

CLAL INDUSTRIES AND INVESTMENTS LTD.

MARCH 31, 2007

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

The English version of the 1st 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.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE PERIOD JANUARY – MARCH 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").

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.

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.
- Contribute to and assist the community in Israel.

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. (79% owned) and Kitan Consolidated Ltd. (100% owned).

High-technology, electronics and venture capital funds - This segment includes ECI Telecom Ltd. ("ECI") (13% owned), Saifun Semiconductors Ltd. ("Saifun") (9% owned), Fundtech Ltd. ("Fundtech") (35% owned), Jordan Valley Semiconductors Ltd. ("Jordan Valley") (46.0% 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).

Biotechnology – Operations in this segment are conducted through Clal Biotechnology Industries Ltd. ("CBI"), (81% owned) whose holdings include Mediwound Ltd. (74% owned), D-Pharm Ltd. ("D-Pharm") (34% owned), Curetech Ltd. (46% owned, also through Clal Venture Capital Fund, 26% owned) and Compugen Ltd. (11% 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.² ("Netvision") (20% owned) and Clalcom Ltd. ("Clalcom") (71.5% owned), which holds, directly and indirectly, among others, Netvision (9% owned) and Arcadian Networks Inc. (15% 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; 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.

¹ The data relates to the ownership interests as of March 31, 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.

² 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.

The Company's financial results are greatly affected by gains from realization of investments, from adjustments in value of investments and from other non-recurring factors. Accordingly, there might be considerable fluctuation in the business results of different reported periods.

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 41 million, compared to a net income of NIS 76 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 35 million, compared to NIS 23 million in the corresponding quarter of the previous year. The increase in current income compared to the corresponding quarter of the previous year is primarily a result of improvements in the results of the cement segment offset by an increase in the expenses 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 amounted to NIS 6 million, compared to income of NIS 53 million in the corresponding period of the previous year.

The non-recurring factors in the quarter resulted mainly from gain from the Veraz's issuance (ICI's affiliate), compared to NIS 53 million in the corresponding quarter which mainly included a gain from decrease in the holding rate in Golf (NIS 33 million), the cancellation of the provision for dilution in respect of convertible debentures in investees as a result of the initial adoption of Accounting Standard No. 22 (NIS 23 million) and the update of the value of the investment in Compugen (NIS 18 million). These factors were offset by the provision for streamlining measures in Neshar (NIS 12 million) and loss from the dilution resulting from the exercise of options by employees in investees (NIS 13 million).

Net earnings per NIS 1 par value of shares in the reported period amounted to NIS 0.26, compared to net earnings of NIS 0.48 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 March 31					
	2007			2006		
	Current	Other ³	Total	Current	Other ⁴	Total
Business segments:						
Cement	40	(3)	37	25	(13)	12
Textiles	16	-	16	10	33	43
High technology, electronics and venture capital funds	2	7	9	1	12	13
Biotechnology	(15)	2	(13)	(7)	17	10
Real estate	1	-	1	1	-	1
Communication services	(1)	-	(1)	(4)	-	(4)
Other	9	-	9	10	4	14
	52	6	58	36	53	89
Financing and headquarters	(17)	-	(17)	(13)	-	(13)
Income before discontinued operation	35	6	41	23	53	76

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

Textiles – The decrease 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. See also the analysis of Golf's results in section d below.

High technology, electronics and venture capital funds – The decrease in this segment's contribution compared to the corresponding period of the previous year resulted mainly from positive non-recurring effects and mainly from Veraz's issuance of NIS 7 million (ICI's affiliate) compared to positive non-recurring effects of NIS 12 million in the corresponding quarter of the previous year (mainly a non-recurring effect of NIS 19 million from the adoption of new accounting standards offset by negative non-recurring effect of NIS 12 million from the exercise of employee options in investees). See also the analysis of the results of ECI and Fundtech in section d below.

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 losses in the quarter corresponding quarter of the previous year derived from increase in the investees' expenses. In the corresponding period of the previous year, the segment's results included a positive non-recurring effect of NIS 18 million following the decrease in provision for the impairment of CBI's investment in Compugen. As for CBI preparation towards a public issue of its shares, see 3.3 below.

³ Includes results from realization of investments, adjustments in value of investments and non-recurring factors.

⁴ Includes results from realization of investments, adjustments in value of investments and non-recurring factors.

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. The retained earnings include 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 is Barak. At the end of January, the merger of Barak and Globecall was completed. The results for the quarter include Barak's results for January and the results of the merged company from the date of merger until the end of the quarter. See also the analysis of the results of Netvision in section d below.

Other – The contribution from current activity is similar to the corresponding period of the previous year. The corresponding quarter of the previous year includes a positive non-recurring effect of NIS 4 million from the adoption of the new accounting standards. See also the analysis of the results of AIPM in section d below.

c. Data of principal investees ⁵ 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):

	<u>Sales</u>		<u>Net income (loss)</u>	
	<u>Three months ended</u>		<u>Three months ended</u>	
	<u>March 31</u>		<u>March 31</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Companies that prepare financial statements in NIS:				
Mashav	544	459	58	21
Golf	159	134	18	8
AIPM	137	131	(4)	8
Netvision (*)	299	291	9	(1)
Barak	61	179	3	20
Companies that prepare financial statements in \$:				
ECI	\$ 155	\$ 162	\$ 18.7	\$ 3.1
Fundtech	\$ 23	\$ 19	\$ 0.4	\$ 0.2

*) The consolidated financial statements of Netvision were accounted for similar to a pooling of interests and they include figures for Barak and Globecall, see d below.

⁵ Relates to financial statements published by ECI and Fundtech, according to generally accepted accounting principles in the United States. The Company includes the results of these companies according to generally accepted accounting principles in Israel.

Contribution to income from principal investees (NIS millions):

	Three months ended	
	March 31	
	2007	2006
Mashav	44	16
Golf	14	8
AIPM	(1)	3
ECI	12	-
Fundtech	1	1
Barak/Netvision	(2)	(4)

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

Cement segment companies – Revenues for the quarter amounted to NIS 351 million, compared to NIS 323 million for the corresponding quarter of the previous year (an increase of about 9%), mainly due to the increase in selling prices to the local market and export. The net income for the quarter amounted to NIS 50 million, compared to net income of NIS 32 million in the corresponding quarter of the previous year before a negative non-recurring effect of NIS 16 million due to streamlining measures. The increase in current income this quarter, compared to previous year stems from growth in sales, as above, from a significant decrease in financial expenses and from the fact that in the corresponding quarter of the previous year one of the furnace was reconditioned. The effect of the growth in sales was partly offset by the increase in the inputs of fuels.

ECI – Revenues for the quarter amounted to \$ 155 million, compared to \$ 162 million for the corresponding quarter of the previous year, a decrease of 4.3%.

Revenues of the communication networks division (a result of the merger between the optical networks division and the data networks division) for the first quarter of 2007 amounted to \$ 105 million, an increase of 15% compared to the corresponding quarter of the previous year . The improvement in revenues results from a continued growth in revenues from optical networks products which is offset by decline in sales of data networks products. The division continued to improve its profitability and recorded operating income of \$ 6.8 million for the quarter, compared to income of \$ 3.2 million for the corresponding quarter of the previous year.

Revenues of the broadband access division in the quarter amounted to \$ 45 million, compared to \$ 62 million for the corresponding quarter of the previous year (a decrease of 27%). Operating income of the division amounted to \$ 3.8 million, compared to \$ 5.9 million for the corresponding quarter of the previous year.

The net income for the quarter amounted to \$ 18.7 million, compared to net income of \$ 3.1 million for the corresponding quarter of the previous year. The results of the quarter include an income of \$ 12.5 million from increase in tax asset as a result of the initial public issue of Veraz Networks Inc. ("Veraz") (see 3.2 below).

AIPM – Operating income for the quarter amounted to NIS 17 million, compared to NIS 13.3 million for the corresponding quarter of the previous year. The increase in operating income resulted growth in sales and increase in gross profit from raising the selling prices. This increase was offset to a certain extent by the increase in general and administrative expenses. Net loss for the quarter amounted to NIS 4 million, compared to income of NIS 8 million for the corresponding quarter of the previous year. The decrease in net income and the transition to a loss derived mainly from AIPM's share in losses of affiliates of NIS 11 million compared to the affiliates' contribution to income of NIS 2 million in the corresponding period of the previous year. The results of the affiliates were mostly affected by the losses of the activities in Turkey which presented increase in loss as a result of costs involved in launching the brand names Huggies and Kotex and elimination of part of the tax asset.

