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Clal Industries & Investments Ltd.
June 30, 2005

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Management Discussion and Analysis for the Period
January – June 2005
Condensed Interim Consolidated Financial Statements

The English version of the 2nd quarter of 2005 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.

JUNE 30, 2005

- **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE PERIOD
JANUARY – JUNE 2005**
- **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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Tel-Aviv, August 21, 2005

CLAL INDUSTRIES AND INVESTMENTS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE PERIOD JANUARY – JUNE 2005

1. COMPANY DESCRIPTION

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

This report reviews the principal changes in the Company's activity in the period January – June 2005 ("the reporting period"). The report is prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, and under the assumption that the reader also has available the Management Discussion and Analysis and the consolidated financial statements as of December 31, 2004 ("the annual financial statements").

The Company is engaged, directly and through its subsidiaries, in the establishment, acquisition, development and upgrading of companies in various industries. The Company strives to be involved in the management and formulation of the strategy in its investee companies, 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 in the appropriate circumstances. The Company has access to a variety of business opportunities, being constantly alert for investments with a suitable potential return, in those sectors in which the Company is experienced and knowledgeable.

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

The Company's activities are conducted through subsidiaries and jointly controlled entities (companies in which the Group holds 50% or more of the rights, either directly or indirectly), through affiliates (companies in which the Group exercises significant influence and which are accounted for by the equity method), and through other companies in which the Company does not exercise significant influence (the investment in which is reflected in the financial statements on the cost basis).

The Company's principal goals are:

- Improvement of business performance in order to achieve maximum return on capital over time, with continuing economic evaluation of business alternatives and advantageous opportunities.
- In the coming years – completion of 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 goals, 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.
- Continuous evaluation of investment opportunities in leading companies, including in investees.
- Utilization of opportunities in relevant markets in order to realize investments.
- Continuous search for opportunities to increase investees value.
- Intensification of international operations, including through investees.
- Cultivation and strengthening ties with existing and potential strategic partners in Israel and worldwide.
- Management of the Company's headquarters as a dynamic entity that works in coordination with investees.
- Periodic outsourcing of management of certain activities, while exercising appropriate controls.
- Contribution and assistance to the community in Israel.

The Company's operating results are affected, in large measure, by gains from realization of investments, adjustments of the value of investments and by other non-recurring factors. Accordingly, extensive fluctuation may be evident in the financial results between different reporting periods.

2. RESULTS OF OPERATIONS

a. Statements of income:

The Company's net income in the reporting period amounted to NIS 154 million, compared to NIS 256 million in the corresponding period of the previous year and NIS 320 million in all of 2004.

In the reporting period, there was an improvement in the contribution of the investees to current income, from NIS 47 million in the corresponding period of the previous year to NIS 199 million in the reporting period. The increase in current income is derived primarily from an exceptionally large sale transaction of real estate by KBA, that contributed a gain of NIS 78 million, and from an improvement in results of most of the principal companies (primarily ECI, Neshet and Kitan). After deduction of financial and corporate expenses, the current income for the reporting period amounted to NIS 165 million, compared to nil in the corresponding period of the previous year.

The loss in the reporting period was derived from realization of investments, adjustment of the value of investments and other non-recurring factors and amounted to NIS 11 million, compared to income of NIS 248 million in the corresponding period of the previous year.

As a result of the sale of the Company's holdings in Polgat, which constituted a significant holding, comparative amounts as of June 30, 2004 in the financial statements were reclassified in order to reflect the Company's results of continuing operations, and accordingly the analysis and the comparison of the results with the previous period are based on the reclassified amounts. Income in the corresponding period of the previous year from discontinued operations amounted to NIS 8 million.

As a result of the initial adoption of Accounting Standard No. 19, the statement of income includes an expense of NIS 3 million in respect of the cumulative effect as of the beginning of the period of the change in accounting principles.

The Company's net income in the second quarter of the year totaled NIS 53 million, as compared with income of NIS 88 million in the corresponding period of the previous year (previous year - includes income from discontinued operations of NIS 5 million).

In the second quarter of 2005, there was an improvement in the contribution of the investees to the current income, from NIS 40 million in the corresponding period of the previous year to a contribution of NIS 75 million in the second quarter of this year. The increase in current income is derived primarily from an improvement in results of most of the principal companies (primarily Kitan, ECI and Neshet). After deduction of financial and corporate expenses, the current income for the reporting period amounted to NIS 53 million, compared to a current income of NIS 5 million in the corresponding period of the previous year.

The results in the second quarter of the year, total non-recurring effects from realization of investments, adjustment of the value of investments and other non-recurring factors amounted to nil, compared to income of NIS 78 million in the corresponding quarter of the previous year.

Net earnings per NIS 1 par value of shares in the reporting period amounted to NIS 0.98, compared to NIS 1.63 in the corresponding period of the previous year and NIS 2.04 in all of 2004. Earnings from continuing operations per NIS 1 par value of shares in the reporting period amounted to NIS 1.00, compared to NIS 1.58 in the corresponding period of the previous year and NIS 2.01 for all of 2004.

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

	Three months ended June 30,					
	2005			2004		
	Current	Other ¹	Total	Current	Other ¹	Total
Business segments:						
Cement	33	-	33	26	23	49
Textiles	21	(3)	18	9	(7)	2
High technology and electronics	11	4	15	2	29	31
Venture capital funds	1	3	4	(3)	5	2
Biotechnology	(8)	-	(8)	(10)	(1)	(11)
Real estate	4	-	4	6	(3)	3
Other	13	(4)	9	10	32	42
	75	-	75	40	78	118
Financing and corporate	(22)	-	(22)	(35)	-	(35)
Income from continuing operations	53	-	53	5	78	83
	Six months ended June 30,					
	2005			2004		
	Current	Other ¹	Total	Current	Other ¹	Total
Business segments:						
Cement	56	-	56	41	28	69
Textiles	34	(5)	29	15	(7)	8
High technology and electronics	19	(1)	18	(9)	93	84
Venture capital funds	(1)	5	4	(4)	(1)	(5)
Biotechnology	(17)	(6)	(23)	(21)	(14)	(35)
Real estate	85	-	85	8	(3)	5
Other	23	(4)	19	17	152	169
	199	(11)	188	47	248	295
Financing and corporate	(34)	-	(34)	(47)	-	(47)
Income (loss) from continuing operations	165	(11)	154	-	248	248

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

Textiles – See analysis of the results of Kitan in section d below.

High technology and electronics – The decrease in the contribution of this segment relative to the corresponding periods of the previous year is due primarily to the realization of Scitex's investment in SDP (in the first quarter of 2004) and the realization of the Company's investments in Negevtech and PowerDsine (in the second quarter of 2004). This decrease was offset by the improvement in the results of ECI and Scitex. See also the analysis of the results of ECI, Scitex and Fundtech in section d below.

Venture capital funds – The results of this segment are primarily affected by the adjustments of the values of investments recorded by venture capital funds on their investments and from the adjustments of the value of the Company's investments in the venture capital funds. The improved results of this segment in the reporting period and in the current quarter compared to the corresponding periods of the previous year are due primarily to the non-inclusion of adjustments of value in respect of venture capital funds sold by the Company in the first quarter of the year and from realization of investments in funds.

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

Biotechnology – The results of companies in this segment are mainly affected by their investments in research and development. The improved results of this segment in the reporting period and current quarter compared to the corresponding periods of the previous year are due principally to the decrease in provision for impairment of these investments.

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 results in the first half of the year include a gain in the amount of NIS 78 million from sale of real estate. See section 3.1 below.

