

Tel-Aviv, August 19, 2009

CLAL INDUSTRIES AND INVESTMENTS LTD.

EXECUTIVE SUMMARY

AS OF JUNE 30, 2009

1. COMPANY DESCRIPTION

The Board of Directors of Clal Industries and Investments Ltd. ("the Company") is hereby pleased to present the executive summary as of June 30, 2009, which reviews the principal changes in the Company's activities in January through June 2009 ("the reported period"). This report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 under the assumption that the reader has at its disposal the Company's complete periodic report as of December 31, 2008 ("annual financial statements"). The Company's results presented in this report refer to the results attributable to the Company's shareholders, unless otherwise stated.

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

The Group consists of investees that operate mainly in the fields of traditional industries, commerce and technologies. The Company is engaged, directly and through its investees, in the establishment, acquisition, development and upgrading of its portfolio companies. 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 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 Company's activities are conducted through subsidiaries (companies in which the Group holds more than 50% of the rights, either directly or indirectly), jointly controlled entities (companies in respect of which the Group has contractual arrangement with other entities for joint control), associates (companies in which the Group exercises significant influence and which are accounted for in the financial statements by the equity method), and through other companies wherein the Company does not exercise significant influence (the investment in which is reflected in the financial statements at fair value).

The 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.
- Continue establishing the Company as a holding company which coordinates holdings in the following industries: basic manufacturing, high technology and biotechnology, logistics, communication services, energy, consumer products and infrastructures.

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 while exploring new areas of activity that meet these criteria;
- Continue to examine investment opportunities in leading companies, including in investees.
- Utilize opportunities in relevant markets in order to realize investments.
- Continue to search for dumping opportunities and opportunities to increase value of investees.
- Intensify international operations, including those of investees; in this framework, the Company is examining a wide array of investment and cooperation offers in the different segments in which it operates, as well as through its investees, in different geographical regions.
- Nurture and strengthen the ties with existing and potential strategic partners in Israel and worldwide.
- Manage the Company's headquarters as a dynamic entity that works in cooperation with the investees.
- Outsource from time to time the management of certain activities, while exercising appropriate controls.
- Contribute to and assist the community in Israel.

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

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

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

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

Global economic crisis (see also paragraph 7 to part A of the description of the Company's business as of December 31, 2008):

In 2008, the global financial markets experienced a significant upset, which grew and deepened in September-October 2008 and continued to deteriorate in early 2009, accompanied by the collapse of several of the largest financial institutions in the U.S. and other countries around the world. The economic and financial crisis followed the Sub-Prime mortgage crunch ¹, which began in the second half of 2007 and was soon joined by other financial sectors. The global economic and financial crisis led, among other things, to a sharp decline in financial asset prices and to severe plunges in capital markets and in securities stock exchanges around the world (including Israel), and followed by significant decreases in prices of securities of certain of the Company's investees. The deteriorating global financial crisis also caused a credit crisis that consisted of a significant decrease in credit availability and credit crunch.

¹ Generally speaking, a "Sub-Prime" loan is a loan given to borrowers whose credit rating is relatively low and is at a higher risk to the lender and therefore given at a higher interest rate than a Prime loan.

Following these events, certain countries, headed by the U.S., the European Union and the UK, took various measures in order to stabilize their economies and prevent further deterioration of the financial markets, this also by pouring funds into financial institutions and lowering interests, yet to date, there is no certainty that these steps will indeed halt the crisis or prevent it from worsening.

The global financial crisis deepened and was followed by a slowdown in real economic activity, which spread from the U.S globally and also affected the Israeli economy. The real economic crisis was manifested by the decrease in the value of properties held by the public (including the impairment of pension funds and increased premature withdrawals of pension funds and advanced study funds), weakened demands, a significant slowdown in economic and commercial activities, a slowdown which intensified towards the end of 2008 and led to the slowing down of the private consumption increase rate and the expansion of economic uncertainty. As a result of the economic crisis, several economies around the world, including the U.S. and many European countries, went into a severe recession expressed, among other things, by a wave of minimized and discontinued activities and widespread downsizing in the various sectors, including real estate, manufacturing, services and hi-tech. In Israel too there are fast growing and clear indications of the deterioration in the economy and the recession. As of the date of this report, the scope of the direct and indirect economic implications of the global and domestic economic crisis and its duration cannot be estimated.

Alongside the global economic crisis discussed above, in the last few months, the Israeli economy underwent several other developments such as the significant fluctuations in the exchange rates of the main foreign currencies in relation to the NIS and the continuing and important lowering of the Bank of Israel's interest.

As of the date of this report, these market developments and upsets are liable to have material continuing adverse effects on the business results of the Company and of its investees, their liquidity, equity and assets and the ability to realize these assets, the state of their business (including the demand for the products of the Company's investees), their financial benchmarks, credit ratings, ability to distribute dividends and their ability to raise financing for operating activities and long-term activities as well as financing terms.

Due to the crisis, the rating companies have been reevaluating and sometimes updating the rating of corporate debentures. This reevaluation process may have negative implications also on the rating of the investees' debt solvency by those rating companies. On July 29, 2009, Standard & Poor's Maalot Ltd. ("Maalot") published an update to the rating of the Company's debentures from AA to A+ with stable outlook. It also announced the removal of the Company's debentures from the Credit Watch with negative outlook. According to Maalot's announcement, the rating forecast is stable. The update is attached as an appendix to this report.

For details as to the announcement made by Maalot regarding the update of the rating of the Company's debentures, see 10b below. As for the quoted market value of investees whose shares are listed, see Note 3b to the Company's financial statements as of June 30, 2009.

The Group's major segments of operations are as follows²:

Cement – The principal company in this segment is Neshor Israeli Cement Enterprises Ltd. ("Neshor"). Neshor is wholly owned by Mashav Initiating and Development Ltd. ("Mashav") (75% owned). The presented segment data are the data of Mashav on a consolidated basis less the data of Taavura.

Golf & Co. Group Ltd. ("Golf") (73% owned). Golf mainly sells and markets textile and home design, fashion and clothing.

Fundtech Ltd. ("Fundtech") (58% owned). Fundtech develops, markets and supports software programs that are used by financial institutions.

Clal Biotechnology Industries Ltd. ("CBI"), (67% owned). CBI operates in the biotechnology sector by investing in life science companies and ventures mostly in research and clinical trial stages. CBI's holdings include, among other things, Mediwound Ltd. (56% owned), D-Pharm Ltd. ("D-Pharm") (41% owned), Curetech Ltd. (42% owned, also through Clal Venture Capital Fund, 23% owned), Andromeda Biotech Ltd. (90% owned) and Poliheal Ltd. (35% owned).

Netvision Ltd. ("Netvision") (24% owned). Netvision is a leading supplier of communication services in Israel and is mainly engaged in providing internet connectivity services, international telephony services and managed services (equipment and communication network endpoint services and domestic telephony services).

KBA Townbuilders Group Ltd. ("KBA") (53% owned). KBA holds land reserves and upgrades and sells them.

Taavura Holdings Ltd. ("Taavura") (37.5% owned). Taavura's holdings include, among other things, Maman Cargo Terminals and Handling Ltd. ("Maman") (77% held by Taavura). Taavura provides transport, infrastructure and logistic services and imports and markets trucks, buses, heavy equipment and cranes and imports and sells automobiles in Europe as well as provides other services.

² The ownership interests in the companies are as of June 30, 2009. 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.