Golf – Sales for the quarter amounted to NIS 159 million, compared to sales of NIS 134 million for the corresponding quarter of the previous year. The increase in sales this quarter compared to the corresponding quarter of the previous year is mainly a result of the increase in sales in existing stores and in part a result of the early timing of Passover. The gross profit for this quarter amounted to NIS 91 million, compared to NIS 73 million for the corresponding quarter of the previous year. The increase in the gross profit margin (from 54.1% to 57.4%) resulted mainly from discounts in purchase prices due to increase the purchased quantity, transition to direct purchase and from the decrease in the exchange rate of the dollar. The net income for the quarter amounted to NIS 17.6 million, compared to NIS 8 million for the corresponding quarter of the previous year. The increase in net income was mainly a result of the growth in sales turnover, increase in gross profit offset by a more moderate growth in selling and marketing expenses and transition from financial expenses to financial income.

As for the issue of Golf's shares in March 2007, see 3.1 below.

Fundtech – Net income for the quarter amounted to \$ 0.4 million, compared to net income of \$ 0.2 million for the corresponding quarter of the previous year. The increase in income was due principally to decrease in tax expenses in the quarter, compared to 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 all the issued 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 NIS 23 million will no longer be in use. These fixed assets will be depreciated over the remaining useful lives of the assets as determined in the reorganization plan that is expected to take effect by the end of 2007. During the reported period and up to date, the merged Netvision effected a reorganization procedure in the context of which 120 employees resigned.

Revenues for the first quarter amounted to approximately NIS 299 million, compared to revenues of NIS 291 million in the corresponding period of the previous year, an increase of 3%. The improvement mainly arises from increased revenues from the internet access division and from the inclusion of the revenues of a company which was initially consolidated in the second quarter of the previous year and which was partly offset by decrease in sales in the telephony segment. The decrease in sales in the telephony segment derives mainly from the effect of the appreciation in the NIS this quarter, compared to the corresponding quarter of the previous year and from the decrease in incoming minutes resulting from termination of carrying services to Partners' subscribers. The decrease in the results of operating income for the quarter, compared to the corresponding quarter of the previous year resulted from the decrease in revenues from the telephony segment, as above, and from the decrease in the profitability of the managed services which were offset by improvement in the internet access division. The financial expenses for the quarter amounted to approximately NIS 3 million, compared to approximately NIS 19 million in the corresponding quarter of the previous year. The decrease in financial expenses derives mainly from the effect of the devaluation of the exchange rate of the NIS in relation to the dollar on dollar-debentures amounting to approximately NIS 9 million and from financial expenses relating to said debentures of NIS 5 million which were repaid in September 2006. Net income of Netvision for the quarter amounted to NIS 9 million, compared to a loss of NIS 1 million for the corresponding quarter of the previous year.

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 fighting in Northern Israel, have resulted in improved operating results and net income in the reported period and quarter for all of the principal companies.

Moreover, the relative stability in the capital markets in Israel and worldwide has contributed to a favorable business environment for raising financing under favorable prices and to improved financial stability of some of the Group companies.

Any escalation in the security situation may have an adverse effect on the results of some of the Group companies.

3. PRINCIPAL CHANGES IN INVESTMENTS AND IN INVESTEES

3.1 The textile segment:

On March 22, 2007, Golf conducted a tender for institutional investors regarding a private placement of Golf's shares. In accordance with the results of the tender, Golf will allot 969,857 Ordinary shares of Golf of NIS 0.01 par value each ("the shares"), representing about 3% of Golf's issued capital, in consideration for NIS 19.70 per share and a total (gross) of approximately NIS 19.1 million. These shares were allotted in April 2007.

The Company will record a gain from the allotment of approximately NIS 11 million for the second quarter of 2007 and the Company's holding in Golf will drop to about 76% (about 57% on a fully diluted basis). Also, as a result of the exercise of Golf's options in the second quarter of 2007, the Company will record a gain of approximately NIS 6 million and the Company's holding in Golf will drop to about 74.8%.

3.2 The High technology and electronics segment:

- Nova Measuring Instruments Ltd. ("Nova"):

In March 2007, the Company invested in Nova an amount of \$ 3 million under a private placement held by Nova. As a result of the investment, the Company's holding in Nova will be about 21%.

- Saifun Semiconductors Ltd. ("Saifun"):

During the reported period, the quoted market price for the share of Saifun Semiconductors Ltd. ("Saifun") decreased below its book value (NIS 173 million). In view of the continuous decline in the price of Saifun's share, the Company obtained a valuation from an independent appraiser who has estimated the value of Saifun share at \$ 16.2 to \$ 19.1 per share (reflecting an investment between NIS 188 million and NIS 222 million). In view of the fact that the value of the investment in Saifun as reflected in the valuation is higher compared to the carrying amount of the investment in the Company's books, an impairment loss shall not be recognized. The valuation is attached to these financial statements.

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

In an announcement made by ICI on May 3, 2007, ICI informed that in April 2007 Veraz, of which about 40% is held by ICI, completed an initial public offering of shares in the NASDAQ, according to which 9 million shares of Veraz were offered to the public at a price of \$ 8 per share (before underwriting fees), consisting of an issue of 6.75 million shares by Veraz and a sale of 2.25 million shares by ICI. As a result of the offering, ICI expects to record gains of approximately \$ 40 million. This amount is composed of three elements: an increase in deferred tax asset of \$ 12.5 million to be recognized in the first quarter of 2007, a capital gain of approximately \$ 15 million as a result of the sale of 2.25 million shares by ICI to be recognized in the second quarter of 2007 and a capital gain of approximately \$ 12 million which derives from the issuance of Veraz shares to be recognized in the third quarter of 2007.

Subsequent to the conclusion of said offering, ICI holds 27.6% of Veraz shares (23% on a fully diluted basis).

The Company's share in ICI's gain from the issuance, as above, is expected to be approximately NIS 20 million and it will be recognized on the dates on which ICI records its gain from the public offering.

- Infinity Venture Capital Israel - China Fund ("the Fund"):

On March 26, 2007, the Company's Board decided on the framework of an investment of \$ 20 million (of this amount \$ 3 million has already been invested) in Infinity Israel-China Fund ("Infinity Israel-China"). The management of Infinity Israel-China estimates that the total extent of Infinity Israel-China is expected in the first stage to stand at approximately \$ 150 million and its final aggregate extent is expected to reach approximately \$ 250 million. Closing occurred on May 3, 2007. After closing, the Company will be a partner in the GP (General Partner) which manages Infinity Israel-China. CII is also authorized to nominate one out of the three directors as chairman of the Board in the general partners.

Infinity Israel-China is due to focus mainly on investments in companies located in Israel and China and which are engaged in the semi-conductor industry, and in materials, medical equipment, internet, software and communications. The date of the commencement of the activity of the fund is expected to be in the second quarter of 2007.

3.3 The biotechnology segment:

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

In January 2007, D-Pharm announced that it had received the results of the advanced clinical tests on humans (Phase IIb), which it had conducted on a drug to treat strokes. The analysis of the results 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. Based on its announcement, D-Pharm is considering several strategic alternatives regarding the continued development of said drug. 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. D-Pharm is indirectly held by CBI at 33.8% (31.7% on a fully diluted basis).

- Mediwound Ltd. ("Mediwound"):

In December 2006, Mediwound Ltd. ("Mediwound"), an investee indirectly held by CBI at 74% (about 65% on a fully diluted basis) signed a non-binding memorandum formalizing Teva's investment in Mediwound (jointly, "the parties") on the basis of which the parties shall act to complete negotiations between them ("the memorandum").

Mediwound is a biotechnology company engaged in the development and commercialization of medical products for the treatment of burns, in particular, and wounds, in general. The Company's leading product is in advanced stages of clinical tests on humans. There is no certainty that the tests will end in success and, therefore, it is possible that the product will not attain marketing on a commercial basis.

As provided in the memorandum, it was agreed that at the first stage Teva shall purchase shares from the Mediwound shareholders in the amount of \$ 10 million, and shares from Mediwound in the amount of \$ 5 million and, in addition, institutional investors shall purchase shares from Mediwound for a consideration of \$ 10 - \$ 15 million. The shares shall be purchased at a share price reflecting a pre-investment company value of \$ 100 million. As part of said investment, Teva shall be granted the exclusive right to market and distribute Mediwound's principal product in certain countries ("the license"). After said acquisition, CBI shall hold approximately 50% of Mediwound's share capital (on a fully diluted basis).

With respect to the purchase of the shares by Teva, the Company is expected to record a gain in the amount of approximately NIS 25 million in the course of 2007. With respect to the purchase of Mediwound's shares by Teva and the institutional investors, the Company will record a deferred revenue of between NIS 29 million and NIS 37 million, depending on the amount of the investment. The deferred revenue will be reported in the statement of income at the higher (on a cumulative base) of either the straight-line method over a period of three years or the Company's share in losses of Mediwound.