Other – The decrease in results compared to the corresponding period and the corresponding quarter of the previous year is due principally to the results of realization of holdings in Ormat that were included in the corresponding periods of the previous year.

c. Data of principal investees ¹ 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):

	Sales				Net income (loss) ²			
	Six months ended		Three months ended		Six months ended		Three months ended	
	June 30,		June 30,		June 30,		June 30,	
	2005	2004	2005	2004	2005	2004	2005	2004

Companies that prepare financial statements in NIS:

Mashav	828	715	469	374	85	99	51	71
Kitan	434	394	224	185	25	4	18	(1)
AIPM	240	238	118	119	19.5	43	5.5	25

Companies that prepare financial statements in \$:

ECI	\$ 298	\$ 229	\$ 153	\$ 121	\$ 26	\$ (5)	\$ 16	\$ (4)
Scitex ³	\$ 74	\$ 60	\$ 38	\$ 31	\$ 4.5	\$ 49	\$ 2.8	\$ (1.2)
Fundtech	\$ 36	\$ 27	\$ 18	\$ 14	\$ 1.4	\$ 0.6	\$ 0.8	\$ 0.4

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

	Six months ended		Three months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Mashav	64	74	38	54
Kitan	25	4	18	(1)
AIPM	8	13	3	8
ECI	27	*	14	1
Scitex	4	58	3	3
Fundtech	*	*	*	*

*) Less than NIS 1 million.

¹ Relates to financial statements published by ECI, Scitex and Fundtech on the basis of generally accepted accounting principles in the United States. The Company includes the results of these companies according to generally accepted accounting principles in Israel.

² Net income (loss), including non-recurring factors.

³ Comparative data were adjusted to reflect discontinued operations.

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

Companies in the cement segment – Revenues in the reporting period totaled NIS 625 million, compared to NIS 536 million in the corresponding period of the previous year (an increase of 17%), primarily due to an increase in export sales. Net income for the reporting period totaled NIS 75 million, compared to net income of NIS 92 million in the corresponding period of the previous year (previous year - before non-recurring positive factor in the amount of NIS 37 million). The increase in income before non-recurring factors despite the increase in energy prices arises from an increase in sales, as stated above, and from the complete renovation of one of the furnaces in the corresponding period of the previous year compared to a partial renovation in the reporting period.

Revenues in the quarter totaled NIS 360 million, compared to NIS 285 million in the corresponding quarter of the previous year, primarily due to an increase in export sales. Net income for the second quarter totaled NIS 45 million, compared to net income of NIS 67 million in the corresponding quarter of the previous year (previous year - before non-recurring positive factor in the amount of NIS 31 million). The increase in income before non-recurring factors in the quarter, compared to the corresponding quarter of the previous year arises from an increase in sales, as stated above, while concurrently maintaining the level of operating expenses despite the increase in energy prices.

ECI – Revenues in the reporting period totaled \$ 298 million, compared to \$ 229 million in the corresponding period of the previous year, an increase of 30%. Revenues of the broadband access division in the reporting period totaled \$ 126 million, compared to \$ 99 million in the corresponding period of the previous year (an increase of 28% in the division's revenues). Operating income of the division totaled \$ 14.9 million, compared to \$ 8.6 million in the previous year. Revenues of the optical networks division in the reporting period totaled \$ 158 million, compared to \$ 113 million in the corresponding period of the previous year (an increase of 40% in the division's revenues). The division continued to improve its profitability and recorded operating income of \$ 13.8 million, compared to a loss of \$ 1.9 million in the previous year.

Net income totaled \$ 26 million (including the positive effect of non-recurring factors of \$ 10.7 million, primarily as a result of gain on the sale of GVT, a Brazilian communications company), compared to a net loss of \$ 4.8 million in the first half of 2004.

Revenues in the quarter totaled \$ 153 million, compared to \$ 121 million in the corresponding quarter of the previous year, an increase of 26%. Revenues of the broadband access division in the quarter totaled \$ 63 million, compared to \$ 51 million in the corresponding quarter of the previous year (an increase of 24% in the division's revenues) and similar to the first quarter of the year. Operating income of the division totaled \$ 6.4 million, compared to \$ 5.3 million in the corresponding quarter of the previous year. Revenues of the optical networks division in the quarter totaled \$ 82 million, compared to \$ 61 million in the corresponding quarter of the previous year (an increase of 34% in the division's revenue). The division continued to improve its profitability and recorded operating income of \$ 8.9 million, compared to an operating income of \$ 1.1 million in the corresponding quarter of the previous year and operating income of \$ 4.9 million in the first quarter of 2005.

The results in the quarter include for the first time the results of Laurel Networks Inc., since its acquisition by ECI on June 3. Revenues of Laurel Networks Inc. in the quarter totaled \$ 0.4 million. The current loss of Laurel Networks Inc. up to June 30 totaled \$ 2.3 million.

Net income for the quarter totaled \$ 15.6 million (including the positive effect of non-recurring factors of \$ 7.4 million), compared to a net loss of \$ 3.5 million in the corresponding quarter of the previous year.

Scitex – Revenues in the reporting period totaled \$ 74 million, compared to \$ 60 million in the corresponding period of the previous year (an increase of 24%), all resulting from revenues of Scitex's principal subsidiary, Scitex Vision Ltd ("SVN"). The increase in revenues of SVN in the first half of the year, compared to the corresponding period of the previous year arose from an increase in sales of jet injection printers and an increase in sales of ink. Operating income in the reporting period totaled \$ 3.8 million, compared to a loss of \$ 0.3 million in the corresponding period of the previous year. The transition to operating income was derived principally from an increase in sales of ink and from an improvement in gross profit on these sales that was offset in part by an increase in research and development costs. Net income totaled \$ 4.5 million, compared to a loss from continuing operations of \$ 2.5 million, and income from discontinued operations of \$ 51.6 million as a result of the sale of SDP, a wholly owned subsidiary of Scitex, in the corresponding period of the previous year.

At June 30, 2005, Scitex's balance of cash and cash equivalents, including short-term investments, totaled \$ 141 million.

Revenues in the quarter totaled \$ 38 million, compared to \$ 31 million in the corresponding quarter of the previous year (an increase of 22%), all resulting from revenues of Scitex's principal subsidiary, SVN. The increase in revenues of SVN in the quarter, compared to the corresponding quarter of the previous year arose from an increase in sales of jet injection printers and an increase in sales of ink. Operating income in the quarter totaled \$ 1.3 million, compared to an operating income of \$ 0.2 million in the corresponding quarter of the previous year. The increase in operating income was derived principally from an increase in sales of ink that was offset in part by an increase in research and development costs. Net income in the quarter totaled \$ 2.8 million, compared to a loss of \$ 1.2 million in the corresponding quarter of the previous year.

In August 2005, Scitex announced that SVN entered into an agreement for the sale of its assets and business activities to Hewlett Packard in consideration for approximately \$ 230 million payable in cash on the date of closing, see section 3.5 below.

Regarding a compromise agreement that was signed and dismissal of claims submitted against Scitex and a subsidiary of the Company, see section 8 below.

AIPM – Operating income in the reporting period totaled NIS 25.8 million, compared to NIS 27.3 million in the corresponding period of the previous year. The decrease in operating income resulted from a rise in the prices of raw materials (paper waste - 15%), and an exceptional rise in the prices of energy (fuel oil - 30%; electricity - 15%) and of water (9%), that was offset in part by a quantitative growth in sales of paper waste, increase in selling prices and continuation of the efficiency procedures. Income in the reporting period before non-recurring factors amounted to NIS 23.1 million (after the elimination of negative non-recurring factor of NIS 3.5 million), compared to NIS 32.4 million in the corresponding period of the previous year (after the elimination of positive non-recurring factor of NIS 10.2 million, of which NIS 4.4 million arise from tax benefit in affiliates due to the tax reform adopted in June 2004). The decrease in income before non-recurring factors, resulted primarily from a decrease in AIPM's equity in earnings of affiliates.

Operating income in the quarter totaled NIS 11.3 million, compared to NIS 13.8 million in the corresponding quarter of the previous year. The decrease in operating income resulted primarily

from a rise in production costs along with an increase in expenses. Income in the quarter before non-recurring factors amounted to NIS 9 million (after the elimination of negative non-recurring factor of NIS 3.5 million), compared to NIS 15 million in the corresponding quarter of the previous year (after the elimination of positive non-recurring factor of NIS 10.2 million). The decrease in net income before non-recurring factors, resulted primarily from a decrease in AIPM's equity in earnings of affiliates. The results of almost all affiliates in the period and quarter were affected by the increase in expenses, prices of transportation, the economic slowdown in Europe and the weakening of the Euro, which caused, on the one hand, erosion of prices in the domestic market and export markets, and does not allow, on the other hand, a rise in prices along with the increase in expenses. Further, Mondi Hadera carried out a construction in the paper machine in order to increase the machine's capacity and to improve the paper's quality. The construction process stopped production, which fact has a negative effect on AIPM's results in the quarter.