Hadera Paper Ltd. ("Hadera Paper") (38% owned). Hadera Paper is mainly active in manufacturing and marketing packaging paper and cardboards, collecting and recycling paper, manufacturing and marketing printing and writing paper, home paper products, disposable diapers and products for house and kitchen cleaning.

Other - Operations in this segment include, among others, Cargal Ltd. (26% owned), Jaf-Ora Ltd. (30% owned), Beit Shemesh Engines Holdings (1997) Ltd. (36% owned), Clal Energy Limited Partnership (100% owned), Clal Motors Ltd. (100% owned), Kitan Textile Industries Ltd. (100% owned), Nova Measuring Instruments Ltd. (21% owned), ECTel Ltd. (17% owned), F.B.R. Infinity Israel II Fund (39% owned) and Infinity I-China (Israel 2) Fund, L.P. (12% owned).

The Group's activities are affected by many external factors (see section 7 to part A of the description of the Company's business as of December 31, 2008).

2. RESULTS OF BUSINESS OPERATIONS

a. Statements of income:

Total net income attributable to the Company's shareholders and to minority interests in the reported period amounted to NIS 289 million, compared to a net income of NIS 81 million in the corresponding period of the previous year and a net income of NIS 133 million in all of 2008.

Net income attributable to the Company's shareholders in the reported period amounted to NIS 211 million, compared to a net income of NIS 13 million in the corresponding period of the previous year and a net income of NIS 26 million in all of 2008.

In the reported period, current income amounted to NIS 143 million, compared to a current income of NIS 35 million in the corresponding period of the previous year due to an increase in the segments' current contribution in the reported period totaling NIS 187 million compared to NIS 166 million in the corresponding period of 2008 and a decrease in financial, headquarter and other expenses to NIS 44 million compared to expenses of NIS 131 million in the corresponding period of 2008. The main decrease in expenses stems from the decrease in financial expenses due to the decrease in the inflation rate and the increase in the U.S. dollar-NIS exchange rate.

The income in the reported period from realization of investments, adjustment of the value of investments and other net non-recurring factors, net amounted to NIS 68 million and includes mainly income from the expiration of share options for Golf's shares of NIS 14 million, a gain from the decrease in CBI's holding rate in Andromeda of NIS 35 million and Taavura's relocation to the alternative compound of NIS 12 million.

The loss in the corresponding period of 2007 from disposal of investments, adjustments of the values of investments and other net non-recurring factors totaled NIS 22 million, which resulted mainly from the realization of the investment in Saifun of NIS 20 million.

Basic net earnings per share in the reported period totaled NIS 1.34 compared to net earnings of NIS 0.08 in the corresponding period of the previous year and net earnings of NIS 0.16 for all of 2008. The diluted net earnings per share in the reported period totaled NIS 1.24 compared to net earnings of NIS 0.06 in the corresponding period of the previous year and net earnings of NIS 0.14 for all of 2008.

Total net income attributable to the Company's shareholders and to minority interests in the second quarter of 2009 amounted to NIS 157 million, compared to a net income of NIS 28 million in the corresponding quarter of the previous year.

Net income attributable to the Company's shareholders in the second quarter of 2009 amounted to NIS 104 million, compared to a net income of NIS 5 million in the corresponding quarter of the previous year.

In the second quarter of 2009, current income amounted to NIS 62 million, compared to a current income of NIS 5 million in the corresponding quarter of the previous year due to an increase in the segments' current contribution in the second quarter of 2009 totaling NIS 113 million compared to NIS 74 million in the corresponding quarter of 2008 and a decrease in financial, headquarter and other expenses to NIS 51 million compared to expenses of NIS 69 million in the corresponding quarter of 2008. The main decrease in expenses stems from the decrease in financial expenses due to the decrease in the inflation rate and the positive effect of increases in the capital markets.

The income in the second quarter of 2009 from realization of investments, adjustment of the value of investments and other net non-recurring factors, net amounted to NIS 42 million and includes mainly income from the decrease in CBI's holding rate in Andromeda of NIS 27 million and Taavura's relocation to the alternative compound of NIS 12 million.

The loss in the corresponding quarter of 2008 from disposal of investments, adjustments of the values of investments and other net non-recurring factors totaled NIS 0 million.

Basic net earnings per share in the second quarter of 2009 totaled NIS 0.66 compared to net earnings of NIS 0.03 in the corresponding quarter of the previous year. The diluted net earnings per share in the second quarter of 2009 totaled NIS 0.65 compared to net earnings of NIS 0.02 in the corresponding quarter of the previous year.

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b. Data of principal investees:

Data from the financial statements of principal investees ³:

	Revenues				
	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2009	2008	2009	2008	2008
Companies that prepare financial statements in NIS (NIS in millions):					
Mashav (excluding Taavura)	761	795	397	428	1,560
Taavura	1,021	1,124	509	634	2,339
Hadera Paper	434	276	204	133	673
Golf	319	349	167	187	706
KBA	17	153	13	27	240
CBI	108	16	53	13	35
Netvision	611	599	305	299	1,235
A company that prepares financial statements in \$ (U.S. \$ in millions):					
Fundtech ⁴	54	60	28	32	121
	Net income (loss)				
	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2009	2008	2009	2008	2008
Companies that prepare financial statements in NIS (NIS in millions):					
Mashav (excluding Taavura)	153	121	104	74	183
Taavura	83	53	61	21	77
Hadera Paper	35	39	16	18	70
Golf	49	53	25	34	101
KBA	10	92	7	14	145
CBI	63	(64)	31	(36)	(83)
Netvision	55	47	25	21	87
A company that prepares financial statements in \$ (U.S. \$ in millions):					
Fundtech ⁴	(0.3)	2	0.5	1.7	1.2

³ The presented data refer to the results of investees disregarding the Company's holding rate therein and disregarding cancelations of inter-company and inter-segment transactions.

⁴ Relates to financial statements published by Fundtech, according to generally accepted accounting principles in the United States. The Company includes the results of Fundtech according to IFRS.

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c. Analysis of results by operating segments ⁵ (NIS in millions):

	Six months ended June 30, 2009			Six months ended June 30, 2008		
	Current	Other	Total	Current	Other	Total
Operating segments:						
Cement	118	(3)	115	90	-	90
Taavura	16	12	28	19	-	19
Hadera Paper	7	6	13	15	-	15
Golf	36	15	51	39	-	39
KBA	4	-	4	46	-	46
Fundtech	(8)	-	(8)	(1)	-	(1)
CBI	5	37	42	(43)	-	(43)
Netvision	1	1	2	1	-	1
Other	8	-	8	-	2	2
Total segment contributions	187	68	255	166	2	168
Financing and headquarters	(44)	-	(44)	(131)	(24)	(155)
Net income	143	68	211	35	(22)	13
	Three months ended June 30, 2009			Three months ended June 30, 2008		
	Current	Other	Total	Current	Other	Total
Operating segments:						
Cement	79	-	79	55	-	55
Taavura	8	12	20	7	-	7
Hadera Paper	6	-	6	7	-	7
Golf	18	1	19	24	-	24
KBA	3	-	3	7	-	7
Fundtech	(1)	-	(1)	(1)	-	(1)
CBI	(8)	28	20	(25)	-	(25)
Netvision	1	1	2	(1)	-	(1)
Other	7	-	7	1	3	4
Total segment contributions	113	42	155	74	3	77
Financing and headquarters	(51)	-	(51)	(69)	(3)	(72)
Net income	62	42	104	5	-	5
	Year ended December 31, 2008					
	Current	Other	Total			
Operating segments:						
Cement	153	(16)	137			
Taavura	26	2	28			
Hadera Paper	26	1	27			
Golf	75	2	77			
KBA	71	-	71			
Fundtech	(9)	(2)	(11)			
CBI	(57)	1	(56)			
Netvision	5	(4)	1			
Other	(31)	(22)	(53)			
Total segment contributions	259	(38)	221			
Financing and headquarters	(196)	1	(195)			
Net income	63	(37)	26			

⁵ The analysis of results according to operating segments and the review of the segments is calculated based on the Company's holding rate in the relevant segment companies whereas the analysis of the operating results of the segments is performed based on the segment companies' actual performances.