The data for the gain and the deferred revenue, as above, were computed on the basis that the net value of the options detailed below, according to a valuation of an independent outside appraiser prepared at CBI request, is immaterial.

In addition, upon receipt of the permit to market the product in the European Union countries, if any, Teva shall have the right to expand the license to these countries. To the extent Teva chooses to exercise this right, a Put option shall be available to all shareholders (excluding Teva), after exercise of which Teva shall hold 25% of Mediwound's share capital (on a fully diluted basis), at a share price reflecting a company value of \$ 200 million. To the extent the shareholders (excluding Teva) shall choose not to exercise their right to sell, as aforesaid, Teva shall be granted a Call option with respect to the same quantity of shares, at a share price reflecting a company value of \$ 250 million ("the European option").

If either of the options is exercised, CBI shall hold 42% (on a fully diluted basis) of Mediowound's share capital, and CBI's share in the proceeds is expected to be, at the present composition of holdings in Mediowound, between \$ 17 million and \$ 22 million.

Upon receipt of the permit to market the product in the U.S., if any, Teva shall have the right to expand the license to North American countries. To the extent Teva chooses to exercise this right, all shareholders (excluding Teva) shall have a Put option to sell to Teva 26% of Mediowound's share capital (on a fully diluted basis), at a share price reflecting a company value of \$ 245 million. To the extent the shareholders (excluding Teva) shall choose not to exercise their right to sell, as aforesaid, Teva shall be granted a Call option with respect to the same quantity of shares, at a share price reflecting a company value of \$ 306 million.

Should either of the options be exercised, and assuming that the European option is exercised, CBI shall hold 25% of Mediowound's share capital (on a fully diluted basis). Should the European option not be exercised, CBI shall hold, after exercising either of said options, approximately 34% of Mediowound's share capital (on a fully diluted basis). CBI's share in the proceeds is expected to be, at the present composition of holdings in Mediowound, between \$ 40 million and \$ 53 million.

Furthermore, to the extent that the majority of shareholders in Mediowound (excluding Teva) request that Mediowound shall go public after obtaining approval for the product in the U.S., Teva shall cooperate with respect to the execution of the public offering, however Teva shall have the right to acquire the holdings of all the other shareholders, pursuant to the mechanism specified in the memorandum.

It was further agreed under the memorandum that Mediowound shall be responsible for the continued development and production of the product, while Teva shall purchase the product from Mediowound for a percentage of the sale price of the product to the end customer as specified in the memorandum, and shall be responsible for marketing and distributing it, all subject to additional payments and terms specified in the memorandum.

It is noted that it is uncertain whether the transaction will be completed. Completing the transaction is contingent upon the parties signing a binding agreement and also contingent upon a series of suspending conditions and, among others, completion of the due diligence procedure by Teva, obtaining the requisite approvals prescribed by law and approval of the transaction by the parties competent institutions.

- Andromeda Biotech Ltd. ("Andromeda"):

In April 2007, Andromeda, a subsidiary wholly owned by CBI, signed a non-binding memorandum with the Develogen Israel Ltd. and Develogen AG Company (in which CBI holds about 0.8%) (jointly, "Develogen"). Pursuant to the memorandum, Andromeda will purchase from Develogen the rights to use the technology on the basis of which a drug will be developed called DiaPep277 intended to treat diabetes mellitus type I (known as childhood diabetes). On the basis of the technology, advanced clinical trials are currently being conducted on humans (Phase III). There is no certainty that the trial will end in success and, therefore, it is possible that the product based on the technology will not attain marketing.

In accordance with the terms of the memorandum, Develogen will sell the rights to the technology to Andromeda in consideration of royalties. Additionally, the parties were granted options pursuant to which Andromeda would invest in Develogen ("the investment options"). The investment options can be exercised by Develogen or by Andromeda, pursuant to the terms of the memorandum, upon successful completion of certain milestones relating to the development phases of the technology and/or obtaining certain regulatory approvals for the technology based product. The amounts which Andromeda might invest in Develogen if and insofar as all the milestones are realized and the investment options are exercised, may reach approximately € 18 million.

Additionally, Andromeda and Teva signed a letter of understandings subject to completion of the transaction, pursuant to which, among others, Teva would be given the option to purchase all the holdings in Andromeda within approximately six months after receiving the trial's interim report in consideration for royalties and a one-time payment, and all in accordance with the provisions of the letter of understandings.

It is noted that it is uncertain whether the transaction will be completed. Completing the transaction is contingent upon the parties signing a binding agreement and also contingent upon a series of suspending conditions and, among others, completion of the due diligence procedure, obtaining the requisite approvals prescribed by law and approval of the transaction by the parties competent institutions.

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

On April 22, 2007, a transaction was closed, according to which CBI purchased on an off-market transaction, 2,582,530 of the Ordinary shares of BioCancell, representing 21.58% of BioCancell's issued capital, in consideration of approximately NIS 10.7 million.

BioCancell develops medicines for treatment of types of cancer. The shares of BioCancell were register for trade on the Tel Aviv Stock Exchange in August 2006.

- Clal Biotechnology Industries Ltd.:

On March 30, 2007, CBI submitted the first draft of the prospectus to the Securities Authority and the Tel-Aviv Stock Exchange Ltd. to effect a public offering of CBI's securities on the basis of CBI's financial statements as of December 31, 2006.

On May 15, 2007, a tender was held for institutional investors and 400,000 units were offered, at a minimum price per unit of NIS 532 and a maximum price per unit of NIS 586 per unit. All units include 40 Ordinary shares of NIS 0.01 par value each and 10 options (series 1) that may be exercised into Ordinary shares of NIS 0.01 par value each against a cash payment of the exercise price of NIS 13.3 per option until November 30, 2007; and 20 options (series 2) that may be exercised into 20 Ordinary shares of NIS 0.01 par value each, against a cash payment of the exercise price of NIS 19.95 per option until May 30, 2011; and 2 options (series 3) that may be exercised into 2 Ordinary shares of NIS 0.01 par value each, against a cash payment of the exercise price of NIS 26.6 per option until May 30, 2011.

Requests from various institutional investors were received for the purchase of 314,000 units, for an overall consideration of approximately NIS 167 million. The price per unit fixed by the tender is the minimum price, that is, NIS 532 per unit.

The issue to the public includes an issue of shares and options that are offered in 376,000 units. In accordance with the results of the institutional tender, the prior commitments made by institutional investors for the purchase of about 300,000 units with an overall consideration of approximately NIS 160 million will be included in the prospectus. The rate of allocation to institutional investors who made prior commitments to purchase units at a price higher than the minimum price, were filled in full. The rate of allocation to institutional investors who made prior commitments to purchase units at the minimum price per unit is 87% of their orders.

The quantity of units offered, as stated above, may change up to the publication date of the prospectus and the final quantity will be fixed in the prospectus that will be published by CBI. The finalization of the issue by CBI is subject, among others, to receipt of a permit to be issued by the Israel Securities Authority to publish the prospectus, and approval by the Tel Aviv Stock Exchange for registration of the securities for trading.

In September 2005, the Company, CBI and Teva Pharmaceutical Industries Ltd. ("Teva") signed an agreement ("the original Teva agreement") according to which Teva will invest in CBI. On May 16, 2007, the parties signed an amendment to the original Teva agreement which will become effective subject to the completion of the public offering of CBI's securities, if effected. The original Teva agreement and the amendment to Teva agreement ("the amendment to Teva agreement") regulate the relations between the Company and Teva as shareholders in CBI and the relations between CBI and Teva, including commercial cooperation and provision of various services to CBI by Teva.

According to the original Teva agreement, Teva will invest approximately \$ 19 million in CBI ("the investment amount") in return for 19% of CBI's share capital (on a fully diluted basis). Upon the closing, in October 2005, Teva invested approximately \$ 8.5 million of the investment amount.

On May 15, 2007, Teva invested approximately \$ 5 million on account of the investment amount, as above, and this in accordance with the original Teva agreement. As a result of the above investment by Teva, the Company recorded a deferred revenue in the amount of approximately NIS 16 million. The deferred revenue will be reported in the statement of income at the higher of either the straight-line method over a period of three years or the Company's share in losses of CBI.

After this investment, the balance of unpaid investment for Teva's interest in CBI will stand at \$ 5.68 million. The remaining balance of the investment, as above, will be provided to CBI at the earlier of: based on CBI's financial needs, at the time that Teva sells its holdings in CBI or within three years from the closing, i.e. October 2008.

According to the original Teva agreement, Teva and the Company have also undertaken to invest additional approximately \$ 31 million in CBI based on their relative holdings (meaning in each capital call the Company will invest 81% and Teva 19%) in such a manner that Teva shall invest additional approximately \$ 6 million and the Company shall invest additional approximately \$ 25 million. According to the amendment to Teva agreement, this undertaking is cancelled once the amendment to Teva agreement comes into force.