Subsequent to the date of the report, AIPM signed an agreement to purchase natural gas in a total monetary scope of \$ 40 million during a period of 5 years from the beginning of the flow of gas. The gas will operate the energy production system of AIPM in Hadera which will change to natural gas in place of fuel oil.

Kitan – Sales in the reporting period totaled NIS 434 million, compared to sales of NIS 394 million in the corresponding period of the previous year (an increase of 10%). The increase in sales was in the industrial activity (NIS 25 million) as well as in the retail activity (NIS 7 million). Operating income in the reporting period totaled NIS 35 million, compared to operating income of NIS 15 million in the corresponding period of the previous year. The increase in operating income was due principally to growth in sales and improvement in the gross profit margin that was offset in part by increase in selling expenses (NIS 2 million). Net income in the reporting period amounted to NIS 25 million, compared to income of NIS 4 million in the corresponding period of the previous year. The increase in net income resulted from an improvement in operating income that was offset mainly by an increase in tax expenses (previous year - includes tax benefit due to the tax reform adopted in June 2004).

Sales in the quarter totaled NIS 224 million, compared to sales of NIS 185 million in the corresponding quarter of the previous year. The increase in sales was in the industrial activity (NIS 19 million) as well as in the retail activity (NIS 18 million), and was positively affected from the timing of the Passover holiday at the end of April in the current year. Operating income in the quarter totaled NIS 22 million, compared to operating income of NIS 6 million in the corresponding quarter of the previous year. The increase in operating income was due principally to growth in sales and improvement in the gross profit margin that was offset in part by increase in selling and marketing expenses (NIS 4 million). Net income in the quarter amounted to NIS 18 million, compared to loss of NIS 1 million in the corresponding quarter of the previous year. The transfer to net income compared to the corresponding quarter of the previous year resulted from an improvement in operating income that was offset mainly by an increase in tax expenses (previous year - includes tax benefit due to the tax reform adopted in June 2004).

Fundtech – Net income in the reporting period amounted to \$ 1.4 million, compared to net income of \$ 0.6 million in the corresponding period of the previous year. The improvement in net income was due principally to an increase in revenues of \$ 8.9 million (increase of 33%) offset by an increase in operating expenses (\$ 7.8 million), compared to the corresponding period of the previous year. Net income in the quarter amounted to \$ 0.8 million, as compared to a net income of NIS 0.4 million in the corresponding quarter of the previous year. The improvement in net income was due principally to an increase in revenues of \$ 4.6 million (increase of 33%), offset by an increase in operating expenses (\$ 3.9 million), compared to the corresponding quarter of the previous year. The

increase in sales in the quarter, compared to the corresponding quarter of the previous year was derived from sales to existing customers and sales to new customers, and from increase in revenues from new activities in the field of securities clearance systems due to a world-wide increasing trend to computerize financial transactions. In the quarter, 28 new contracts were signed and four new customers were added.

In general, the results of most of the Group companies in Israel were affected by retention of the level of demand due to the relative calm in the security situation. The Group companies operating in the hi-tech sector were generally affected by the continued growth in the amount of acquisitions of capital equipment abroad, which contributed to the growth in the volume of sales in this segment. Retention of the relatively high level of activity, together with the positive impact of the efficiency measures being implemented by most of the Group companies and notwithstanding the increase in energy prices compared to the corresponding periods of the previous year resulted in an improvement in results and in net income in the first half of the year and in the quarter for all of the principal companies.

Moreover, the relative stability in capital markets in Israel and worldwide contributed to a positive environment for debt financing at reasonable prices, and an improvement in financial strength for some of the Group companies.

3. PRINCIPAL CHANGES IN INVESTMENTS AND IN INVESTEES

3.1 Real estate segment

In January 2005, KBA, in which the Company holds 52.9%, signed an agreement for the sale of land in consideration for approximately NIS 248 million. As a result of the sale, KBA recorded a net gain of approximately NIS 148 million (of which the Company's share is approximately NIS 78 million).

3.2 Venture capital fund segment

- In the first half of 2005, the Company invested NIS 38 million in FBR Infinity Ventures (Israel) Venture Capital Fund. The Company is a partner in the Fund's management company and the major investor in the Fund.
- In February 2005, the Company completed the sale of its holdings in several venture capital funds for consideration of approximately NIS 46 million in cash and the release of the Company from commitments to additional investments in these funds of approximately \$ 12 million. During the reporting period, no additional loss was recorded in excess of the loss recorded in 2004.

3.3 Other segment

- In May 2005, the Company acquired about 15% of the share capital of Beit Shemesh Engine Holdings (1997) Ltd. ("BSE") in consideration for approximately NIS 13 million. Subsequent to this transaction, the Company's holdings in BSE reach about 36%.
- On July 25, 2005, an agreement was signed between the Company, Clalcom Ltd. ("Clalcom"), Barak I.T.C. (1995) - International Telecommunications Company Ltd. ("Barak") and the majority of the holders of Barak's debentures regarding the restructuring of Barak's equity and debt ("the plan"). According to the agreement, the Company and Clalcom will invest in Barak a total of approximately \$ 26 million (Company's share is \$ 18 million) in consideration for

about 81.5% of the share capital of Barak (Company's share is about 52.5%). Matav Investments Ltd. ("Matav") realized its right to participate in the plan and will invest a total of approximately \$ 6 million in consideration for about 18.5% of the share capital of Barak. In the context of understandings formed between the investors, Matav was granted a Put option according to which it has the right to demand that the Company and/or Clalcom purchase its entire stock in consideration for \$ 6 million, including interest. Concurrently, the Company and/or Clalcom were granted a Call option according to which they have the right to purchase all of Matav's stock in Barak in consideration for \$ 7 million, including interest, all in accordance with the agreement between the parties.

The principles of the plan are:

- (1) The holders of the debentures will receive \$ 40 million in cash, of which approximately \$ 7.65 million were transferred, and are being held in trust, and the balance of \$ 32.35 million will be paid to the holders of debentures close after the execution of the plan.
- (2) The debenture principal for the present holders of the debentures will amount to \$ 65 million and will bear annual interest of 10% (commencing from March 2005) to be paid in semi-annual installments. The principal will be paid in one installment at the end of five years, with a possibility for early redemption, subject to certain conditions.

Barak intends to submit the plan for the approval of the Courts in Israel and in the U.S. and of the holders of the debentures, in accordance with the provisions of Section 350 of the Companies Law. In addition to those approvals, the plan requires the approval of Barak's financing banks, various regulatory approvals and the approval of certain third parties.

Under certain conditions, the parties are entitled to cancel the agreement either before its completion or if the plan is not completed within 150 days from the date of approval of the agreement.

The Company estimates that the excess cost over the book value that will arise upon the completion of the transaction, in respect of its investment in Barak, will amount to between NIS 420 million and NIS 460 million (including excess cost in the amount of NIS 120 million arising in relation to debentures).

- During the second quarter, the Company acquired about 1% of the share capital of AIPM in consideration for approximately NIS 9 million.

- 3.4** In the reporting period, the Company invested, directly and indirectly (through wholly owned subsidiaries), in additional companies in the following segments (NIS in millions):

	Six months ended June 30, 2005	Three months ended June 30, 2005
Business segments:		
High-technology and electronics	28	22
Biotechnology	14	11
Other	1	-
Total	<u>43</u>	<u>33</u>

Subsequent to balance sheet date, the Company invested NIS 8 million in additional companies.

3.5 Events subsequent to balance sheet date

High technology and electronics segment:

In August 2005, Scitex announced that SVN entered into an agreement for the sale of its assets and business activities to Hewlett Packard in consideration for approximately \$ 230 million payable in cash on the date of closing.

The announcement included the following matters: \$ 24 million of the consideration will be held in trust for period of two years to cover any possible indemnification payments by SVN to the buyer under the agreement; additional \$ 24.5 million of the consideration will be designated to cover existing liabilities of SVN, primarily to Israeli banks. Closing is expected within 90 days from date of the above agreement, subject to certain regulatory approvals and the fulfillment of certain customary precedent conditions for completing such type of transaction.