Cement segment

a. Review of the cement segment

Net income in the reported period totaled NIS 115 million compared to net income of NIS 90 million in the corresponding period of last year.

Net income in the second quarter of 2009 totaled NIS 79 million compared to net income of NIS 55 million in the corresponding quarter of last year.

The increase in net income in the reported period and in the second quarter of 2009 compared to the corresponding period and quarter of last year, respectively, arises mainly from the transition to financial income versus financial expenses last year, greatly owing to the increase in capital markets and the positive effect of the revaluation of future transactions to hedge against CPI increases and a decrease in financial expenses due to reduced inflation rates.

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

Revenues in the reported period totaled NIS 761 million compared to NIS 795 million in the corresponding period of last year (a 4% decrease), mainly due to the decrease in sales to the local market and the export of CleanCare excesses, offset by the increased sales to the Palestinian Authority and the rise in prices in 2008 in the local and export markets.

The net income in the reported period amounted to NIS 153 million compared to net income of NIS 121 million in the corresponding period of 2008.

The decrease in revenues as above alongside an increase in actually consumed energy input prices and streamlining expenses on the one hand compared to a decrease in the cost of renovating the furnace last year, which was partly renovated in the reported period on the other led to a decrease in operating income.

The increase in net income in the reported period compared to last year, despite the decrease in operating income as above, is a result of a significant rise in financial income owing to the increase in the capital markets in the first half of the year and the positive effect of the revaluation of future transactions to hedge against CPI increases and a decrease in financial expenses due to reduced inflation rates.

Revenues in the second quarter of 2009 totaled NIS 397 million compared to NIS 428 million in the corresponding quarter of last year (a 7% decrease), mainly due to the decrease in sales to the local market and the export of CleanCare excesses, offset by the increased sales to the Palestinian Authority and the rise in prices in 2008 in the local and export markets.

The net income in the second quarter of 2009 amounted to NIS 104 million compared to net income of NIS 74 million in the corresponding quarter of 2008.

The increase in net income in the second quarter of 2009 compared to last year, despite the decrease in revenues as above, opposite an increase in actually consumed energy input prices, is a result of a rise in financial income owing to the increase in the capital markets as above and the positive effect of the revaluation of future transactions to hedge against CPI increases and a decrease in financial expenses due to reduced inflation rates.

Taavura

a. Review of the Taavura segment

Net income in the reported period totaled NIS 28 million compared to net income of NIS 19 million in the corresponding period of last year. The increase in net income in the reported period compared to the corresponding period of 2008 stems mainly from recording net income from the relocation to the alternative compound in the amount of NIS 12 million and the decrease in diesel oil prices net of financial income last year from the exercise of an option to purchase shares in an associate in a total of NIS 6 million.

Net income in the second quarter of 2009 totaled NIS 20 million compared to net income of NIS 7 million in the corresponding quarter of last year. The increase in net income in the second quarter of 2009 compared to the corresponding quarter of 2008 stems mainly from recording net income from the relocation to the alternative compound in the amount of NIS 12 million.

b. Review of the condensed operating results of Taavura

Revenues in the reported period totaled NIS 1,021 million compared to NIS 1,124 million in the corresponding period of last year. The decrease is owing to reduced transport related activities.

Operating income in the reported period totaled NIS 156 million compared to operating income of NIS 94 million in the corresponding period of last year. Most of the increase arises from recording income of NIS 56 million from the relocation to the alternative compound transaction and the decrease in diesel oil prices.

Financial expenses, net in the reported period totaled NIS 34 million compared to financial expenses, net of NIS 23 million in the corresponding period of last year. The increase in financial expenses is mainly due to including financial income from the exercise of an option to purchase shares in an associate of NIS 16 million in the corresponding period of 2008.

Net income in the reported period totaled NIS 83 million compared to net income of NIS 53 million in the corresponding period of last year. The increase in net income in the reported period compared to last year is mainly a result of recording net income from the relocation to the alternative compound in the amount of NIS 41 million and the decrease in diesel oil prices net of financial income last year from the exercise of an option to purchase shares in an associate in a total of NIS 16 million.

Revenues in the second quarter of 2009 totaled NIS 509 million compared to NIS 634 million in the corresponding quarter of last year. The decrease is owing to reduced activities in the various segments.

Operating income in the second quarter of 2009 totaled NIS 107 million compared to operating income of NIS 59 million in the corresponding quarter of last year. Most of the increase arises from recording income of NIS 56 million from the relocation to the alternative compound transaction offset by the decrease in revenues.

Financial expenses, net in the second quarter of 2009 totaled NIS 17 million compared to financial expenses, net of NIS 26 million in the corresponding quarter of last year. The decrease in financial expenses is mainly due to an increase in financial income from the revaluation of future transactions to hedge against CPI increases and changes in exchange rates of foreign currencies.

Net income in the second quarter of 2009 totaled NIS 61 million compared to net income of NIS 21 million in the corresponding quarter of last year. The increase in net income in the second quarter of 2009 compared to last year is mainly a result of recording net income from the relocation to the alternative compound in the amount of NIS 41 million.

Hadera Paper

a. Review of the Hadera Paper segment

Net income in the reported period totaled NIS 13 million compared to net income of NIS 15 million in the corresponding period of last year.

Net income in the second quarter of 2009 totaled NIS 6 million compared to net income of NIS 7 million in the corresponding quarter of last year.

b. Review of the condensed operating results of Hadera Paper

Revenues in the reported period totaled NIS 434 million compared to NIS 276 million in the corresponding period of 2008 (a 57.4% increase). The main increase in sales arises from the inclusion of the revenues of two subsidiaries (Carmel Container Systems Ltd. and Frenkel K.D. Ltd.) in a total of NIS 240 million, which had not been consolidated last year, offset by the decrease in the sales turnover of packaging paper and recycling in the amount of NIS 91 million due to the effect of the erosion in selling prices and a decrease in the quantity of revenues owing to significant excess supplies of packaging paper in Europe which led to the import of packaging paper at lower prices from Europe and reducing scopes of activity of corrugated cardboard manufacturers.

Gross profit in the reported period totaled NIS 61 million compared to NIS 67 million in the corresponding period of last year. The decrease in gross profit compared to the corresponding period of last year mostly resulted from a decrease in revenues in the field of packaging paper and recycling as above and the amortization of excess cost of NIS 4 million in respect of the acquisition of the two subsidiaries.

Operating income in the reported period totaled NIS 14 million compared to operating income of NIS 30 million in the corresponding period of last year. The decrease in operating income was mainly due to the erosion in selling prices of packaging paper and recycling offset by recording non-recurring income in the amount of NIS 16 million in respect of a unilateral dividend.