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 difference between the Company's share in Barak's equity before the merger and the Company's share in Netvision's equity immediately after the merger totaled approximately NIS 44 million and was reported in shareholders' equity.

- On May 8, 2007, Netvision signed an agreement 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. According to the terms of the agreement, Netvision will transfer to Nana 10 all Netvision's activities on Netvision's internet website "Nana" and "Nana shops" against the allotment of Nana 10 shares to Netvision.

On the date of closing of the agreement, shares of Nana 10 will be allotted 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.

Concurrent with the allotment of Nana 10 shares, as aforesaid, Netvision will sell 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 allotment and the sale of Nana 10 shares to Channel 10, as aforesaid, Netvision and Channel 10 will each hold 50% in Nana 10.

The agreement contains, among others, various provisions regarding the manner of joint control of Nana 10, including the composition of its Board, the manner of passing resolutions therein, joint management and cooperation between the parties after closing of the transaction, and also provisions with regard to restrictions on the transfer by the parties of Nana 10 shares to third parties, a right of first refusal, a tag-along right in the case of sale of shares in Nana 10, a right to participate in an additional issue of shares of Nana 10, and so forth. Furthermore, the agreement contains certain restrictions with regard to competing activities of the parties in the field of presenting television content on the internet and in connection with internet content activities, as well as indemnity undertakings of the parties in respect of representations that were given by them in the agreement, as set forth therein.

The agreement is subject to the fulfillment of various suspending conditions which include, among others, approval by the Controller of Restrictive Trade Practices, approval by the Second Authority for Television and Radio and obtaining other approvals that are required by law, all within 90 days from the date of signing of the agreement.

As a result of the aforesaid, Netvision is expected at the date of closing to record a gain of approximately NIS 20 million, net of tax.

Based on the aforesaid, the Company will record a gain of approximately NIS 5 million in respect of the Company's share in Netvision's expected gain from the agreement. This gain will be recorded at the time that Netvision records its gain from the agreement.

4. FINANCIAL POSITION AND SOURCES OF FINANCING

Total assets in the consolidated balance sheet as of March 31, 2007 amounted to NIS 6,728 million, compared to NIS 6,412 million as of December 31, 2006.

Consolidated working capital amounted to NIS 1,602 million. As of March 31, 2007, short-term liquid assets amounted to NIS 1,532 million, and are included in short-term investments and in cash and cash equivalents. The quick ratio of the consolidated Group companies is 1.83 (December 31, 2006 – 1.02). The principal sources of cash were from the issuance of debentures in the amount of NIS 861 million. Cash was utilized principally for redemption of debentures in the amount of NIS 165 million.

Shareholders' equity as of March 31, 2007 amounted to NIS 1,745 million, compared to NIS 1,696 million as of December 31, 2006. The increase in equity totaling NIS 58 million resulted mainly from revaluation of investment property in the amount of NIS 55 million to earnings and net income for the quarter of NIS 41 million offset by the NIS 44 million carried to equity under "Business combination transaction of companies under common control".

Minority interest as of March 31, 2007 amounted to NIS 361 million (December 31, 2006 – NIS 350 million). Shareholders' equity and minority interest, together, constituted sources for financing 31% of the Group's assets (December 31, 2006 – 32%).

As of March 31, 2007, the Group's long-term external financing sources amounted to NIS 3,131 million (December 31, 2006 – NIS 2,470 million), 3% of which are repayable in the coming year. As of March 31, 2007, the Group's short-term financing sources amounted to NIS 151 million (December 31, 2006 – NIS 247 million).

As of March 31, 2007, the balance of liabilities, net, of the Company and its wholly owned headquarter companies (mainly debentures) amounted to NIS 1,145 million (December 31, 2006 – NIS 1,207 million).

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

The following report relates to the Company and to its wholly owned headquarter companies whose ("the Corporation"). Regarding principal subsidiaries, see section 5.6 below.

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

5.2 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.

5.3 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.

5.4 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.

5.5 Report of linkage bases as of March 31, 2007 - consolidated (NIS in millions):

	<u>Linked to the Israeli CPI</u>	<u>Linked to U.S. dollar</u>	<u>Linked to other foreign currencies</u>	<u>Unlinked</u>	<u>Non- monetary balances</u>	<u>Total</u>
Current assets	197	235	47	1,621	680	2,780
Non-current assets	88	6	-	26	3,828	3,948
Current liabilities	(251)	(75)	(93)	(746)	(13)	(1,178)
Non-current liabilities	<u>(2,932)</u>	<u>(14)</u>	<u>(14)</u>	<u>(50)</u>	<u>(795)</u>	<u>(3,805)</u>
Total balance sheet, net	<u>(2,898)</u>	<u>152</u>	<u>(60)</u>	<u>851</u>	<u>3,700</u>	<u>1,745</u>

5.6 Subsidiaries:

Nesher, Golf, Taavura and Barak are exposed to fluctuations in prices of raw materials, energy and changes in exchange rates and interest rates that affect the revenues and expenses of these companies. Nesher, Kitan, Taavura and Barak adjust their sources of revenues and expenses to same currency. Kitan and Barak sometimes enter 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.

5.7 Events subsequent to the balance sheet date:

No material events were recorded in the Corporation subsequent to balance sheet date regarding market risks.

6. FINANCIAL INSTRUMENTS

6.1 Sensitivity tests regarding changes in market risks:

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.

6.1.1 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 million):

<u>The sensitive instrument</u>	<u>Gain (loss) from changes</u>		<u>Fair value NIS/U.S. \$</u>	<u>Gain (loss) from changes</u>	
	<u>10%</u>	<u>5%</u>		<u>-5%</u>	<u>-10%</u>
Cash	20	10	198	(10)	(20)
Trade receivables	2	1	20	(1)	(2)
Other receivables	2	1	17	(1)	(2)
Long-term deposits, loans and receivables	0.2	0.1	2	(0.1)	(0.2)
Credit from banks	(0.4)	(0.2)	(4)	0.2	0.4
Trade payables and other payables	(5)	(2)	(47)	2	5
Other current liabilities	(0.7)	(0.4)	(7)	0.4	0.7
Long-term loans	(0.7)	(0.4)	(7)	0.4	0.7
Other long-term liabilities	(0.7)	(0.4)	(7)	0.4	0.7
Total balance sheet	15.7	7.7	148	(7.7)	(15.7)
NIS/U.S. \$ forward transactions	1.4	0.7	(0.1)	(0.7)	(1.4)
Total	17.1	8.4	147.9	(8.4)	(17.1)

6.1.2 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 million):

<u>The sensitive instrument</u>	<u>Gain (loss) from changes</u>		<u>Fair value NIS 5.564/€</u>	<u>Gain (loss) from changes</u>	
	<u>10%</u>	<u>5%</u>		<u>-5%</u>	<u>-10%</u>
Cash	2	1	22	(1)	(2)
Trade receivables	2	1	15	(1)	(2)
Trade payables and other payables	(7)	(3)	(69)	3	7
Long-term loans	(1.4)	(0.7)	(14)	0.7	1.4
Total	(4.4)	(1.7)	(46)	1.7	4.4

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

<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	(3)	(1.4)	74	1.4	2.9
Debentures	69	34	(3,012)	(40)	(78)
Long-term loans	0.4	0.2	(159)	(0.2)	(0.4)
Other long-term liabilities	0.4	0.2	(9)	(0.2)	(0.4)
Total	66.8	33	(3,073)	(39)	(75.9)

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

The sensitive instrument	Increase in interest rate			Fair value	Decrease in interest rate		
	25%	10%	5%		5%	10%	25%
	Gain from changes				Loss from changes		
Marketable securities	N/A	36	18	361	N/A	(18)	(34)
Investments in other companies:							
Marketable shares	N/A	14	7	137	(34)	(7)	(14)
Marketable shares	N/A	8	4	77	N/A	(4)	(8)
Total		58	29	575	(34)	(29)	(58)

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

The sensitive instrument	Increase		Fair value	Decrease	
	0.2%	0.1%		0.1%	0.2%
	Gain from changes			Loss from changes	
Forward contracts to hedge against the increase in the CPI	2	1	(40)	(1)	(2)

Comments:

1. The fair value of marketable securities is measured at their quoted market prices as of March 31, 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.

7. IMMEDIATE PREPARATION FOR ANNUAL FINANCIAL STATEMENTS IN COMPANIES SUBJECT TO THE SECURITIES LAW

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("Standard 29"). 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. For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

According to Standard 29, 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.