Scitex is evaluating the accounting and tax implications of the transaction and, at this stage, it expects to record a capital gain in respect of the transaction in an amount of between approximately \$ 75 million and \$ 95 million. Upon completion of the transaction and after SVN pays various liabilities and expenses, it is expected that cash retained at SVN, out of the consideration for the transaction, will be distributed by SVN to its shareholders and, as part of this distribution, Scitex is expected to receive a total of between approximately \$ 100 million and \$ 110 million (excluding distributions out of the amount held in trust).

In the event the transaction is completed, the Company will record a gain upon the closing that, at this stage, is estimated at between approximately NIS 122 million and NIS 153 million, which constitutes mostly the Company's share of Scitex's gain on the transaction, computed according to generally accepted accounting principles in Israel.

4. FINANCIAL POSITION AND SOURCES OF FINANCING

Total assets in the consolidated balance sheet as of June 30, 2005 totaled NIS 5,969 million, compared to NIS 5,200 million as of December 31, 2004. The increase is derived primarily from the issuance of debentures by the Company and subsidiary and from the sale of real estate by KBA.

Consolidated working capital amounted to NIS 945 million. As of June 30, 2005, short-term liquid assets amounted to NIS 1,174 million, and are included in cash and cash equivalents and in short-term investments. The quick ratio of the consolidated Group companies is 1.33 (December 31, 2004 – 0.84). The principal sources of cash were from issuance of debentures by the Company and subsidiary in the amount of NIS 700 million and from cash flows from operating activities in the amount of NIS 387 million. Cash was utilized principally for distribution of dividends in the amount of NIS 212 million, repayment of long-term loans in the amount of NIS 132 million and of short-term loans in the amount of NIS 91 million.

Shareholders' equity as of June 30, 2005 totaled NIS 1,948 million, compared to NIS 1,864 million as of December 31, 2004. The principal changes in shareholders' equity were net income of NIS 154 million offset by a dividend in the amount of NIS 108 million.

Minority interest as of June 30, 2005 totaled NIS 245 million (December 31, 2004 – NIS 250 million). Shareholders' equity and minority interests together constituted sources for financing 37% of the Group's assets (December 31, 2004 – 41%).

As of June 30, 2005, the Group's long-term financing sources totaled NIS 2,441 million (December 31, 2004 – NIS 1,824 million), 18% of which is repayable in the coming year. As of June 30, 2005, the Group's short-term financing sources totaled NIS 124 million (December 31, 2004 – NIS 212 million).

As of June 30, 2005, the balance of liabilities, net, of the Company and the principal wholly owned subsidiaries (mainly debentures) amounted to NIS 871 million (December 31, 2004 – NIS 864 million).

5. DIVIDEND

On April 17, 2005, the Company distributed a cash dividend in the amount of NIS 108 million, representing NIS 0.69 per each NIS 1 par value.

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

The following report relates to the Company and to its wholly owned subsidiaries whose market risks are managed by the Company (the "Corporation"). Regarding subsidiaries, see section 6.2 below.

There were no material changes in the reporting period regarding the Company's exposure to and management of market risks (as described in the Securities Authority directive) in relation to the Company's report on this subject dated March 23, 2005.

6.1 Consolidated report on linkage bases as of June 30, 2005 (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	14	99	24	1,551	567	2,255
Non-current assets	67	28	9	4	3,606	3,714
Current liabilities	(539)	(60)	(39)	(652)	(20)	(1,310)
Non-current liabilities	<u>(1,964)</u>	<u>(12)</u>	<u>(4)</u>	<u>(35)</u>	<u>(696)</u>	<u>(2,711)</u>
Balance sheet, net	<u>(2,422)</u>	<u>55</u>	<u>(10)</u>	<u>868</u>	<u>3,457</u>	<u>1,948</u>

6.2 Subsidiaries

In the reporting period, there were no material changes in Nesher, Kitan and Taavura regarding exposure to and management of market risks (as described in the Securities Authority directive) in relation to the report on this subject dated March 23, 2005.

6.3 Positions in derivatives

There were no material changes in the reporting period in relation to the annual report.

6.4 Events subsequent to balance sheet date

There were no material events relating to the market risks of the corporation subsequent to balance sheet date.

7. SHARE CAPITAL

In the reporting period, 177,458 additional shares were issued upon the exercise of 229,685 options and 137,149 options expired.

8. CONTINGENT LIABILITY

In 2003 and 2004, several lawsuits and demands were filed against Scitex Vision Ltd. (formerly: Aprion Digital Ltd.) ("SVN") and others, including directors of SVN and various of its shareholders, including the Company's wholly owned subsidiary ("the subsidiary") which holds about 7% of SVN, and Scitex which holds about 77% of SVN (collectively, "the defendants").

The lawsuit and demands were filed by one of the minority shareholders in SVN and they concern the manner in which the defendants performed several transactions of SVN, alleged damages that he incurred, and amounts due to it following these transactions, and they primarily address a transaction in the context of which SVN acquired from Scitex the entire issued share capital of a wholly owned subsidiary of Scitex at the time ("the Scitex subsidiary"), in consideration for the issuance of shares of SVN to Scitex.

In April 2005, a compromise agreement was signed between the minority shareholder and Scitex, the subsidiary and Discount Investments Ltd. (which is also among the defendants and which holds about 7% of SVN) pursuant to which the above lawsuit and demands are dismissed and the parties mutually waive

any other claims and demands relating to SVN. Similarly, according to the compromise agreement, Scitex, the subsidiary and Discount Investments Ltd. will purchase the minority shareholder's interest in SVN (about 1.9%) for a total immediate payment of \$ 1.6 million (the subsidiary's share is approximately \$ 126 thousand) and a contingent future payment, whose actual payment and amount are conditional upon that within two years Scitex, the subsidiary and Discount Investments Ltd. sell their holdings and/or part of their holdings in SVN for a consideration that is based on a higher value for SVN compared to the value for which the above immediate payment was based. The minority shareholder's interest in SVN shares to be purchased will be allocated between Scitex, the subsidiary and Discount Investments Ltd. proportionally to their current holdings in SVN.

As for an agreement for the sale of SVN activity, see 3.5 above. If the transaction for the sale of SVN assets is completed, it is expected that the future payment will be immaterial.

9. ISSUANCE OF DEBENTURES

In May 2005, the Company issued, by a private placement, debentures (series L) in the amount of NIS 333 million to institutional investors (of which NIS 62 million was issued to related parties). The debentures (principal and interest) are linked to the Israeli CPI of March 2005, are repayable in five equal annual installments from January 2009 and bear interest of 4.35% per annum on the unpaid balance. The interest is payable in January of each of the years 2006 to 2013 (inclusive).

In May 2005, the Company published a prospectus in the context of which the Company listed the debentures (series L) that had been issued to private and institutional investors in May 2005, as described above. The Company also listed NIS 140 million par value of debentures, that have been issued to a wholly-owned subsidiary of the Company ("the subsidiary"). These debentures together with the debentures described above, represent one series (series L) for all purposes.

In addition, as part of the above prospectus, debentures (series M) in the amount of NIS 70 million were issued. The debentures bear interest of 4.5% per annum, are linked (principal and interest) to the Israeli CPI of April 2005 and are repayable in five equal annual installments from January 2013. The interest is payable in June of each of the years 2006 to 2017 (inclusive).

In May 2005, a subsidiary issued, by private placement, non-marketable debentures in the amount of approximately NIS 300 million (of which NIS 22 million was issued to related parties). The debentures are linked to the Israeli CPI and bear interest of 4.2% per annum. The principal of the debentures is repayable in five equal annual installments from May 2009. As part of the issuance, the subsidiary has undertaken towards the investors to refrain from recording liens in favor of others.

10. PEER REVIEW

On July 28, 2005, the Securities Authority published guidance requiring disclosure regarding a peer review whose purpose, as described in the guidance, is the implementation of an oversight process in respect of the work of auditing firms. The Company does not object to the performance of a peer review and is prepared to cooperate to promote the process. Nonetheless, the consent to participate in a peer review involves significant legal issues, which relate, among others, to the protection of the confidentiality of information that the Company makes available to the auditors, to the prevention of conflicts of interest, and to the responsibility to the Company in case of breach of confidentiality on the reviewer's part. As of the date of the publication of this report, an adequate solution for these issues has

not yet been found. In view of the above, the Board of Directors approved the Company's postponement of the decision regarding the requested consent to perform the peer review, until these issues are resolved.