The equity in earnings of associates in the reported period totaled NIS 35 million compared to NIS 25 million in the corresponding period of last year.

Net income in the reported period totaled NIS 35 million compared to net income of NIS 39 million in the corresponding period of last year.

Revenues in the second quarter of 2009 totaled NIS 204 million compared to NIS 133 million in the corresponding quarter of last year (a 53.1% increase), which mainly arises from the inclusion of the accounts of the two subsidiaries mentioned above in a total of NIS 109 million, which had not been consolidated last year, offset by the decrease in the revenue turnover of packaging paper and recycling in the amount of NIS 50 million due to the effect of the erosion in selling prices and a decrease in the quantity of revenues owing to significant excess supplies of packaging paper in Europe which led to the import of packaging paper at lower prices from Europe and reducing scopes of activity of corrugated cardboard manufacturers.

Gross profit in the second quarter of 2009 totaled NIS 24 million compared to NIS 30 million in the corresponding quarter of last year. The decrease in gross profit compared to the corresponding quarter of last year mostly resulted from a decrease in revenues in the field of packaging paper and recycling as above.

Operating loss in the second quarter of 2009 totaled NIS 5 million compared to operating income of NIS 13 million in the corresponding quarter of last year. The transition to operating loss from operating income is mainly due to the decrease in gross profit.

The equity in earnings of associates in the second quarter of 2009 totaled NIS 20 million compared to NIS 11 million in the corresponding quarter of last year.

Net income in the second quarter of 2009 totaled NIS 16 million compared to net income of NIS 18 million in the corresponding quarter of last year.

- c. As for the acquisition transaction with Discount Investments Ltd., a company controlled by IDB Development Corporation Ltd., the parent company, see 7b below.

Golf

- a. Review of the Golf segment

Net income in the reported period totaled NIS 51 million compared to net income of NIS 39 million in the corresponding period of last year. The increase in net income in the reported period was mainly due to a gain of NIS 14 million recorded due to the expiration of the remaining stock options (series 1) of Golf net of the reduced sales, partly offset by the decrease in selling and administrative expenses.

Net income in the second quarter of 2009 totaled NIS 19 million compared to net income of NIS 24 million in the corresponding quarter of last year. The decrease in net income in the second quarter of 2009 was mainly due reduced sales, partly offset by the decrease in selling and administrative expenses.

- b. Review of the condensed operating results of Golf

Revenues in the reported period totaled NIS 319 million compared to NIS 349 million in the corresponding period of last year (a 9% decrease). The decrease in revenues in the reported period was a result both of the effects of the global economic crisis as described in paragraph 1 above, of the relatively hot weather in the reported period that reduced sales of the winter collection and the closing down of certain Golf shops during the "Cast Led" military operation.

The gross profit in the reported period amounted to NIS 196 million compared to gross profit of NIS 213 million in the corresponding period of 2008, representing in the reported period about 61% of revenues, similarly to last year.

Operating income in the reported period totaled NIS 59 million compared to operating income of NIS 70 million in the corresponding period of last year. The main decrease in operating income is due to decrease in gross profit as discussed above net of the decrease in selling and marketing and general and administrative expenses of NIS 6 million compared to the corresponding period of last year.

Net income in the reported period totaled NIS 49 million compared to net income of NIS 53 million in the corresponding period of last year. The decrease in net income in the reported period compared to last year is mainly a result of reduced sales, partly offset by the decrease in selling and administrative expenses.

Revenues in the second quarter of 2009 totaled NIS 167 million compared to NIS 187 million in the corresponding quarter of last year (an 11% decrease).

The gross profit in the second quarter of 2009 amounted to NIS 105 million compared to gross profit of NIS 118 million in the corresponding quarter of 2008, representing in the second quarter of 2009 about 63% of revenues, similarly to last year.

Operating income in the second quarter of 2009 totaled NIS 35 million compared to operating income of NIS 44 million in the corresponding quarter of last year. The main decrease in operating income is due to decrease in gross profit as discussed above net of the decrease in selling and marketing and general and administrative expenses of NIS 4 million compared to the corresponding quarter of last year.

Net income in the second quarter of 2009 totaled NIS 25 million compared to net income of NIS 34 million in the corresponding quarter of last year. The decrease in net income in the second quarter of 2009 is mainly a result of reduced sales, partly offset by the decrease in selling and administrative expenses.

KBA

a. Review of the KBA segment

Net income in the reported period totaled NIS 4 million compared to net income of NIS 46 million in the corresponding period of last year. The decrease in net income is mostly due to including a large real estate complex in Ashdod in the corresponding period of 2008.

Net income in the second quarter of 2009 totaled NIS 3 million compared to net income of NIS 7 million in the corresponding quarter of last year.

b. Review of the condensed operating results of KBA

Revenues in the reported period totaled NIS 17 million compared to NIS 153 million in the corresponding period of 2007. The decrease in revenues is mainly due to the sale of a large real estate complex in Ashdod in the corresponding period of last year.

Operating income in the reported period totaled NIS 12 million compared to NIS 125 million in the corresponding period of last year, a decrease due to reduced revenues.

Net income in the reported period totaled NIS 10 million compared to net income of NIS 92 million in the corresponding period of last year. The decrease in net income arises from reduced revenues.

Revenues in the second quarter of 2009 totaled NIS 13 million compared to NIS 27 million in the corresponding quarter of last year.

Operating income in the second quarter of 2009 totaled NIS 10 million compared to NIS 18 million in the corresponding quarter of last year.

Net income in the second quarter of 2009 totaled NIS 7 million compared to net income of NIS 14 million in the corresponding quarter of last year.

Fundtech

a. Review of the Fundtech segment

Net loss in the reported period totaled NIS 8 million compared to a net loss of NIS 1 million in the corresponding period of 2008. The increase in loss is mainly due to a decrease in financial income in relation to the corresponding period of last year and a decrease in operating income.

Net loss in the second quarter of 2009 totaled NIS 1 million similarly to the corresponding quarter of last year. The decrease in operating income was offset by the decrease in the current amortization of original differences in respect of the Company's investment in Fundtech.

b. Review of the condensed operating results of Fundtech

Revenues in the reported period totaled \$ 54 million compared to \$ 60 million in the corresponding period of last year, a 10% decrease.

The operating loss in the reported period amounted to \$ 0.1 million compared to \$ 1.8 million in the corresponding period of last year.

The net loss in the reported period amounted to \$ 0.3 million compared to net income of \$ 2 million in the corresponding period of last year. The decrease in income is due to the decrease in financial income of \$ 0.7 million compared to the corresponding period of last year and a decrease in operating income, as above.

Revenues in the second quarter of 2009 totaled \$ 28 million compared to \$ 32 million in the corresponding quarter of last year, a 13% decrease.

The operating income in the second quarter of 2009 amounted to \$ 0 million compared to operating income of \$ 1.5 million in the corresponding quarter of last year.

The net income in the second quarter of 2009 amounted to \$ 0.5 million compared to net income of \$ 1.7 million in the corresponding quarter of last year. The decrease in income is due to the decrease in operating income, as above.

CBI

a. Review of the CBI segment

Net income in the reported period totaled NIS 42 million compared to a net loss of NIS 43 million in the corresponding period of 2008. The transition to income arises from an increase in non-recurring profits of NIS 37 million due to the completion of the exercise of Teva's investment option in Andromeda, the increase in the value of financial derivatives (NIS 29 million) relating to CBI's investment in Andromeda and the transition to financial income (NIS 15 million) due to the changes in the U.S. dollar-NIS exchange rate.