The Company is evaluating the implications of the transition to IFRS but is presently unable to estimate the effect of the adoption of IFRS on its financial statements. Management has appointed Yehuda Ben Ezra, the Company's comptroller, to be responsible for the process of adoption of IFRS.

Following are the stages of the process as determined by the Company's management:

The actions taken by the time the annual financial statements as of December 31, 2006 were published:

- A review of IFRS.
- Mapping of the relevant IFRS for the Company in respect of which a comprehensive examination of the implications on the financial statements is required.
- Determining a uniform accounting policy for the Company and its investees to be implemented in the Company's consolidated financial statements.
- Locating and reviewing advisors (appraisers, actuaries and assessors) to serve the Company and its investees in implementing IFRS.
- Designating and documenting the classification of financial instruments and accounting hedge relations in the Company and its investees as of the date of the transition, as required by IFRS 1.

The actions to be taken by the time the interim financial statements for the second quarter of 2007 are to be published:

- Assessing the basis for determining the carrying amount of affiliates in which the investment includes an original non-attributed difference in a substantial amount.
- Performing actuary assessments of the accrued severance pay as of the date of the transition.
- Assessing the basis for determining the fair value of investments in companies presented at cost.
- Quantitative assessment of the principal implications expected to result for the Company from the adoption of IFRS as of January 1, 2007.
- Identification of significant contracts, commitments or agreements that are expected to be affected by the adoption of IFRS, whether those whose provisions will be amended in view of the transition or those that are based on or refer to any changed data or indices as a result of the transition.
- Obtaining evaluations of legal advisors regarding the fair value of pending legal claims as of the date of transition.

The actions to be taken by the time the annual financial statements as of December 31, 2007 are to be published:

- Completing a qualitative and quantitative assessment of the additional implications that are expected to arise from the adoption of IFRS.
- Preparing a balance sheet as of December 31, 2007 according to IFRS.
- Preparing a statement of profit and loss for 2007 according to IFRS.

Following is a description of the anticipated effects of the transition to IFRS on the Company's financial statements, including the consequent changes that are expected to take place in the Company's accounting policies:

- Pursuant to generally accepted accounting principles in Israel ("Israeli GAAP"), accrued severance pay is recognized based on the full liability amount assuming that all employees are dismissed as of balance sheet date under terms that entitle them to full severance pay regardless of capitalization rates, future salary increase rates and future retirements. Pursuant to IFRS, post-retirement benefits in respect of defined benefit plans are to be measured, among others, based on actuary estimates and capitalized amounts.
- Pursuant to IFRS, warrants that had been issued to investors with an exercise increment in foreign currency (or linked to the CPI or a foreign currency) are classified as a liability and measured at fair value. Pursuant to Israeli GAAP, these warrants are classified as shareholders' equity.
- Pursuant to IFRS, liabilities that are convertible into shares and denominated in foreign currency (or linked to the CPI or a foreign currency) are classified as a liability. Their measurement requires separating the liability amount into two components: a non-convertible liability component, measured at amortized cost based on the effective interest method and a conversion option, measured at fair value. Pursuant to Israeli GAAP, these liabilities are treated as a compound instrument and are therefore split into an equity component and a liability component.
- Pursuant to IFRS, a provision is recognized if the chances that a liability will be incurred are more likely than not. Pursuant to Israeli GAAP, the Group recognizes a provision if the use of economic resources to settle the liability is probable.
- Pursuant to IFRS, the Company will classify its investments in non-marketable shares and options for non-marketable shares as available-for-sale financial assets. These investments will be measured at fair value. Changes in the fair value will be carried to capital reserves in respect of available-for-sale financial assets. Pursuant to Israeli GAAP, the Company classified these investments as permanent investments measured at cost less any decreases in value that are other than temporary.
- Pursuant to IFRS, embedded derivatives should be separated from hybrid instruments. Separated embedded derivatives are measured at fair value. Changes in fair value are carried to profit and loss. Pursuant to Israeli GAAP, no such separation of embedded derivatives is required.

- Pursuant to IFRS, capital reserves from the translation of financial statements of investees are carried as of the date of transition to retained earnings.
- Pursuant to IFRS, land that is leased from the Israel Lands Administration and has so far been classified in property and equipment, will be classified as long-term prepaid expense and will be presented separately from property and equipment and depreciated over the term of the lease, including the option.
- Pursuant to IFRS, all derivatives are classified in the balance sheet as assets and liabilities and are measured at fair value. Changes in the fair value of derivatives are carried to profit and loss according to the derivative's designated use. Pursuant to Israeli GAAP, the results of derivatives that are used as hedges are carried simultaneously with carrying the results from the hedged item in the financial statements according to the changes in the exchange rates in the reported period.
- Pursuant to IFRS, grants received from the Government of Israel as participation in the development of products are treated as a "waive of loan" according to the principles of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". The loan is repayable, if at all, by payments of royalties computed on the basis of sales proceeds from products in which the Government participated in their development. Pursuant to Israeli GAAP, grant as above is included on initial recognition as a deduction of the Company's research and development costs and royalties payable to the Government out of product sales are reported to cost of sales in the Company's statement of income according to the rate of revenue recognition.

8. SHARE CAPITAL

During the reported period, an additional 43,848 shares were issued following the exercise of 73,717 options. As of the date of the approval of the financial statements, the Company's share capital amounts to 157,460,892 Ordinary shares.

9. ADDITIONAL INFORMATION

a. Debentures:

- In January 2007, the Company issued to institutional and private investors through a private placement NIS 500 million debentures (series N) (of which NIS 23 million to related parties). The debentures (principal and interest) are linked to the Israeli CPI, are redeemable in five equal annual payments starting January 2018 and bear annual interest at the rate of 4.9% on the outstanding balance. In May 2007, the Company registered the debentures (series N) for trading on the Tel Aviv Stock Exchange through a shelf prospectus. During the period when the debentures (series N) will not be registered for trading on the Stock Exchange, the Company will pay additional interest of 0.5% over the basic annual interest rate which will be paid on the outstanding balance of the debentures (series N) and the annual interest rate will accordingly be 5.4%. The interest is payable in January of each year starting 2008. Maalot - The Israel Securities Rating Company Ltd. ranked said debentures as AA.

- In March 2007, a subsidiary concluded a tender to institutional and private investors through a private placement of NIS 362 million debentures (of which NIS 56 million to related parties). The debentures are linked to the Israeli CPI, bear annual interest at the rate of 4.95% and are redeemable in six equal annual payments from 2015 until 2020. Maalot - The Israel Securities Rating Company Ltd. ranked said debentures as AA. Of the proceeds from the issue of the debentures, an amount of 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 land at NIS 664 million,. The cost of land in the Company's books (including excess of cost attributed to the land) totals NIS 367 million and, accordingly, an impairment of said land is not necessary. The valuation is attached to these financial statements.

10. 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 9 above. This prospectus is also used to release from capping debentures (series L) and debentures (series M) relating to private placements effected in 2006.

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

<hr/>	<hr/>	<hr/>
Nochi Dankner	Avi Fisher	Zvika Livnat
Chairman of the Board of Directors	Director and Co-CEO	Co-CEO

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2007

UNAUDITED

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CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u>		<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,145	671	597
Short-term investments	387	343	351
Trade receivables	522	583	631
Other receivables	102	92	103
Inventories	624	*) 506	*) 600
	<u>2,780</u>	<u>2,195</u>	<u>2,282</u>
INVENTORIES OF REAL ESTATE	<u>52</u>	<u>*) 68</u>	<u>*) 66</u>
LONG-TERM DEPOSITS, LOANS AND RECEIVABLES	<u>95</u>	<u>88</u>	<u>85</u>
INVESTMENTS:			
Affiliates	1,148	1,395	983
Other companies	508	440	514
Investment property	231	*) 132	*) 154
	<u>1,887</u>	<u>1,967</u>	<u>1,651</u>
FIXED ASSETS:			
Cost	6,972	*) 7,539	*) 7,626
Less - accumulated depreciation	5,097	*) 5,444	*) 5,539
	<u>1,875</u>	<u>2,095</u>	<u>2,087</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>39</u>	<u>*) 410</u>	<u>*) 241</u>
	<u><u>6,728</u></u>	<u><u>6,823</u></u>	<u><u>6,412</u></u>

*) Reclassified, see Note 2b(4).

