel Securities Rating Company Ltd. ranked the debentures as AA. See also b below.

- In March 2007, a subsidiary finalized a tender for the issuance to institutional and private investors through a private placement of approximately NIS 362 million debentures (of which NIS 56 million to interested parties). The debentures are linked to the Israeli CPI, bear interest of 4.95% per annum and are redeemable in six equal annual payments from 2015 to 2020. Maalot - The Israel Securities Rating Company Ltd. ranked the subsidiary's liability for the purpose of raising these debentures as AA. Out of the total proceeds from the issuance of debentures, NIS 156 million was used to replace existing debentures.

b. Shelf prospectus:

On May 15, 2007, the Company published a prospectus on the basis of its financial statements as of December 31, 2006 that offers, as part of a shelf prospectus, shares, convertible debentures, non-convertible debentures and stock options exercisable into shares and debentures and that registers for trading debentures (series N) issued to institutional and other investors through a private placement. This prospectus is also used to release from capping debentures (series L) and debentures (series M) relating to private placements effected in 2006.

c. Fixed assets:

The Company received a valuation from an outside independent appraiser who estimated the subsidiary's real estate properties at NIS 664 million. The cost of real estate in the Company's books (including excess of cost attributed to the real estate) totals NIS 367 million and, accordingly, an impairment of said real estate is not necessary. The valuation is attached to the financial statements as of March 31, 2007.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 6:- BUSINESS SEGMENTS**

a. Segment revenues (1):

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2007	2006	2007	2006	2006
	Unaudited				Audited
	Reported NIS in millions				
Cement	737	688	387	365	1,430
Textile	485	413	223	212	908
High-technology and electronics	53	23	37	14	40
Communication services	70	360	9	184	721
Biotechnology	(11)	(6)	-	(2)	(7)
Real estate	27	27	20	25	47
Other	400	275	202	132	584
	1,761	1,780	878	930	3,723
Other revenues, net	39	22	37	-	59
Total in the statement of income	1,800	1,802	915	930	3,782

b. Segment results:

Cement	159	135	84	99	298
Textile	77	63	47	19	130
High-technology and electronics	35	18	27	25	71
Communication services	16	22	13	4	53
Biotechnology	(29)	6	(12)	(4)	(9)
Real estate	22	23	17	20	34
Other	54	36	33	18	83
	334	303	209	181	660
Adjustments (3)	-	(5)	-	(4)	-
Financial expenses	(46)	(81)	(19)	(41)	(160)
Income before taxes on income	288	217	190	136	500

- (1) Including segment's share in earnings of affiliates.
- (2) Following the completion of the merger discussed in Note 3a(4) above, the Company ceased consolidating the accounts of Barak and consequently, Barak's results are included in the Group's share in earnings of affiliates.
- (3) Including other expenses, net which were not allocated to segments.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- Cargal Ltd. ("Cargal"):

On July 2, 2007, Cargal, which is 27% held by the Company, completed a transaction according to which Isralom Properties Ltd. ("Isralom") will acquire from it the leasehold rights to land located in Lod's northern industrial zone ("the land") in consideration of approximately NIS 130 million.

Simultaneously with the sale of the leasehold rights to Isralom, Isralom will lease the land to Cargal for an overall period of 25 years for annual lease fees of NIS 10 million, linked to the Israeli CPI.

As a result of the sale, Cargal is expected to record a gain of approximately NIS 75 million in the third quarter of 2007. The Company estimates that its share in said gain will reach approximately NIS 20 million, to be recorded in the third quarter of 2007.

- Gold Bond Ltd. ("Gold Bond"):

In July 2007, an agreement was signed between the Company and the shareholders of the Gold Bond Group whereby the Company will sell its entire holdings in Gold Bond representing about 17.8% of the issued share capital of Gold Bond in consideration of a cash payment of approximately NIS 21 million, reflecting a price per share of NIS 29 ("the transaction"). As far as the transaction is completed, the Company is expected to record a net gain estimated at this stage at NIS 5 million. There is no guarantee that the transaction will indeed be finalized. Its completion is dependent on achieving certain legally required regulatory approvals.

- ECI Telecom Ltd. ("ECI"):

In July 2007, ECI, an affiliate held by the Company at a rate of about 13%, signed a merger agreement whereby ECI will be sold in full to a consortium of foreign investors ("the buyers") in a transaction totaling approximately \$ 1.2 billion ("the merger transaction"). ECI's board approved the merger transaction and decided to recommend its approval to the shareholders.