Net income in the second quarter of 2009 totaled NIS 20 million compared to a net loss of NIS 25 million in the corresponding quarter of last year. The transition to income arises from an increase in non-recurring profits of NIS 28 million due to the completion of the exercise of Teva's investment option in Andromeda and the increase in the value of financial derivatives (NIS 9 million) relating to CBI's investment in Andromeda.

b. Review of the condensed operating results of CBI

Income in the reported period amounts to NIS 63 million compared to a loss of NIS 64 million in the corresponding period of last year. The transition from loss in the corresponding period of last year to income in the reported period is mainly a result of (a) an increase in the gain from the decrease in the holding rate in subsidiaries and associates (NIS 52 million) due to the completion of the exercise of Teva's investment option in Andromeda, (b) an increase in the value of financial derivatives (NIS 44 million), mainly financial derivatives relating to CBI's investment in Andromeda, and (c) the transition to financial income, net (NIS 23 million), mainly due to the changes in the U.S. dollar-NIS exchange rate.

Income in the second quarter of 2009 amounts to NIS 31 million compared to a loss of NIS 36 million in the corresponding quarter of last year. The transition from loss in the corresponding quarter of last year to income in the second quarter of 2009 is mainly a result of (a) an increase in the gain from the decrease in the holding rate in subsidiaries and associates (NIS 41 million) due to the completion of the exercise of Teva's investment option in Andromeda, and (b) an increase in the value of financial derivatives (NIS 14 million), mainly financial derivatives relating to CBI's investment in Andromeda.

Netvision

a. Review of the Netvision segment

Net income in the reported period totaled NIS 2 million compared to net income of NIS 1 million in the corresponding period of last year.

Net income in the second quarter of 2009 totaled NIS 2 million compared to a net loss of NIS 1 million in the corresponding quarter of last year.

b. Review of the condensed operating results of Netvision

The revenue turnover in the reported period totaled NIS 611 million compared to NIS 599 million in the corresponding period of 2008, an increase of about 1.9%, arising mainly from the increase in revenues from the internet connectivity field due to the increase in the U.S. dollar-NIS exchange rate during the reported period and to an increase in customers.

Operating income in the reported period amounted to NIS 80 million compared to NIS 54 million in the corresponding period of last year. The main increase in operating income arises from the effect of the increase in the U.S. dollar-NIS exchange rate on revenues from connectivity services, an increase in the number of customers and streamlining efforts introduced in principal expenditure items as opposed to an increase in communication expenses arising from the increase in the scope of domestic and international capacities purchased by the Group for the supply of communication services and due to the increase in the U.S. dollar-NIS exchange rate.

Netvision's net income in the reported period amounted to NIS 55 million compared to net income of NIS 47 million in the corresponding period of 2008. The main increase in income is a result of the improved operating income as above net of an increase in financial expenses.

The revenue turnover in the second quarter of 2009 totaled NIS 305 million compared to NIS 299 million in the corresponding quarter of last year, an increase of about 1.9%, arising mainly from the increase in revenues from the internet connectivity field due to the increase in the U.S. dollar-NIS exchange rate during the quarter and to an increase in customers.

Operating income in the second quarter of 2009 amounted to NIS 36 million compared to NIS 28 million in the corresponding quarter of last year. The main increase in operating income arises from the effect of the increase in the U.S. dollar-NIS exchange rate on revenues from connectivity services, an increase in the number of customers and streamlining efforts introduced in principal expenditure items as opposed to an increase in communication expenses arising from the increase in the scope of domestic and international capacities purchased by the Group for the supply of communication services and due to the increase in the U.S. dollar-NIS exchange rate.

Netvision's net income in the second quarter of 2009 amounted to NIS 25 million compared to net income of NIS 21 million in the corresponding quarter of 2008. The main increase in income is a result of the improved operating income as above.

- c. As for the acquisition transaction with Elron Electronic Industries Ltd. ("Elron"), see 7e below.

3. PRINCIPAL CHANGES IN INVESTMENTS AND IN INVESTEES

a. Taavura:

In furtherance to Note 24a to the annual financial statements, in the second quarter of 2009, Taavura recognized a gain from an agreement signed with Israel Railways Ltd. The Company's share in the gain is NIS 12 million.

b. Golf:

On March 9, 2009, Golf's remaining options (series 1) expired. Consequently, the Company derived a gain of NIS 14 million carried to the income statement in the first quarter of 2009.

As stated in Note 2b(1) to the Company's financial statements as of June 30, 2009, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the amount carried to the gain will be carried directly to the Company's equity.

c. CBI:

1. Andromeda:

In February 2009, after receiving in December 2008 the results of another interim report regarding the trial being performed by Andromeda, Teva announced its intention to complete its investment in Andromeda. In March 2009, Teva transferred to Andromeda an amount of \$ 1.5 million. Following said investment, the Company derived a gain of approximately NIS 8 million carried to the income statement in the first quarter of 2009. In June 2009, the transaction for the exercise of Teva's option in Andromeda was completed and accordingly, Teva transferred to Andromeda the remaining investment in the amount of \$ 5.5 million. The Company derived a gain of approximately NIS 27 million and CBI's stake in Andromeda decreased to about 90%. See Note 3a(3) to the Company's financial statements as of June 30, 2009.

As stated in Note 2b(1) to the Company's financial statements as of June 30, 2009, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the amount of NIS 35 million that was carried to earnings will be carried directly to the Company's equity.

As for agreements signed in connection with Teva's investment in Andromeda and the amendment of the Develogen agreement, see Note 3a(3) to the Company's financial statements as of June 30, 2009.

CBI hired an independent outside appraiser to quarterly evaluate the series of options exchanged between Andromeda, CBI and Teva, as stated in Note 11h(4)(a) to the annual financial statements. These options include Call options of Teva for Andromeda shares and Put options of shares of Andromeda and of CBI to Teva as well as a Call option granted by Andromeda to Develogen. As a result of updating the value of the series of options as of March 31, 2009, in the first half of 2009, CBI recorded a gain attributable to the equity holders of the Company of NIS 25 million. In the Company's executive summary for March 31, 2009, the data required in connection with a material valuation were included in accordance with Article 8b to the Securities Regulations (Periodic and Immediate Reports), 1970. Furthermore, in the second quarter of 2009, the Company's share in respect of the update of the valuation of the series of options amounted to NIS 5 million.

2. D-Pharm:

- a) In June 2009, in the context of a convertible loan agreement signed in December 2008, D-Pharm, an associate held at 41% by CBI, completed raising another \$ 1.15 million (of which \$ 0.75 million from the Company and the rest from a third party) by way of loan that is automatically convertible into D-Pharm shares in the occurrence of certain events as stipulated in the loan agreement.
- b) Due to the amendment of the financial statements of D-Pharm, the financial statements of CBI and of the Company as of March 31, 2009 and for the three months then ended were amended and the equity items as of April 1, 2009 were restated. For more details, see Note 2d to the Company's financial statements as of June 30, 2009.
- c) As for developments after the balance sheet date, see 7d below.

d. Clal Energy:

Clal Energy is examining an investment in a project for establishing a power station with a 220 mw capacity in the Nesher/Carmel Park area. In March 2009, the Company received from the Public Utilities Authority - Electricity a contingent license for erecting a stored energy facility for the generation of electricity using a pumped storage technology. The license is contingent on complying with the milestones detailed in the license, on financial closing and on obtaining the approvals of the planning authorities. The project was declared as a national infrastructure by the Minister of the Interior, the Minister of Finance and the Prime Minister. Clal Energy has been authorized to promote the project at the National Infrastructure Committee. There is no certainty that the facility as above will be erected since its construction is subject, among other things, to obtaining all the approvals required by law (including the approval of the Company's authorized entities).