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

CONSOLIDATED BALANCE SHEETS

	<u>March 31,</u>		<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks	204	243	319
Trade payables	340	530	514
Other payables	550	504	645
Dividend payable	-	279	-
Other current liabilities	84	101	104
	<u>1,178</u>	<u>1,657</u>	<u>1,582</u>
LONG-TERM LIABILITIES:			
Debentures	2,846	2,403	2,143
Convertible debentures of subsidiary	-		27
Loans	153	148	133
Deferred taxes	242	249	229
Accrued severance pay	176	173	185
Other liabilities	27	50	67
	<u>3,444</u>	<u>3,023</u>	<u>2,784</u>
MINORITY INTEREST	<u>361</u>	<u>300</u>	<u>350</u>
SHAREHOLDERS' EQUITY	<u>1,745</u>	<u>1,843</u>	<u>1,696</u>
	<u><u>6,728</u></u>	<u><u>6,823</u></u>	<u><u>6,412</u></u>

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

.....
Nochi Dankner
 Chairman of the Board
 of Director

.....
Zvika Livnat
 Co-CEO

.....
Avi Fisher
 Director and Co-CEO

.....
Yehuda Ben Ezra
 Comptroller

May 20, 2007
 Date of approval of the
 financial statements

CONSOLIDATED STATEMENTS OF INCOME

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in millions (except per share amounts)		
Revenues, net:			
Sales and services	877	844	3,672
Other income	2	24	59
Group's equity in earnings of affiliates	6	6	51
	<u>885</u>	<u>874</u>	<u>3,782</u>
Costs and expenses:			
Cost of sales and services	604	600	2,483
Selling and marketing expenses	96	97	400
General and administrative expenses	60	56	239
Financial expenses, net	27	40	160
	<u>787</u>	<u>793</u>	<u>3,282</u>
Income before taxes on income	98	81	500
Taxes on income	40	18	157
Income from operations after taxes on income	58	63	343
Minority interest in earnings of subsidiaries, net	(17)	(10)	(101)
Income before cumulative effect of change in accounting principles	41	53	242
Cumulative effect as of the beginning of the period of change in accounting principles, net	-	23	23
Net income	<u>41</u>	<u>76</u>	<u>265</u>
Basic and diluted net earnings per share :			
Earnings before cumulative effect as of the beginning of the period of change in accounting principles, net	0.26	0.33	1.56
Earnings (loss) from cumulative effect as of the beginning of the period of change in accounting principles, net	-	0.15	0.13
	<u>0.26</u>	<u>0.48</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	Capital reserves (*)	Retained earnings		Total
			Dividend declared subsequent to balance sheet date	Undistributed retained earnings	
Reported NIS in millions					
Unaudited					
Balance as of January 1, 2007	1,257	382	-	57	1,696
Issuance of share capital	** -	-	-	-	** -
Adjustment of investment property (see Note 2b(4))	-	-	-	55	55
Foreign currency translation adjustments	-	(7)	-	-	(7)
Business combination transaction of companies under common control	-	(19)	-	(25)	(44)
Effect of measurement of fixed assets at fair value as their deemed cost (see Note 2b(2))	-	-	-	4	4
Net income	-	-	-	41	41
Balance as of March 31, 2007	<u>1,257</u>	<u>356</u>	<u>-</u>	<u>132</u>	<u>1,745</u>
Balance as of January 1, 2006	1,257	437	270	61	2,025
Issuance of share capital	** -	-	-	-	** -
Foreign currency translation adjustments	-	12	-	-	12
Dividend declared	-	-	(270)	-	(270)
Net income	-	-	-	76	76
Dividend declared subsequent to the balance sheet date	-	-	108	(108)	-
Balance as of March 31, 2006	<u>1,257</u>	<u>449</u>	<u>108</u>	<u>29</u>	<u>1,843</u>
Audited					
Balance as of January 1, 2006	1,257	437	270	61	2,025
Foreign currency translation adjustments	-	(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:

	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in millions		
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	(253)	(179)	(246)
	356	449	382

**) Less than NIS 1 million.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in millions		
<u>Cash flows from operating activities:</u>			
Net income	41	76	265
Adjustments to reconcile net income to net cash provided by (used in) operating activities (a)	(49)	(51)	169
Net cash provided by (used in) operating activities	(8)	25	434
<u>Cash flows from investing activities:</u>			
Purchase of fixed and other assets net of investment grant received	(42)	(72)	(178)
Acquisition of newly consolidated companies (b)	-	-	(5)
Previously consolidated company (c)	(4)	-	-
Acquisition of minority interest in subsidiary	-	-	(30)
Investments in affiliates and other companies	(24)	(34)	(157)
Decrease (increase) in marketable securities, net	(38)	2	(6)
Proceeds from disposal of fixed assets	7	4	28
Proceeds from disposal of investments	6	5	407
Decrease (increase) in short-term deposits, loans and investments, net	5	(29)	(24)
Increase in long-term deposits and loans	(18)	-	-
Collection of long-term loans and receivables to others, including long-term loans and receivables to affiliates	-	2	21
Net cash provided by (used in) investing activities	(108)	(122)	56
<u>Cash flows from financing activities:</u>			
Receipt of loans and other long-term liabilities:			
From banks and others	44	42	53
From issuance of debentures	861	-	284
Repayment of long-term loans and other liabilities:			
From banks and others	(47)	(20)	(148)
Redemption of debentures	(165)	(15)	(477)
Short-term credit from banks, net	(2)	2	107
Increase (decrease) in other current liabilities, net	-	(1)	-
Issuance of shares to minority in subsidiary	-	71	192
Dividend paid to minority in consolidated companies	(27)	(24)	(78)
Dividend paid	-	-	(539)
Net cash provided by (used in) financing activities	664	55	(606)
Increase (decrease) in cash and cash equivalents	548	(42)	(116)
Cash and cash equivalents at the beginning of the period	597	713	713
Cash and cash equivalents at the end of the period	1,145	671	597

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in millions		
(a) <u>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving operating cash flows:			
Minority interest in earnings of subsidiaries, net	17	10	101
Group's equity in earnings of affiliates, net of dividends received *)	(3)	69	87
Losses (gains) from disposal of investments, net	(2)	11	(53)
Gain from early redemption of debentures in subsidiary	(2)	-	(25)
Gain from issuance to minority in subsidiary	-	(33)	(63)
Decrease (increase) in value of investments and assets, net	4	(26)	(4)
Depreciation and amortization	45	67	294
Gain from disposal of fixed and other assets, net	(1)	(2)	(9)
Deferred taxes, net	(3)	(13)	(43)
Increase (decrease) in accrued severance pay, net	(5)	18	31
Cost of share-based payment	-	-	2
Erosion (revaluation) of assets and liabilities, net	(21)	5	18
Cumulative effect as of the beginning of the period of change in accounting principles, net	-	(23)	(23)
Changes in assets and liabilities:			
Decrease (increase) in receivables	(47)	6	(18)
Increase in inventories	(29)	(46)	(101)
Decrease in payables	(2)	(94)	(25)
	<u>(49)</u>	<u>(51)</u>	<u>169</u>
*) Dividends received	<u>3</u>	<u>75</u>	<u>138</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in millions		
(b) <u>Acquisition of newly consolidated companies:</u>			
Assets and liabilities of the consolidated companies 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 - commitment relating to the acquisition			(7)
Minority interest	-	-	-
	-	-	(5)
(c) <u>Sale of previously consolidated companies:</u>			
Assets and liabilities of the companies 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>			
In-kind dividend from investee	-	-	5
Dividend receivable from investee	-	4	-
Dividend declared	-	279	-
Transfer of inventories to fixed assets	5	2	4
Investments in investees and other companies and purchase of properties on credit	5	9	5
Sale of investments in companies, fixed assets and other assets for credit	-	-	-
Payables for acquisition of a newly consolidated company	-	-	7

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 March 31, 2007 and for the 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. 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. Basis of presentation of the financial statements:

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.

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.

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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, except in the following cases:

- a) A company that on the effective date chooses the revaluation model for a class of fixed assets - the difference between the revalued amount and the carrying amount on the effective date will be recorded in a capital reserve in shareholders' equity at that date. The company will not be required to restate comparative data.
- b) A company that has not included in the cost of fixed assets an initial estimate of the costs of dismantling and removing the asset and restoring the site on which the asset is located will be required to:
 - 1) Measure the liability at the effective date, in accordance with generally accepted accounting principles;
 - 2) Calculate the amount that would have been included in the cost of the relevant asset at the date on which the obligation was first incurred by discounting the aforementioned liability to the date of its initial incurrence using the company's best estimate of the historical discount rates adjusted for the risk relevant to that liability during the elapsed period;
 - 3) Calculate the accumulated depreciation in respect of the amount of the discounted liability up to the effective date based on the asset's useful life at that time;
 - 4) The difference between the amount recorded in respect of the asset, pursuant to 2) and 3) above, and the amount of the liability, pursuant to 1) above, should be recorded directly to retained earnings.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- c) 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 act so already on the effective date. The company will not be required to restate comparative data.
- d) Companies that are not required to report according to IFRS may adopt the provisions of the Standard for exchange transaction and for depreciation according to the components method only with regard to purchases of fixed assets made after the effective date (January 1, 2007).