This matter was not discussed in the general shareholders' meeting, in which the appointment of the auditors for 2005 was approved since this meeting was convened before the guidance was published. The Company is satisfied as to the appropriateness of the audit of its financial statements by its auditors, due among others, to the Company's selection of one of the four largest international accounting firms which have policies and procedures.

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

Nochi Dankner
Chairman of the Board
of Directors

Avi Fisher
Director and Co-CEO

Zvika Livnat
Co-CEO

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

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The Board of Directors of
CLAL INDUSTRIES AND INVESTMENTS LTD.

**Re: Review of unaudited interim consolidated financial statements
for the six and three months periods ended June 30, 2005**

At your request, we have reviewed the interim consolidated balance sheet of CLAL INDUSTRIES AND INVESTMENTS LTD. as of June 30, 2005, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the six and three months periods then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with the reports of other accountants in respect of the review of interim financial statements of certain subsidiaries, whose assets constitute approximately 25% of total consolidated assets as of June 30, 2005, and whose revenues from sales and services constitute approximately 29% and 13% of total consolidated revenues from sales and services for the six and three months periods then ended, respectively. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain affiliates, the investment in which on the equity basis of accounting totaled NIS 1,093 million as of June 30, 2005, and the Company's equity in them net earnings totaled NIS 39 million and NIS 20 million for the six and three months periods then ended, respectively.

A review is substantially less in scope than an audit in accordance with generally accepted auditing standards, and accordingly, we do not express an opinion on the interim consolidated financial statements.

Based on our review and the reports of other accountants referred to above, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles in Israel and with the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
August 21, 2005

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	<u>June 30,</u>		<u>December 31,</u>
	<u>2005</u>	<u>(1) 2004</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>Reported NIS in millions</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,072	573	378
Short-term investments	102	125	173
Trade receivables	468	410	420
Other receivables	96	191	102
Inventories	517	528	498
	<u>2,255</u>	<u>1,827</u>	<u>1,571</u>
LONG-TERM DEPOSITS, LOANS AND RECEIVABLES	<u>72</u>	<u>17</u>	<u>71</u>
INVESTMENTS:			
Affiliates	1,199	1,053	1,052
Other	405	353	477
	<u>1,604</u>	<u>1,406</u>	<u>1,529</u>
FIXED ASSETS:			
Cost	6,707	*) 6,609	6,616
Less - accumulated depreciation	4,887	*) 4,770	4,823
	<u>1,820</u>	<u>1,839</u>	<u>1,793</u>
OTHER ASSETS AND DEFERRED CHARGES	<u>218</u>	*) 223	<u>236</u>
ASSETS ATTRIBUTABLE TO DISCONTINUED OPERATIONS	<u>-</u>	<u>538</u>	<u>-</u>
	<u><u>5,969</u></u>	<u><u>5,850</u></u>	<u><u>5,200</u></u>

*) Reclassified.

(1) Reclassified mainly due to discontinued operations, see Note 6.

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2005	(1) 2004	2004
	Unaudited		Audited
	Reported NIS in millions		
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Credit from banks	225	438	380
Trade payables	272	232	235
Other payables	464	327	357
Other current liabilities	349	20	303
	<u>1,310</u>	<u>1,017</u>	<u>1,275</u>
LONG-TERM LIABILITIES:			
Debentures	1,857	1,484	1,207
Loans	145	197	147
Deferred taxes	295	295	298
Accrued severance pay	151	150	149
Other liabilities	18	25	10
	<u>2,466</u>	<u>2,151</u>	<u>1,811</u>
LIABILITIES ATTRIBUTABLE TO DISCONTINUED OPERATIONS	<u>-</u>	<u>393</u>	<u>-</u>
MINORITY INTEREST	<u>245</u>	<u>271</u>	<u>250</u>
SHAREHOLDERS' EQUITY	<u>1,948</u>	<u>2,018</u>	<u>1,864</u>
	<u><u>5,969</u></u>	<u><u>5,850</u></u>	<u><u>5,200</u></u>

(1) Reclassified mainly due to discontinued operations, see Note 6.

.....
Gil Milner
 Vice president

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

.....
Zvika Livnat
 Co-CEO

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

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	(1) 2004	2005	(1) 2004	2004
	Unaudited				Audited
	Reported NIS in millions (except per share data)				
Revenues, net:					
Sales and services	1,553	1,119	720	621	2,385
Other income	4	251	6	116	284
Equity in earnings (losses) of affiliates	40	30	22	(13)	39
	1,597	1,400	748	724	2,708
Costs and expenses:					
Cost of sales and services	886	749	462	403	1,596
Selling and marketing expenses	158	154	82	79	316
General and administrative expenses	100	85	54	47	178
Financial expenses, net	46	59	32	41	113
	1,190	1,047	630	570	2,203
Income before taxes on income	407	353	118	154	505
Taxes on income	151	75	47	43	131
Income after taxes on income	256	278	71	111	374
Minority interest in earnings of subsidiaries, net	99	30	18	28	58
Income from continuing operations after minority interest	157	248	53	83	316
Income from discontinued operations, net	-	8	-	5	4
Income before cumulative effect of change in accounting principle	157	256	53	88	320
Cumulative effect as of the beginning of the period of change in accounting principle, net	(3)	-	-	-	-
Net income	154	256	53	88	320
Net earnings per NIS 1 par value of Ordinary shares (in NIS):					
Income from continuing operations	1.00	1.58	0.34	0.53	2.01
Income from discontinued operations	-	0.05	-	0.03	0.03
Loss from cumulative effect as of the beginning of the period of change in accounting principle, net	(0.02)	-	-	-	-
	0.98	1.63	0.34	0.56	2.04

(1) Reclassified due to discontinued operations, see Note 6.

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, 2005 (audited)	1,257	395	108	104	1,864
Issuance of share capital	**)	-	-	-	**)
Foreign currency translation adjustments	-	38	-	-	38
Dividend	-	-	(108)	-	(108)
Net income	-	-	-	154	154
Balance as of June 30, 2005	<u>1,257</u>	<u>433</u>	<u>-</u>	<u>258</u>	<u>1,948</u>
Balance as of January 1, 2004	1,257	339	270	142	2,008
Issuance of share capital	**)	-	-	-	**)
Dividend	-	-	(270)	-	(270)
Foreign currency translation adjustments	-	24	-	-	24
Net income	-	-	-	256	256
Dividend declared subsequent to balance sheet date	-	-	250	(250)	-
Balance as of June 30, 2004	<u>1,257</u>	<u>363</u>	<u>250</u>	<u>148</u>	<u>2,018</u>
Balance as of April 1, 2005	1,257	402	-	205	1,864
Issuance of share capital	**)	-	-	-	**)
Foreign currency translation adjustments	-	31	-	-	31
Net income	-	-	-	53	53
Balance as of June 30, 2005	<u>1,257</u>	<u>433</u>	<u>-</u>	<u>258</u>	<u>1,948</u>
Balance as of April 1, 2004	1,257	371	-	310	1,938
Issuance of share capital	**)	-	-	-	**)
Foreign currency translation adjustments	-	(8)	-	-	(8)
Net income	-	-	-	88	88
Dividend declared subsequent to balance sheet date	-	-	250	(250)	-
Balance as of June 30, 2004	<u>1,257</u>	<u>363</u>	<u>250</u>	<u>148</u>	<u>2,018</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					
Audited					
Balance as of January 1, 2004	1,257	339	270	142	2,008
Issuance of share capital	**)	-	-	-	**)
Foreign currency translation adjustments	-	11	-	-	11
Capital reserve from transaction with controlling shareholder	-	13	-	-	13
Reversal of write-down of investment in investee against capital reserves in respect of foreign currency translation adjustments	-	32	-	-	32
Dividend	-	-	(270)	(250)	(520)
Net income	-	-	-	320	320
Dividend declared subsequent to balance sheet date	-	-	108	(108)	-
Balance as of December 31, 2004	<u>1,257</u>	<u>395</u>	<u>108</u>	<u>104</u>	<u>1,864</u>

*) Composition:

	June 30,		December 31,
	2005	2004	2004
Unaudited			
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	18	5	18
	<u>627</u>	<u>614</u>	<u>627</u>
Foreign currency translation adjustments	(194)	(251)	(232)
	<u>433</u>	<u>363</u>	<u>395</u>

**) Less than NIS 1 million.

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	(1) 2004	2005	(1) 2004	2004
	Unaudited				Audited
	Reported NIS in millions				
<u>Cash flows from operating activities:</u>					
Net income	154	256	53	88	320
Deduct - income from discontinued operations, net	-	(8)	-	(5)	(4)
Income from continuing operations	154	248	53	83	316
Adjustments to reconcile net income to net cash provided by continuing operations (a)	233	(142)	40	(25)	24
Net cash provided by continuing operating activities	387	106	93	58	340
Net cash provided by discontinued operating activities	-	17	-	1	36
Net cash provided by operating activities	387	123	93	59	376
<u>Cash flows from investing activities:</u>					
Purchase of fixed and other assets	(93)	(31)	(53)	(15)	(99)
Acquisition of newly consolidated subsidiaries (b)	(4)	12	-	-	10
Investments in affiliates and other companies	(94)	(29)	(63)	(14)	(196)
Cash distribution by affiliate	-	-	-	-	100
Decrease (increase) in marketable securities, net	87	-	33	-	(142)
Proceeds from disposal of fixed assets	17	8	11	5	28
Proceeds from disposal of investments	63	480	10	220	527
Sale of previously consolidated subsidiaries (c)	-	-	-	-	(1)
Decrease (increase) in short-term deposits, loans and investments, net	18	(25)	6	(11)	10
Short-term investments in IDB Group companies, net	8	59	22	105	68
Increase in deposits and long-term loans	(1)	(2)	(1)	(2)	(4)
Collection of other long-term loans and receivables	1	23	1	-	31
Net cash provided by (used in) continuing investing activities	2	495	(34)	288	332
Net cash provided by (used in) discontinued investing activities	-	(2)	-	(2)	120
Net cash provided by (used in) investing activities	2	493	(34)	286	452

(1) Reclassified due to discontinued operations, see Note 6.

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

CLAL INDUSTRIES AND INVESTMENTS LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	(1) 2004	2005	(1) 2004	2004
	Unaudited				Audited
	Reported NIS in millions				
<u>Cash flows from financing activities:</u>					
Receipt of loans and other long-term liabilities:					
From banks and others	40	89	31	48	98
From issuance of debentures	700	540	700	428	540
Repayment of loans and other long-term liabilities:					
From banks and others	(112)	(96)	(37)	(49)	(175)
From IDB Group companies	(5)	(5)	-	-	(5)
Redemption of debentures	(15)	-	-	-	-
Short-term credit from banks, net	(91)	(457)	(134)	(382)	(484)
Decrease in other current liabilities, net	-	(31)	-	(1)	(30)
Issuance of shares to minority in subsidiary	-	1	-	1	1
Dividend paid to minority in consolidated companies	(104)	-	(10)	-	(45)
Dividend paid	(108)	(270)	(108)	(270)	(520)
Net cash provided by (used in) continuing financing activities	305	(229)	442	(225)	(620)
Net cash used in discontinued financing activities	-	(16)	-	(7)	(25)
Net cash provided by (used in) financing activities	305	(245)	442	(232)	(645)
Translation differences in respect of cash balances of discontinued operations	-	1	-	(1)	1
Increase in cash and cash equivalents	694	372	501	112	184
Deduct - decrease (increase) in cash and cash equivalents from discontinued operations	-	-	-	9	(7)
Increase in cash and cash equivalents from continuing operations	694	372	501	121	177
Cash and cash equivalents at the beginning of the period	378	201	571	452	201
Cash and cash equivalents at the end of the period	1,072	573	1,072	573	378

(1) Reclassified due to discontinued operations, see Note 6.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	(1) 2004	2005	(1) 2004	2004
	Unaudited				Audited
	Reported NIS in millions				
(a) <u>Adjustments to reconcile net income to net cash provided by continuing operating activities:</u>					
Income and expenses not involving operating cash flows:					
Minority interest in earnings of subsidiaries, net	99	30	18	28	58
Equity in losses (earnings) of affiliates, net of dividends received *)	(23)	(11)	(22)	13	16
Gain on disposal of investments, net	(8)	(266)	(7)	(126)	(282)
Impairment of investments and assets, net	15	26	3	14	22
Depreciation and amortization	86	78	44	42	161
Gain on disposal of fixed and other assets, net	(4)	(5)	(1)	(4)	(15)
Deferred taxes, net	(5)	28	(3)	8	20
Increase (decrease) in accrued severance pay, net	2	(6)	4	(3)	(6)
Erosion of assets and liabilities, net	8	14	14	16	7
Changes in operating assets and liabilities:					
Increase in other receivables	(67)	(24)	(40)	(19)	(32)
Decrease (increase) in inventories	(7)	-	17	8	13
Increase (decrease) in other payables	137	(6)	13	(2)	62
	<u>233</u>	<u>(142)</u>	<u>40</u>	<u>(25)</u>	<u>24</u>
*) Dividends received	<u>17</u>	<u>19</u>	<u>-</u>	<u>-</u>	<u>55</u>

(1) Reclassified due to discontinued operations, see Note 6.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	(1) 2004	2005	(1) 2004	2004
	Unaudited				Audited
	Reported NIS in millions				
(b) <u>Acquisition of newly consolidated subsidiaries</u> <u>(including change from proportionate</u> <u>consolidation to full consolidation):</u>					
Assets and liabilities of subsidiaries at date of acquisition:					
Working capital deficiency, excluding cash	6	32	-	-	30
Investments in investees and other companies	1	(12)	-	-	(14)
Fixed assets, other assets and deferred charges	(14)	(391)	-	-	(381)
Long-term liabilities	3	174	-	-	170
Minority interest	-	209	-	-	205
	<u>(4)</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>10</u>
(c) <u>Proceeds from sale of previously consolidated subsidiaries:</u>					
Assets and liabilities of subsidiaries as of the date of sale:					
Working capital deficiency, excluding cash					(2)
Investments, fixed assets, other assets and deferred charges					2
Long-term liabilities					<u>(1)</u>
					<u>(1)</u>
(d) <u>Significant non-cash activities:</u>					
In-kind dividend from investee	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>
Dividend receivable from investee	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9</u>
Transfer of inventories to fixed assets	<u>3</u>	<u>5</u>	<u>1</u>	<u>3</u>	<u>5</u>
Investments in investees and other companies and purchase of properties on credit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
Sale of companies and properties for credit	<u>1</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>35</u>

(1) Reclassified due to discontinued operations, see Note 6.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. These financial statements have been prepared in a condensed format as of June 30, 2005 and for the six and three months periods then ended in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods. These financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2004 and for the year then ended.
- 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. 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 Accounting Standard No. 19 with respect to taxes on income:

On January 1, 2005, the Company adopted Accounting Standard No. 19, "Taxes on Income" ("the Standard") of the Israel Accounting Standards Board. The Standard prescribes the principles for recognition, measurement, presentation and disclosure of taxes on income and deferred taxes in the financial statements. Pursuant to the Standard, the effect of the initial adoption of the Standard was recognized by recording the cumulative effect as of the beginning of the period in which the Standard is adopted.

The major change promulgated by the Standard in relation to the accounting principles which were previously in effect is the recognition of deferred taxes for temporary differences relating to land.

As a result of the initial adoption of the provisions of the Standard, the Company recorded a deferred tax liability in the amount of approximately NIS 3 million which was reported as loss and presented as a separate line item in the statement of income, "Cumulative effect as of the beginning of the period of change in accounting principle, net."