4. THE FINANCIAL POSITION AND FINANCING RESOURCES

- a. Total assets in the consolidated balance sheet of the Company as of June 30, 2009, amounted to NIS 8,066 million, compared to NIS 8,015 million as of December 31, 2008.
- b. As of June 30, 2009, the Group's long-term external financing sources (less current maturities) amounted to NIS 3,078 million compared to NIS 3,136 million as of December 31, 2008. As of June 30, 2009, the Group's short-term financing sources (including current maturities) amounted to NIS 723 million compared to NIS 707 million as of December 31, 2008.
- c. The Company's equity as of June 30, 2009 amounted to NIS 2,704 million, compared to NIS 2,414 million as of December 31, 2008. Equity attributable to equity holders of the Company amounted to NIS 1,930 million, compared to NIS 1,688 million as of December 31, 2008. The Company's equity as of June 30, 2009 represents a source for financing 34% of the Company's assets compared to 30% as of December 31, 2008.
- d. Consolidated working capital as of June 30, 2009 amounts to NIS 2,030 million compared to NIS 1,907 million as of December 31, 2008. As of June 30, 2009, total balances of liquid assets (cash and cash equivalents and short-term investments) amount to NIS 2,124 million compared to NIS 2,022 million as of December 31, 2008. The quick ratio as of June 30, 2009 is 1.8 compared to 1.56 at December 31, 2008.
- e. The principal cash sources in the reported period were mainly derived from cash flows from operating activities of NIS 371 million, proceeds from the sale of securities measured at fair value through profit and loss of NIS 85 million and the receipt of long-term loans and other liabilities of NIS 313 million. The cash sources were used primarily for investments in fixed assets and intangible assets totaling NIS 135 million, interest payments and repayment of long-term loans of NIS 542 million and dividends paid to the minority of NIS 27 million.
- f. As of June 30, 2009, the balance of liabilities, net, of the Company and its wholly owned headquarter companies (mainly debentures) amounted to NIS 1,100 million (December 31, 2008 - NIS 1,148 million).
- g. The total balances of liquid assets (cash and cash equivalents and short-term investments) as of June 30, 2009 of the Company and its wholly owned headquarter companies amounted to NIS 820 million (December 31, 2008 - NIS 938 million).

5. SHELF PROSPECTUS

On May 26, 2009, the Company published a prospectus based on its financial statements as of December 31, 2008 for offering in the context of a shelf prospectus shares, convertible debentures, non-convertible debentures and stock options that are exercisable into shares and debentures and commercial securities.

6. CONTINGENT LIABILITIES

a. Kitan:

In April 2008, a claim and a motion for approving a class action were filed against Kitan, a wholly owned investee of the Company, pursuant to the Class Action Law ("the claim").

The claim consists of arguments pertaining to failure to comply with the standard of emissions of pollutants into the air at the Kitan plant located in Dimona ("the non-compliance"). The plaintiffs have asked the Court for monetary compensation for the damage caused to the autonomy of the will and exposure to health risks and have also asked that Kitan place a fund for medical surveillance.

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

On August 2, 2009, the parties signed a compromise according to which Kitan undertook to carry out a series of inspection and maintenance activities in order to reduce the emissions of pollutants from the plant as well as other preemptive measures as detailed in the agreement. It was also decided between the parties that they would recommend to the Court that Kitan pay remuneration in an immaterial amount to the petitioners and the representatives of the petitioners.

On August 3, 2009, the parties filed a motion with the Court to approve the compromise.

According to Kitan's legal advisors, the chances that the Court will approve the compromise cannot be evaluated at this stage.

In their review report of the financial statements, the Company's auditors draw attention to these claims.

b. As for claims and motions to approve those claims as class actions filed against Netvision, see Note 5b(1) to the Company's financial statements as of June 30, 2009.

7. EVENTS AFTER THE BALANCE SHEET DATE

a. Hanson (Israel) Ltd.:

On July 29, 2009, Mashav signed an agreement to purchase 100% of the shares of Hanson (Israel) Ltd. ("Hanson") in consideration of NIS 450 million (with the addition of any net cash balances, if and as far as there are any, in Hanson's treasury upon closing) ("the consideration" and "the agreement", respectively).

The agreement includes presentations regarding Hanson's position. It also includes a non competition clause whereby the sellers and related parties (as this term is defined in the agreement) are restricted from competing with Hanson's business in Israel, Judea and Samaria and the Gaza Strip for a period of four years from closing.

The agreement is subject to obtaining the Anti-trust Commissioner's approval and to no material adverse change taking place in Hanson's business position pending the date of closing.

Furthermore, shortly after the agreement was signed, Mashav placed an advance of 15% of the consideration in a trust account (not including the cash balances) of which a small part will not be reimbursed to Mashav under certain circumstances as agreed upon between the parties. The final date stipulated in the agreement for completing the prerequisites, including the Anti-trust Commissioner's approval, is at the end of 150 days from closing.

There is no certainty that the transaction will be consummated.

b. Hadera Paper:

On August 19, 2009, the Company's audit committee and Board approved the Company's engagement in an agreement with Discount Investments Ltd. ("Discount Investments") whereby the Company will acquire from Discount Investments the latter's entire stake in Hadera Paper shares (representing 21.45% of Hadera Paper's share capital) in consideration of NIS 246 million, subject to adjustments ("the agreement"). After the completion of this acquisition, Discount Investments will cease to be a shareholder in Hadera Paper.

The price for Discount Investments' stake in Hadera Paper was determined in negotiations held between the parties following a valuation performed by an independent outside appraiser hired by the Company and Discount Investments. According to the valuation, the fair value of Discount Investments' holdings in Hadera Paper at June 30, 2009 is estimated between NIS 223 million and NIS 268 million based on which the parties negotiated the consideration to be paid to the sellers for their holdings in Hadera Paper as an approximate average range of said valuation. The Company and Discount Investments also received independent opinions for the fairness and reasonableness of the determined consideration.

After closing, the Company is expected to hold some 59% of Hadera Paper's share capital. The Company is studying the accounting implications of the transaction.

The execution of the transaction is subject to entering into a binding agreement, the consummation of the transaction is contingent on obtaining the approvals of the general meetings of the Company and of Discount Investments at the majority prescribed by the Companies Law for the approval of an extraordinary transaction in which the controlling shareholder in each of the parties has a personal interest, this within 90 days from entering into the transaction.

There is no certainty that the transaction will be consummated.

c. Golf:

In the period from July 1, 2009 until near the date of the approval of the financial statements, some of Golf's options (series 2) and employee options were exercised. Consequently, the Company derived a gain of NIS 7 million to be carried to the income statement in the third quarter of 2009.