An Affiliate of the Company has elected to adopt the exemption as in c) above and, accordingly, the Company recorded an increase of approximately NIS 4 million in the affiliate's investment account with a corresponding increase in retained earnings.

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

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 value. In cases of transactions that have the characteristics of shareholders' investments, the Standard may also apply to transactions with shareholders that are not controlling shareholders in their capacity as shareholders. As for the effect of said pronouncement, see Note 3a.

- 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 attributable 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 amounting to approximately NIS 11 million and affiliates amounting to approximately NIS 2 million with a corresponding adjustment of retained earnings as of that date, so that the net amount 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.

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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

- 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").

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

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.

The Company is evaluating the effect of the new Standard on its financial statements.

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

- 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
March 31, 2007	109.6	4.155
March 31, 2006	110.6	4.665
December 31, 2006	109.9	4.225
Change during the period	%	%
March 2007 (3 months)	(0.2)	(1.7)
March 2006 (3 months)	0.6	1.3
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:

The high technology and electronics segment:

- On March 26, 2007, the Company's Board decided on the framework of an investment of \$ 20 million (of this amount, \$ 3 million has been invested in 2006) in Infinity Israel - China Fund ("the Fund"). The total extent of investments by all investors in the Fund is approximately \$ 150 million. The Fund's management estimates that the final aggregate extent of investments in the Fund will reach approximately \$ 250 million. On May 3, 2007, the transaction was closed. After closing, the Company holds 25% of GP (General Partner) which manages the Fund. The Company is also authorized to nominate one out of the three directors as chairman of the Board in the general partners.

The Fund is due to focus mainly on investments in companies located in Israel and China and which are engaged in the semi-conductor industry, and in materials, medical equipment, Internet, software and communications. The date of the commencement of the activity of the Fund is expected to be in the second quarter of 2007.

- During the reported period, the quoted market price for the share of Saifun Semiconductors Ltd. ("Saifun") decreased below its book value (NIS 173 million). In view of the continuous decline in the price of Saifun's share, the Company obtained a valuation from an independent appraiser who has estimated the value of Saifun share at \$ 16.2 to \$ 19.1 per share (reflecting an investment between NIS 188 million to NIS 222 million). In view of the fact that the value of the investment in Saifun as reflected in the valuation is higher compared to the carrying amount of the investment in the Company's books, an impairment loss shall not be recognized. The valuation is attached to these financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

The biotechnology segment:

- On March 30, 2007, CBI submitted the first draft of the prospectus to the Securities Authority and the Tel-Aviv Stock Exchange Ltd. to effect a public offering of CBI's securities on the basis of CBI's financial statements as of December 31, 2006.
- On May 15, 2007, a tender was held for institutional investors and 400,000 units were offered, at a minimum price per unit of NIS 532 and a maximum price per unit of NIS 586 per unit. All units include 40 Ordinary shares of NIS 0.01 par value each and 10 options (series 1) that may be exercised into Ordinary shares of NIS 0.01 par value each against a cash payment of the exercise price of NIS 13.3 per option until November 30, 2007; and 20 options (series 2) that may be exercised into 20 Ordinary shares of NIS 0.01 par value each, against a cash payment of the exercise price of NIS 19.95 per option until May 30, 2011; and 2 options (series 3) that may be exercised into 2 Ordinary shares of NIS 0.01 par value each, against a cash payment of the exercise price of NIS 26.6 per option until May 30, 2011.

Requests from various institutional investors were received for the purchase of 314,000 units, for an overall consideration of approximately NIS 167 million. The price per unit fixed by the tender is the minimum price, that is, NIS 532 per unit.

The issue to the public includes an issue of shares and options that are offered in 376,000 units. In accordance with the results of the institutional tender, the prior commitments made by institutional investors for the purchase of about 300,000 units with an overall consideration of approximately NIS 160 million will be included in the prospectus. The rate of allocation to institutional investors who made prior commitments to purchase units at a price higher than the minimum price, were filled in full. The rate of allocation to institutional investors who made prior commitments to purchase units at the minimum price per unit is 87% of their orders.

The quantity of units offered, as stated above, may change up to the publication date of the prospectus and the final quantity will be fixed in the prospectus that will be published by CBI. The finalization of the issue by CBI is subject, among others, to receipt of a permit to be issued by the Israel Securities Authority to publish the prospectus, and approval by the Tel Aviv Stock Exchange for registration of the securities for trading.

In September 2005, the Company, CBI and Teva Pharmaceutical Industries Ltd. ("Teva") signed an agreement ("the original Teva agreement") according to which Teva will invest in CBI. On May 16, 2007, the parties signed an amendment to the original Teva agreement which will become effective subject to the completion of the public offering of CBI's securities, if effected. The original Teva agreement and the amendment to Teva agreement ("the amendment to Teva agreement") regulate the relations between the Company and Teva as shareholders in CBI and the relations between CBI and Teva, including commercial cooperation and provision of various services to CBI by Teva.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

According to the original Teva agreement, Teva will invest approximately \$ 19 million in CBI ("the investment amount") in return for about 19% of CBI's share capital (on a fully diluted basis). Upon the closing, in October 2005, Teva invested approximately \$ 8.5 million of the investment amount.

On May 15, 2007, Teva invested approximately \$ 5 million on account of the investment amount, as above, and this in accordance with the original Teva agreement. As a result of the above investment, by Teva, the Company recorded a deferred revenue in the amount of approximately NIS 16 million. The deferred revenue will be reported in the statement of income at the higher (on a cumulative base) of either the straight-line method over a period of three years or the Company's share in losses of CBI.

After this investment, the balance of unpaid investment for Teva's interest in CBI will stand at \$ 5.68 million. The remaining balance of the investment, as above, will be provided to CBI at the earlier of: based on CBI's financial needs, at the time that Teva sells its holdings in CBI or within three years from the closing, i.e. October 2008.

According to the original Teva agreement, Teva and the Company have also undertaken to invest additional approximately \$ 31 million in CBI based on their relative holdings (meaning in each capital call the Company will invest 81% and Teva 19%) in such a manner that Teva shall invest additional approximately \$ 6 million and the Company shall invest additional approximately \$ 25 million. According to the amendment to Teva agreement, this undertaking is cancelled once the amendment to Teva agreement comes into force.

The communication services segment:

- In connection with the merger between Barak I.T.C. (1995) - the International Telecommunication Services Corp. Ltd. ("Barak") and Netvision Ltd. ("Netvision"), as discussed in Note 8g(4) to the annual financial statements, in January 2007, the merger transactions of Barak and Netvision and Globecall and Netvision were effected after all the prerequisites had been met and the approvals required by the law had been obtained. 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 (7.8% on a fully diluted basis).

Since in the level of the merged companies the merger is accounted for as business combination of companies under common control and in accordance with the decision of the Securities Authority as stated in Note 2b(3) above, the Company did not recognize a gain from the transaction. The difference between the Company's share in Barak's equity before the merger and the Company's share in Netvision's equity immediately after the merger totaled approximately NIS 44 million and was reported directly in shareholders' equity.

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

As of the date of merger, the Company discontinued to include the accounts of Barak. Below are data pertaining to the investment in Barak close to the date of merger:

	January 31, 2007
	Reported NIS in millions
Assets	380
	One month period ended January 31, 2007
	Reported NIS in millions
Sales	61
Net loss	1

b. Investments in listed companies:

	Carrying amount	Market value	
	March 31, 2007	March 31, 2007	May 19, 2007
	Reported NIS in millions		
Affiliates:			
ECI Telecom Ltd.	345	537	485
Netvision Ltd.	152	414	408
American Israeli Paper Mills Ltd.	180	308	368
Fundtech Ltd.	120	317	332
Maman - Cargo Terminals and Handling Ltd.	42	59	59
Beit Shemesh Engine Holdings (1997) Ltd.	40	43	47
Nova Measuring Instruments Ltd.	28	50	47
Gold Bond Group Ltd.	12	19	23
Other companies:			
Saifun Semiconductors Ltd.	173	137	111
Compugen Ltd.	45	34	36
ECTel Ltd.	19	29	19
IDM Pharma Inc.	6	6	4
Other companies	5	8	7

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. 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>March 31,</u>		<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
Shareholders' equity:			
As reported by the affiliate	665,236	631,022	643,711
Net adjustments to generally accepted accounting principles in Israel	<u>2,206</u>	<u>(10,345)</u>	<u>(3,843)</u>
As adjusted	<u>667,442</u>	<u>620,677</u>	<u>639,868</u>
	<u>Three months ended</u>		<u>Year ended</u>
	<u>March 31,</u>		<u>December 31,</u>
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
Net income (loss) for the period:			
As reported by the affiliate	18,713	3,062	22,095
Net adjustments to generally accepted accounting principles in Israel	<u>4,399</u>	<u>(3,837)</u>	<u>(8,960)</u>
As adjusted	<u>23,112</u>	<u>(775)</u>	<u>13,135</u>

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

In April 2007, Veraz, of which about 40% is held by ICI, completed an initial public offering of shares in the NASDAQ, according to which 9 million shares of Veraz were offered to the public at a price of \$ 8 per share (before underwriting fees), consisting of an issue of 6.75 million shares by Veraz and a sale of 2.25 million shares by ICI.