As reported by ECI, according to the terms of the merger transaction, upon completion, the buyers will make a cash payment of \$ 10 per share to all of ECI's shareholders. The buyers' obligation to complete the merger transaction is not dependent on achieving the required financing. According to ECI's estimate, the completion of the merger transaction is expected to take place by the end of 2007 and consequently, ECI's shares will no longer be traded on the NASDAQ and it will become a private company.

The Company, Koor Industries Ltd., a company controlled by the controlling shareholder in the Company, and a group led by Carmel Ventures, which cumulatively hold about 44% of ECI's issued share capital, have undertaken towards the buyers to exercise their votes in ECI in order to approve the merger transaction. This undertaking will not be effective if ECI's board reconsiders its decision to approve ECI's acquisition by the current buyers.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE (Cont.)

According to the terms of the merger transaction, ECI was entitled to actively procure alternative purchase offers by July 31, 2007. Moreover, ECI will be entitled, at any time, subject to the provisions of the merger transaction, to consider unsolicited alternative offers. In the event that ECI chooses to accept an alternative offer that is higher than the buyers', ECI will compensate the buyers by a break-up fee.

In the event that the merger transaction is consummated, the Company is expected to receive an amount of approximately \$ 152 million in respect of its stake in ECI and record a net gain in respect of the merger transaction estimated at this stage at NIS 267 million based on the exchange rate of the U.S. dollar as of August 15, 2007 and based on ECI's financial statements for the second quarter of 2007.

There is no certainty that the merger transaction will indeed be consummated. Its consummation is subject to the approval of the general meeting of ECI's shareholders, to certain regulatory approvals and to other terms.

APPENDIX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**Details of Investments⁶ by the Company and its Wholly Owned Headquarter Companies as of June 30, 2007**

<u>Listed companies</u>	<u>Ownership</u>	<u>Amount of investment reported NIS in millions</u>
ECI Telecom Ltd.	13%	374
American Israeli Paper Mills Ltd.	38%	184
Saifun Semiconductors Ltd.	9%	173
Netvision Ltd.	19%	115
Fundtech Ltd.	34%	125
Clal Biotechnology Industries Ltd.	67%	70
Beit Shemesh Engine Holdings (1997) Ltd.	36%	40
Nova Measuring Instruments Ltd.	21%	30
ECTel Ltd.	9%	19
Gold Bond Group Ltd.	18%	16
		<hr/>
		1,146
		<hr/>
<u>Private companies</u>		
Mashav Initiating and Development Ltd.	75%	1,002
Kitan Consolidated Ltd. ⁷	100%	286
Arcadian Networks Inc.	12%	88
Jaf-Ora Ltd.	30%	90
F.B.R. Infinity Ventures (Israel) Venture	39%	58
Power Paper Ltd.	15%	45
K.B.A. Townbuilders Group Ltd.	53%	37
Clalcom Ltd.	72%	38
Cargal Ltd.	27%	28
Infinity Israel Venture Capital Fund	31%	16
Clal Venture Capital Fund, Limited Partnership	67%	18
Millennium Materials Technologies Fund II L.P.	13%	11
Nanomotion Ltd.	15%	14
Scailex Vision Tel-Aviv Ltd.	7%	5
Jordan Valley Semiconductors Ltd.	45%	10
Annex	34%	12
Infinity III	43%	8
Orsus Solution Limited	16%	7
FBR Infinity II China	20%	7
Millennium Materials Technologies Funds, L.P.	50%	6
CosmoCom Inc.	5%	5
Aternity Networks Inc.	9%	7
Other private companies		(9)
		<hr/>
		1,789
		<hr/>

⁶ The list of investments includes investments (including investments in share capital and extended loans) whose amount in the books exceeds NIS 5 million.

⁷ Presented net of offset of a loan placed in favor of the Company by Kitan Consolidated Ltd.

CLAL INDUSTRIES AND INVESTMENTS LTD.

APPENDIX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

	Amount of investment reported in millions	NIS in
With the deduction of investments in subsidiaries	2,935	
With the addition of investments of subsidiaries	(1,444)	
	<hr/>	<hr/>
Investments in affiliates and other companies	262	
	<hr/>	<hr/>
	1,753	

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