As stated in Note 2b(1) to the Company's financial statements as of June 30, 2009, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the amount carried to the gain will be carried directly to the Company's equity.

d. D-Pharm:

In July 2009, CBI, other D-Pharm shareholders and third parties undertook to invest a total of approximately NIS 57 million in D-Pharm (of which approximately NIS 38 million by CBI) in return for shares and options to be allocated to them by D-Pharm ("the early raising"). The performance of the early raising is contingent on completing the issuance of D-Pharm's securities to the public by September 15, 2009.

On August 12, 2009, D-Pharm issued to the public according to a prospectus Ordinary shares of D-Pharm and stock options that are exercisable into Ordinary shares of D-Pharm at an overall scope of NIS 25 million (for immediate gross proceeds of NIS 28 million). Upon completion of the public offering, the early raising was also completed.

Following the completion of the offering and of the early raising from the shareholders and other investors, CBI's holding rate in D-Pharm's issued share capital increased to 47% (about 51% of D-Pharm's share capital on a fully diluted basis).

CBI is examining the implications of D-Pharm's public offering on its financial statements.

e. Netvision:

On August 19, 2009, the Company's audit committee and Board approved the Company's engagement with Discount Investments in an agreement with Elron Electronic Industries Ltd. ("Elron"), which is 49% held by Discount Investments, whereby the Company and Discount Investments will acquire from Elron its entire stake in Netvision shares for NIS 49.6 per Netvision share such that the Company will acquire from Elron 8.55% of Netvision's share capital (7.92% on a fully diluted basis) in consideration of NIS 128 million ("the agreement"). It should be noted that the acquisition of Elron's stake in Netvision shares by the Company and Discount Investments ("the buyers") is divided between the buyers based on each buyer's interest in the shares of Netvision prior to closing.

The price of Elron's interest in Netvision shares was determined in negotiations between the parties following a valuation by an independent outside appraiser hired by the Company, Discount Investments and Elron. According to the valuation, the fair value of Elron's holdings in Netvision shares at June 30, 2009 is estimated between NIS 221 million and NIS 244 million. This price is identical to the average range of the valuation net of Elron's share in a dividend declared by Netvision in August 2009. The Company, Discount Investments and Elron also received independent opinions for the fairness and reasonableness of the determined consideration.

After the completion of said acquisitions, the Company will hold 31.06% (28.75% on a fully diluted basis) and Discount Investments will hold 39.74% (36.78% on a fully diluted basis) of Netvision's issued share capital and voting rights (based on Netvision's known issued share capital on that date) and Elron will cease to be a shareholder in Netvision.

The transaction is subject to prerequisites such as obtaining the required regulatory approvals, Elron's authorized entities and the general meetings at the majority prescribed by the Companies Law for the approval of an extraordinary transaction in which the controlling shareholder in each of the parties has a personal interest, this within 90 days from entering into the transaction.

If all prerequisites are not met for only one of the buyers ("the restricted buyer"), the other buyer's share in said acquisitions will be performed and in addition, this other buyer will be entitled, at its discretion, (but not obligated) to acquire from Elron under the conditions stipulated in the agreement all of (but not less than all of) Netvision's shares which were held for sale to the restricted buyer according to the agreement.

There is no certainty that the transaction will be consummated.

f. Decrease in tax rates:

In furtherance to Note 23b to the annual financial statements, on July 14, 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the Israeli corporate tax rate up to 18% in 2016 and thereafter. According to this amendment, the corporate tax rates applicable in the 2009 tax year are as follows: 2009 - 26%, 2010 - 25%, 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

The implications of the decrease in the tax rates as above will be expressed in the financial statements for the third quarter of 2009 by a decrease in deferred tax balances and in deferred tax liabilities. The Company expects that the effect of these changes will be an increase currently estimated at NIS 45 million in the income attributable to equity holders of the Company in the third quarter of 2009.

g. Changes in the Israeli CPI and U.S. dollar-NIS exchange rates:

As for the changes in the Israeli CPI and the U.S. dollar-NIS exchange rates, see 8h below.

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

- a. The following report relates to the Company and its wholly-owned headquarter companies whose exposure to market risks is managed by the Company ("the Corporation"). Regarding subsidiaries, see paragraph h below.
- b. The officer responsible for managing the financial risks of the Corporation is Mr. Gonen Biber, CFO ("the responsible officer").

c. **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.

As for the global economic crisis, see paragraph 1 above.

d. **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 as opposed to raising mainly index-linked funds. Accordingly, the Corporation acts to reduce its exposure in the following areas of activity:

1. 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.
2. 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.
3. 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.

e. Methods of supervision and implementation of policies:

In accordance with the resolution of the Corporation's Board and audit committee, the management is authorized:

1. 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.
2. 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.
3. These hedging transactions will be held until they expire or until the time the debt expires so that, in any event, the hedging transactions will be in an amount and for a period not exceeding the index-linked debt amount and term.

In order to address the exposure in respect of foreign currencies and to reduce financial expenses, only against the 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 transactions are carried out by the responsible officer who is authorized to enter into hedging transactions that are necessary in order to implement the Corporation's policy. The responsible officer reports to the Chairman and/or to the CEO on a regular basis with respect to the hedging transactions that were entered into. Management is required to report to the Board as necessary, and in any event at least once a year. The issue of currency exposure is presented on an ongoing basis in the meetings of the Company's Board and elaborately discussed in the meetings of the Company's Board and balance sheet committee.

f. Report of linkage bases of the Company and its wholly-owned headquarter companies as of June 30, 2009 for which the Company manages the currency exposure:

	<u>Linked to the Israeli CPI</u>	<u>Linked to U.S. dollar</u>	<u>Unlinked</u>	<u>Non- monetary balances</u>	<u>Total</u>
	<u>NIS in millions</u>				
Current assets	111	102	626	2	841
Non-current assets	5	2	23	3,042	3,072
Current liabilities	(226)	(4)	(40)	-	(270)
Non-current liabilities	(1,698)	-	(1)	(14)	(1,713)
Balance sheet, net	<u>(1,808)</u>	<u>100</u>	<u>608</u>	<u>3,030</u>	<u>1,930</u>

g. Subsidiaries:

Subsidiaries are exposed to fluctuations in prices of raw materials, energy and changes in exchange rates, interest rates and inflation that affect the revenues and expenses of these companies. Some subsidiaries adjust their sources of revenues and expenses to same currency. Certain subsidiaries enter into hedging transactions in foreign currency derivatives designated to reduce exposure to foreign currency and hedging transactions in order exposure to index related risks. A subsidiary utilizes 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.

h. Consolidated linkage basis report as of June 30, 2009:

	Linked to the Israeli CPI	Linked to U.S. dollar	Linked to other foreign currencies	Unlinked	Non- monetary balances	Total
	NIS in millions					
Current assets	320	494	149	1,927	773	3,663
Non-current assets	51	145	2	36	4,169	4,403
Current liabilities	(426)	(62)	(112)	(930)	(103)	(1,633)
Non-current liabilities	(2,520)	(41)	(53)	(532)	(583)	(3,729)
Balance sheet, net	<u>(2,575)</u>	<u>536</u>	<u>(14)</u>	<u>501</u>	<u>4,256</u>	<u>2,704</u>

Since June 30, 2009 and through the date of the publication of this report, the U.S. dollar rate decreased in relation to the NIS by 2.8% and the Israeli CPI published until that date increased by about 1.1%. These changes are expected to have a negative effect on the Company's results for the third quarter of 2009.

i. Sensitivity tests of financial instruments regarding changes in market factors:

1. Assumptions:

- a) The fair value of marketable securities is measured at their quoted market prices as of June 30, 2009.
- b) The fair value of debentures was calculated using the current value of future cash flows including discounted interest, at the interest that the Company would have received and at a similar debt ranking had the Company raised/borrowed liabilities with a similar average life 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. The fair value of debentures listed for trade on the stock exchange is measured based on their quoted market prices at June 30, 2009.