Subsequent to the conclusion of said offering, ICI holds 27.6% of Veraz shares (23% on a fully diluted basis).

ICI's management believes that in view of the progress in the offering process of Veraz in the first quarter, the chances that part of ICI's tax losses will be utilized against future gains from sale of Veraz's shares are higher than the chances that they will not be utilized. Considering the above, ICI recorded a tax benefit of \$ 12.5 million in its books (of which Company's share is NIS 7 million).

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 NIS 500 million debentures (series N) (of which NIS 23 million to related parties). The debentures (principal and interest) are linked to the Israeli CPI, are redeemable in five equal annual payments starting January 2018 and bear annual interest at the rate of 4.9% on the outstanding balance. In May 2007, the Company registered the debentures (series N) for trading on the Tel Aviv Stock Exchange through a shelf prospectus. During the period when the debentures (series N) will not be registered for trading on the Stock Exchange, the Company will pay additional interest of 0.5% over the basic annual interest rate which will be paid on the outstanding balance of the debentures (series N) and the annual interest rate will accordingly be 5.4%. The interest is payable in January of each year starting 2008. Maalot - The Israel Securities Rating Company Ltd. ranked said debentures as AA.
- In March 2007, a subsidiary concluded a tender to institutional and private investors through a private placement of NIS 362 million debentures (of which NIS 56 million to related parties). The debentures are linked to the Israeli CPI, bear annual interest at the rate of 4.95% and are redeemable in six equal annual payments from 2015 until 2020. Maalot - The Israel Securities Rating Company Ltd. ranked said debentures as AA. Of the proceeds from the issue of the debentures, an amount of 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 land at NIS 664 million,. The cost of land in the Company's books (including excess of cost attributed to the land) totals NIS 367 million and, accordingly, an impairment of said land is not necessary. The valuation is attached to these financial statements.

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

a. Segment revenues (1):

	Three months ended		Year ended
	March 31,		December 31,
	2007	2006	2006
	Unaudited		Audited
	Reported NIS in millions		
Cement	350	323	1,430
Textile	262	201	908
High-technology and electronics	16	9	40
Communication services (2)	61	176	721
Biotechnology	(11)	(4)	(7)
Real estate	7	2	47
Other	197	143	584
	882	850	3,723
Other revenues, net	3	24	59
Total in the statement of income	885	874	3,782

b. Segment results:

Cement	75	36	298
Textile	30	44	130
High-technology and electronics	8	(7)	71
Communication services	3	18	53
Biotechnology	(17)	10	(9)
Real estate	5	3	34
Other	21	18	83
	125	122	660
Adjustments (3)	-	(1)	-
Financial expenses	(27)	(40)	(160)
Income before taxes on income	98	81	500

- (1) Including segment's share in earnings of affiliates.
- (2) Due to the completion of the merger, as stated in Note 3a, the Company discontinued to consolidate Barak's accounts and Barak's results are reported in Group's equity in earnings of affiliates.
- (3) Including other expenses, net, which were not allocated to a segment.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

- 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 Note 5. This prospectus is also used to release from capping debentures (series L) and debentures (series M) relating to private placements effected in 2006.

- Andromeda Biotech Ltd. ("Andromeda"):

In April 2007, Andromeda, a subsidiary wholly owned by CBI, signed a non-binding memorandum with the Develogen Israel Ltd. and Develogen AG Company (in which CBI holds about 0.8%) (jointly, "Develogen"). Pursuant to the memorandum, Andromeda will purchase from Develogen the rights to use the technology on the basis of which a drug will be developed called DiaPep277 intended to treat diabetes mellitus type I (known as childhood diabetes). On the basis of the technology, advanced clinical trials are currently being conducted on human subjects (Phase III). It is uncertain whether the trial will end successfully and, therefore, it is possible that a product based on the technology might not be marketable.

In accordance with the terms of the memorandum, Develogen will sell the rights to the technology to Andromeda in consideration of royalties. Additionally, the parties were granted options pursuant to which Andromeda would invest in Develogen ("the investment options"). The investment options can be exercised by Develogen or by Andromeda, pursuant to the terms of the memorandum, upon successful completion of certain milestones relating to the development phases of the technology and/or obtaining certain regulatory approvals for the technology based product. The amounts which Andromeda might invest in Develogen if and insofar as all the milestones are realized and the investment options are exercised, may reach approximately € 18 million.

Additionally, Andromeda and Teva signed a letter of understandings subject to completion of the transaction, pursuant to which, among others, Teva would be given the option to purchase all the holdings in Andromeda within approximately six months after receiving the trial's interim report in consideration for royalties and a one-time payment, and all in accordance with the provisions of the letter of understandings.

It is noted that it is uncertain whether the transaction will be completed. Completing the transaction is contingent upon the parties signing a binding agreement and also contingent upon a series of suspending conditions and, among others, completion of the due diligence procedure, obtaining the requisite approvals prescribed by law and approval of the transaction by the parties competent institutions.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

On April 22, 2007, a transaction was closed, according to which CBI purchased on an off-market transaction, 2,582,530 of the Ordinary shares of BioCancell, representing 21.58% of BioCancell's issued capital, in consideration of approximately NIS 10.7 million.

BioCancell develops medicines for treatment of types of cancer. The shares of BioCancell were register for trade on the Tel Aviv Stock Exchange in August 2006.

- Golf & Co. Ltd.

In April 2007, Golf & Co. Ltd. ("Golf") effected to institutional investors a private placement of 969,857 Ordinary shares of Golf of NIS 0.01 par value each ("the shares), representing about 3% of Golf's issued capital, in consideration for NIS 19.70 per share and a total of NIS 19 million. The Company will record a gain from the issuance of approximately NIS 11 million for the second quarter of 2007 and the Company's holding in Golf will drop to about 76% (about 57% on a fully diluted basis).

Also, as a result of the exercise of Golf's options in the second quarter of 2007 in consideration of approximately NIS 11 million, the Company will record a gain of approximately NIS 6 million and the Company's holding in Golf will drop to about 74.8%.

APPENDIX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**Details of Investments¹ by the Company and its Wholly Owned Headquarter Companies
as of March 31, 2007**

<u>Listed companies</u>	<u>Ownership</u>	<u>Amount of investment in reported NIS in millions</u>
ECI Telecom Ltd.	13%	345
American Israeli Paper Mills Ltd.	38%	180
Netvision Ltd.	20%	105
Saifun Semiconductors Ltd.	9%	173
Fundtech Ltd.	35%	120
Beit Shemesh Engine Holdings (1997) Ltd.	36%	40
Nova Measuring Instruments Ltd.	21%	28
ECTel Ltd.	9%	19
Gold Bond Group Ltd.	18%	16
Other companies		5
		<hr/> 1,031 <hr/>
 <u>Private companies</u>		
Mashav Initiating and Development Ltd.	75%	958
Kitan Consolidated Ltd. ²	100%	249
Clal Biotechnology Industries Ltd.	81%	70
Arcadian Networks Inc.	15%	88
Jaf-Ora Ltd.	30%	85
F.B.R. Infinity Ventures (Israel) Venture	39%	59
Power Paper Ltd.	15%	45
K.B.A. Townbuilders Group Ltd.	53%	32
Clalcom Ltd.	72%	36
Cargal Ltd.	27%	28
Infinity Israel Venture Capital Fund	31%	15
Clal Venture Capital Fund, Limited Partnership	67%	18
Millennium Materials Technologies Fund II L.P.	13%	12
Nanomotion Ltd.	15%	14
Scailex Vision Tel-Aviv Ltd.	7%	5
Jordan Valley Semiconductors Ltd.	45%	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.	10%	5
		<hr/> (6) <hr/>
Other private companies		<hr/> 1,746 <hr/>
		<hr/> 2,777 <hr/>
With the deduction of investments in subsidiaries		(1,378)
With the addition of investments of subsidiaries		<hr/> 257 <hr/>
Investments in affiliates and other companies		<hr/> <hr/> 1,656 <hr/> <hr/>

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¹ The list of investments includes investments (including equity investments and loans) with carrying amount of more than NIS 5 million.

² Presented net of offset of a loan placed in favor of the Company by Kitan Consolidated Ltd.