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

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

As of	Israeli CPI Points *)	Exchange rate of one U.S. dollar NIS
June 30, 2005	108.0	4.574
June 30, 2004	107.7	4.497
December 31, 2004	107.4	4.308
Change during the period	%	%
Six months ended:		
June 30, 2005	0.5	6.2
June 30, 2004	1.4	2.7
Three months ended:		
June 30, 2005	1.1	4.9
June 30, 2004	1.5	(0.7)
Year ended December 31, 2004	1.2	(1.6)

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

NOTE 3:- INVESTMENTS

- a. Principal changes during the reported period:

Venture capital fund segment:

- During the reported period, the Company invested NIS 38 million in F.B.R. Infinity Ventures (Israel) Venture Capital Fund. The Company has commitments to make additional investments in this venture capital fund in the amount of \$ 8.8 million.
- In February 2005, the Company completed the sale of its holdings in several venture capital funds for consideration of approximately NIS 46 million in cash and the release of the Company from commitments to additional investments in these funds of approximately \$ 12 million. During the reported period, no additional loss recorded in excess of the loss recorded in 2004 in respect of this transaction at the amount of approximately NIS 9 million.

Other segment:

- In May 2005, the Company purchased about 15% of the share capital of Beit Shemesh Engine Holdings (1997) Ltd. ("BSE") in consideration for approximately NIS 13 million. Subsequent to this purchase, the Company's holdings in BSE is about 36%.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENTS (Cont.)

- On July 25, 2005, an agreement was signed between the Company, Clalcom Ltd. ("Clalcom"), Barak I.T.C. (1995) - International Telecommunications Company Ltd. ("Barak") and the majority of the holders of Barak's debentures regarding the restructuring of Barak's equity and debt ("the plan"). According to the agreement, the Company and Clalcom will invest in Barak a total of approximately \$ 26 million (Company's share is \$ 18 million) in consideration for about 81.5% of the share capital of Barak (Company's share is about 52.5%). Matav Investments Ltd. ("Matav") realized its right to participate in the plan and will invest a total of approximately \$ 6 million in consideration for about 18.5% of the share capital of Barak. In the context of understandings formed between the investors, Matav was granted a Put option according to which it has the right to demand that the Company and/or Clalcom purchase its entire stock in consideration for \$ 6 million, including interest. Concurrently, the Company and/or Clalcom were granted a Call option according to which they have the right to purchase all of Matav's stock in Barak in consideration for \$ 7 million, including interest, all in accordance with the agreement between the parties.

The principles of the plan are:

- (1) The holders of the debentures will receive \$ 40 million in cash, of which approximately \$ 7.65 million had transferred, and are being hold in trust, and the balance of \$ 32.35 million will be paid to the holders of debentures close after the execution of the plan.
- (2) The debenture principal for the present holders of the debentures will amount to \$ 65 million and will bear annual interest of 10% (commencing from March 2005) to be paid in semi-annual installments. The principal will be paid in one installment at the end of five years, with a possibility for early redemption, subject to certain conditions.

Barak intends to submit the plan for the approval of the Courts in Israel and in the U.S. and of the holders of the debentures, in accordance with the provisions of Section 350 of the Companies Law. In addition to those approvals, the plan requires the approval of Barak's financing banks, various regulatory approvals and the approval of certain third parties.

Under certain conditions, the parties are entitled to cancel the agreement either before its completions or if the plan is not completed within 150 days from the date of approval of the agreement.

The Company estimates that the excess cost over the book value that will arise upon the completion of the transaction, in respect of its investment in Barak, will amount to between NIS 420 million and NIS 460 million (including excess cost in the amount of NIS 120 million arising in relation to debentures).

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

- On May 23, 2005, Clalcom's Board approved the entering into several agreements with other companies, including companies controlled by an interested party (collectively, "the minority group"), with Telecom Italy and companies under its control with respect to their holdings in Mediterranean Nautilus Ltd. and Med-1 Underwater Cables Ltd., each of which is 15% held by Clalcom, as described in Note 9c3(b) to the Company's financial statements as of December 31, 2004 ("the Med transaction").

On July 8, 2005, after the receipt of the required approvals, the Med transaction was closed. As a result of the sale, the Company will record in the coming quarter a gain of approximately NIS 37 million.

b. Investments in listed companies

	Carrying amount at	Market value	
	June 30, 2005	June 30, 2005	August 18, 2005
Reported NIS in millions			
Affiliates:			
ECI Telecom Ltd.	361	578	546
American Israeli Paper Mills Ltd.	199	270	270
Scitex Corporation Ltd.	177	267	267
Fundtech Ltd.	121	247	256
Maman - Cargo Terminals and Handling Ltd.	33	41	45
Nova Measuring Instruments Ltd.	24	31	36
Beit Shemesh Engine Holdings (1997) Ltd.	32	35	33
Gold Bond Group Ltd.	10	22	21
Other companies:			
Compugen Ltd.	23	43	51
ECTel Ltd.	14	18	22
Shopping.com Ltd.	4	9	9
Other companies	6	10	10

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

- c. Attached financial statements of affiliates:

The attached financial statements of the affiliates ECI and Scitex are prepared in accordance with generally accepted accounting principles in the U.S. Following is reconciliation of the shareholders' equity and nit income of these companies from generally accepted accounting principles in the U.S. to generally accepted accounting principles in Israel:

	June 30,				December 31,	
	2005		2004		2004	
	ECI	Scitex	ECI	Scitex	ECI	Scitex
	Unaudited				Audited	
	U.S. dollars in thousands					
Shareholders' equity:						
As reported by the affiliate	601,545	158,593	546,782	156,527	551,768	154,274
Net adjustments to generally accepted accounting principles in Israel	(4,253)	422	861	(1,798)	(3,505)	1,173
As adjusted	<u>597,292</u>	<u>159,015</u>	<u>547,643</u>	<u>154,729</u>	<u>548,263</u>	<u>155,447</u>

	Six months ended June 30,				Three months ended June 30,				Year ended	
	2005		2004		2005		2004		December 31,	
	ECI	Scitex	ECI	Scitex	ECI	Scitex	ECI	Scitex	ECI	Scitex
	Unaudited				Unaudited				Audited	
	U.S. dollars in thousands									
Net income (loss) for the period:										
As reported by the affiliate	26,008	4,533	(4,753)	49,053	15,575	2,752	(3,527)	(1,236)	10,153	47,253
Net adjustments to generally accepted accounting principles in Israel	<u>20,297</u>	<u>(965)</u>	<u>4,936</u>	<u>5,702</u>	<u>8,204</u>	<u>(344)</u>	<u>2,141</u>	<u>(42)</u>	<u>(11,380)</u>	<u>8,375</u>
As adjusted	<u>46,305</u>	<u>3,568</u>	<u>183</u>	<u>54,755</u>	<u>23,779</u>	<u>2,408</u>	<u>(1,386)</u>	<u>(1,278)</u>	<u>(1,227)</u>	<u>55,628</u>

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OTHER ASSETS

Real estate segment:

In January 2005, a subsidiary in which the Company holds 52.9%, signed an agreement for the sale of land for approximately NIS 248 million. As a result of the sale, the subsidiary recorded a net gain of approximately NIS 148 million of which the Company's share is approximately NIS 78 million.

NOTE 5:- DEBENTURES

- In May 2005, the Company issued, by a private placement, debentures (series L) in the amount of NIS 333 million to institutional investors (of which NIS 62 million was issued to related parties). The debentures (principal and interest) are linked to the Israeli CPI of March 2005, are repayable in five equal annual installments from January 2009 and bear interest of 4.35% per annum on the unpaid balance. The interest is payable in January of each of the years 2006 to 2013 (inclusive).
- In May 2005, the Company published a prospectus in the context of which the Company listed the debentures (series L) that had been issued to private and institutional investors in May 2005, as described above. The Company also listed NIS 140 million par value of debentures, that have been issued to a wholly-owned subsidiary of the Company. These debentures together with the debentures described above, represent one series (series L) for all purposes. In addition, as part of the above prospectus, debentures (series M) in the amount of NIS 70 million were issued. The debentures bear interest of 4.5% per annum, are linked (principal and interest) to the Israeli CPI of April 2005 and are repayable in five equal annual installments from January 2013. The interest is payable in June of each of the years 2006 to 2017 (inclusive).
- In May 2005, a subsidiary issued, by private placement, non-marketable debentures in the amount of approximately NIS 300 million (of which NIS 22 million was issued to related parties). The debentures are linked to the Israeli CPI and bear interest of 4.2% per annum. The principal of the debentures is repayable in five equal annual installments from May 2009. As part of the issuance, the subsidiary has undertaken towards the investors to refrain from recording liens in favor of others.

NOTE 6:- DISCONTINUED OPERATIONS

In December 2004, the Company sold its entire holdings in Polgat Ltd., whose activities constituted a significant line of business.

According to Accounting Standard No. 8, assets, liabilities, revenues, expenses and cash flows attributed to the discontinued operations are presented separately from those attributable to the Company's continuing operations. Comparative data as of June 30, 2004 and for the six and three months periods then ended have been reclassified in order to segregate the items attributable to the discontinued operations from those of the continuing operations.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 7:- DIVIDEND**

In April 2005, the Company distributed a dividend in the amount of NIS 108 million, representing NIS 0.69 per each NIS 1 par value of shares.

NOTE 8:- BUSINESS SEGMENTS

a. Segment revenues (1):

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2005	2004	2005	2004	2004
	Unaudited				Audited
	Reported NIS in millions				
Cement	625	473	360	285	1,089
Textile	434	394	224	185	831
High-technology and electronics	37	57	22	(3)	86
Venture capital funds	1	(9)	-	(6)	(14)
Biotechnology	(4)	(12)	(2)	(2)	(16)
Real estate	*) 283	58	22	39	75
Other	217	188	116	110	373
	1,593	1,149	742	608	2,424
Other revenues, net	4	251	6	116	284
Total in the statement of income	1,597	1,400	748	724	2,708

b. Segment results:

Cement	154	117	98	83	271
Textile	38	12	21	(2)	40
High-technology and electronics	20	86	14	41	127
Venture capital funds	5	10	4	16	(3)
Biotechnology	(22)	(36)	(6)	(11)	(53)
Real estate	*) 248	21	15	15	39
Other	19	204	10	57	215
	462	414	156	199	636
Adjustments (2)	(9)	(2)	(6)	(4)	(18)
Financial expenses	(46)	(59)	(32)	(41)	(113)
Income (loss) before taxes on income	407	353	118	154	505

*) Mainly due to sale of land (see Note 4).

(1) Including segment's share in earnings of affiliates.

(2) Including other expenses, net, which were not allocated to a segment.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- CONTINGENT LIABILITY

In 2003 and 2004, several lawsuits and demands were filed against Scitex Vision Ltd. (formerly: Aprion Digital Ltd.) ("SVN") and others, including directors of SVN and various of its shareholders, including the Company's wholly owned subsidiary ("the subsidiary") which holds about 7% of SVN, and Scitex which holds about 77% of SVN (collectively, "the defendants").

The lawsuit and demands were filed by one of the minority shareholders in SVN, and they concern the manner in which the defendants performed several transactions of SVN, alleged damages that he incurred, and amounts due to it following these transactions, and they primarily address a transaction in the context of which SVN acquired from Scitex the entire issued share capital of a wholly owned subsidiary of Scitex at the time ("the Scitex subsidiary"), in consideration for the issuance of shares of SVN to Scitex.

In April 2005, a compromise agreement was signed between the minority shareholder and Scitex, the subsidiary and Discount Investments Ltd. (which is also among the defendants and which holds about 7% of SVN) pursuant to which the above lawsuit and demands are dismissed and the parties mutually waive any other claims and demands relating to SVN. Similarly, according to the compromise agreement, Scitex, the subsidiary and Discount Investments Ltd. will purchase the minority shareholder's interest in SVN (about 1.9%) for a total immediate payment of \$ 1.6 million (the subsidiary's share is approximately \$ 126 thousand) and a contingent future payment, whose actual payment and amount are conditional upon that within two years Scitex, the subsidiary and Discount Investments Ltd. sell their holdings and/or part of their holdings in SVN for a consideration that is based on a higher value for SVN compared to the value for which the above immediate payment was based. The minority shareholder's interest in SVN shares to be purchased will be allocated between Scitex, the subsidiary and Discount Investments Ltd. proportionally to their current holdings in SVN. As for an agreement for the sale of SVN activity, see Note 12 below. If the transaction for the sale of SVN assets is completed, it is expected that the future payment will be immaterial.

NOTE 10:- TAXES ON INCOME (TAX BENEFIT)

On July 25, 2005, the Knesset (Israeli Parliament) passed the Law for the Amendment of the Income Tax Ordinance (No. 147), 2005, which prescribes, among others, a gradual decrease in the corporate tax rate in Israel from 32% to 31% in 2006 down to 25% in 2010.

The Company estimates that the effect of the amendment, as stated above, on the Company's balance of deferred taxes as of June 30, 2005, is expected to result in a decrease in tax expense, net of minority interest, in the amount of approximately NIS 24 million. Which expense will be recorded in the Company's interim financial statements for September 30, 2005 and the three months period then ended.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- EFFECT OF A NEW ACCOUNTING STANDARD IN THE PERIOD PRIOR TO ITS ADOPTION

In July 2005, the Israel Accounting Standards Board issued Accounting Standard No. 22, "Financial Instruments: Disclosure and Presentation".

This Standard prescribes principles regarding the presentation of financial instruments and details the proper disclosure required in their respect in the financial statements. The presentation principles apply to the classification of financial instruments or their component parts, on initial recognition as a financial liability, financial asset or equity instrument; the classification of related interest, dividends, losses and gains; and the circumstances in which a financial asset and a financial liability should be offset. This Standard shall apply to financial statements for periods commencing on or after January 1, 2006.

According to the new Standard, compound financial instruments, that include both a liability and an equity component, should be bifurcated between the equity and liability component and each component should be classified separately in accordance with the Standard's guidance. That is in contrast to current accounting principles, according to which the aforementioned financial instrument is classified as a financial liability or a mezzanine item (depending on the probability of conversion). Transaction costs (net of any related income tax benefit) of an equity transaction are accounted for as a deduction from equity, while transaction costs of a financial liability are deducted from the liability and are taken into account, when calculating the effective interest rate.

The new Standard also broadens the definition of a financial liability, thus causing certain financial instruments, which are considered under current accounting guidance to be equity instruments, to be considered as financial liabilities. In addition, the new Standard supersedes Standards No. 48 and 53 of the Institute of Certified Public Accountants in Israel, according to which an investor should record a provision for a probable loss to result from decrease in its interest in the investee, following the conversion of the investee's convertible instruments ("loss provision").

The Standard shall be applied prospectively. Comparative data presented in financial statements for periods beginning on the Standard's effective date will not be restated. Financial instruments that were issued prior to the Standard's effective date will be classified and presented in accordance with the provisions of the Standard beginning on the Standard's effective date. Compound financial instruments, which were issued in prior periods and were not yet converted or redeemed as of the Standard's effective date, will be bifurcated to their components and presented accordingly, beginning on the Standard's effective date. A loss provision included in the financial statements of an investor at the Standard's effective date should be reversed at such date as a cumulative effect in the current period.

The Company is currently evaluating the effect of the new Standard on its financial statements, but at this stage it is unable to estimate the aforementioned effect.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- EVENT SUBSEQUENT TO THE BALANCE SHEET DATE

High-technology and electronics segment:

In August 2005, Scitex announced that SVN entered into an agreement for the sale of its assets and business activities to Hewlett Packard in consideration for approximately \$ 230 million payable in cash on the date of closing.

The announcement included the following matters: \$ 24 million of the consideration will be held in trust for period of two years to cover any possible indemnification payments by SVN to the buyer under the agreement; additional \$ 24.5 million of the consideration will be designated to cover existing liabilities of SVN, primarily to Israeli banks. Closing is expected within 90 days from date of the above agreement, subject to certain regulatory approvals and the fulfillment of certain customary precedent conditions for completing such type of transaction.

Scitex is evaluating the accounting and tax implications of the transaction and, at this stage, it expects to record a capital gain in respect of the transaction in an amount of between approximately \$ 75 million and \$ 95 million. Upon completion of the transaction and after SVN pays various liabilities and expenses, it is expected that cash retained at SVN, out of the consideration for the transaction, will be distributed by SVN to its shareholders and, as part of this distribution, Scitex is expected to receive a total of between approximately \$ 100 million and \$ 110 million (excluding distributions out of the amount held in trust).

In the event the transaction is completed, the Company will record a gain upon the closing that, at this stage, is estimated at between approximately NIS 122 million and NIS 153 million, which constitutes mostly the Company's share of Scitex's gain on the transaction, computed according to generally accepted accounting principles in Israel.