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- c) The fair value of long-term loans and liabilities was calculated at the current value of the future cash flows including interest in respect of these liabilities, discounted by the interest that the Company would have received from a bank had it borrowed a similar amount with a similar maturity term.
- d) The fair value of NIS/CPI forward contracts and NIS/U.S. dollar options was presented at a quotation received by the Company from financial institutions.

2. **The following tables illustrate the sensitivity of financial instruments included in the consolidated financial statements as of June 30, 2009 to changes in market factors:**

The instrument	Sensitivity test to changes in U.S. dollar exchange rate				
	Gain (loss) from changes		Fair value at 30.6.09 NIS in millions	Gain (loss) from changes	
	10% exchange rate increase	5% exchange rate increase		5% exchange rate decrease	10% exchange rate decrease
Cash and cash equivalents	27	13	267	(13)	(27)
Trade and other receivables	11	5	109	(5)	(11)
Short-term investments excluding financial derivatives	11	6	111	(6)	(11)
Loans and receivables including current maturities	2	1	16	(1)	(2)
Other long-term investments excluding financial derivatives	2	1	24	(1)	(2)
Financial derivatives	11	6	109	(6)	(11)
Trade and other payables	(6)	(3)	(58)	3	6
Other long-term liabilities	(3)	(1)	(25)	1	3
Financial derivatives	(2)	(1)	(19)	1	2
Total	53	27	534	(27)	(53)
NIS/U.S. dollar options	(2)	(1)	1	1	2
NIS/U.S. \$ forward transaction	1	*	1	*	(1)
Total	52	26	536	(26)	(52)

The instrument	Sensitivity test to changes in Euro exchange rate				
	Gain (loss) from changes		Fair value at 30.6.09 NIS in millions	Gain (loss) from changes	
	10% exchange rate increase	5% exchange rate increase		5% exchange rate decrease	10% exchange rate decrease
Cash and cash equivalents	2	1	17	(1)	(2)
Trade and other receivables	5	3	45	(3)	(5)
Trade and other payables	(7)	(4)	(65)	4	7
Loans from banks including current maturities	(5)	(3)	(45)	3	5
Other liabilities including current maturities	(2)	(1)	(17)	1	2
Total	(7)	(4)	(65)	4	7
NIS/Euro forward transaction	*	*	(1)	*	*
Total	(7)	(4)	(66)	4	7

*) Lower than NIS 1 million.

EXECUTIVE SUMMARY AS OF JUNE 30, 2009

The instrument	Sensitivity test to changes in interest rates				
	Gain (loss) from changes			Gain (loss) from changes	
	10%	5%	Fair value at 30.6.09	5%	10%
	interest rate increase	interest rate increase		interest rate decrease	interest rate decrease
	NIS in millions				
Loans and receivables including current maturities	*	*	42	*	*
Debentures	52	26	(2,870)	(27)	(52)
Loans from banks and other including current maturities	8	4	(830)	(4)	(8)
Total	60	30	(3,658)	(31)	(60)

The instrument	Sensitivity test to changes in quoted market rates						
	Gain (loss) from changes			Fair value at 30.6.09	Gain (loss) from changes		
	35%	10%	5% rate		5% rate	10%	31%
	rate increase	rate increase	increase	decrease	rate decrease	rate decrease	
	NIS in millions						
Current short-term investments – marketable securities	N/A	57	28	568	(28)	(57)	N/A
Available-for-sale financial assets	4	1	*	11	(*)	(1)	(3)
Total	4	58	28	579	(28)	(58)	(3)

The instrument	Sensitivity test to changes in Israeli CPI				
	Gain (loss) from changes			Gain (loss) from changes	
	2% CPI	1% CPI	Fair value at 30.6.09	1% CPI	2% CPI
	increase	increase		decrease	decrease
	NIS in millions				
Short-term investments	6	3	296	(3)	(6)
Loans and receivables including current maturities	1	*	49	*	(1)
Debentures	(57)	(29)	(2,870)	29	57
Loans from banks including current maturities	(2)	(1)	(112)	1	2
Total	(52)	(27)	(2,637)	27	52
Forward CPI not recognized for accounting purposes	25	13	2	(12)	(24)
Total	(27)	(14)	(2,635)	15	28

*) Lower than NIS 1 million.

EXECUTIVE SUMMARY AS OF JUNE 30, 2009

3. **The following tables illustrate the sensitivity of financial instruments included in the consolidated financial statements as of June 30, 2008 to changes in market factors:**

The instrument	Sensitivity test to changes in U.S. dollar exchange rate				
	Gain (loss) from changes			Gain (loss) from changes	
	10%	5%	Fair value at 30.6.08	5%	10%
	exchange rate increase	exchange rate increase		exchange rate decrease	exchange rate decrease
NIS in millions					
Cash and cash equivalents	60	30	602	(30)	(60)
Trade and other receivables	13	6	127	(6)	(13)
Short-term investments	5	3	51	(3)	(5)
Financial derivatives	4	2	39	(2)	(4)
long-term deposits and loans including current maturities	1	1	14	(1)	(1)
Trade and other payables	(5)	(3)	(50)	3	5
Other long-term liabilities	(1)	(*)	(8)	*	1
Financial derivatives	(3)	(2)	(30)	2	3
Total	74	37	745	(37)	(74)
NIS/U.S. forward transaction	1	1	(1)	(1)	(2)
U.S. \$ options for hedging purposes	(12)	(6)	(1)	4	6
Total	63	32	743	(34)	(70)

The instrument	Sensitivity test to changes in Euro exchange rate				
	Gain (loss) from changes			Gain (loss) from changes	
	10%	5%	Fair value at 30.6.08	5%	10%
	exchange rate increase	exchange rate increase		exchange rate decrease	exchange rate decrease
NIS in millions					
Trade receivables	3	1	27	(1)	(3)
Cash	3	1	30	(1)	(3)
Loans from banks including current maturities	(1)	(1)	(11)	1	1
Trade and other payables and current liabilities	(11)	(5)	(106)	5	11
Current financial liabilities	(1)	(1)	(14)	1	1
Total	(7)	(5)	(74)	5	7
NIS/Euro forward transaction	4	2	*	(2)	(4)
Total	(3)	(3)	(74)	3	3

EXECUTIVE SUMMARY AS OF JUNE 30, 2009

The instrument	Sensitivity test to changes in interest rates				
	Gain (loss) from changes			Gain (loss) from changes	
	10% interest rate increase	5% interest rate increase	Fair value at 30.6.08	5% interest rate decrease	10% interest rate decrease
	NIS in millions				
	Debentures	64	33	(3,256)	(33)
Loans from banks including current maturities	4	2	(558)	(2)	(4)
Total	68	35	(3,814)	(35)	(71)

*) Lower than NIS 1 million.

The instrument	Sensitivity test to changes in quoted market rates						
	Gain (loss) from changes				Gain (loss) from changes		
	32% rate increase	10% rate increase	5% rate increase	Fair value at 30.6.08	5% rate decrease	10% rate decrease	22% rate decrease
	NIS in millions						
	Short-term investments	N/A	67	33	669	(33)	(67)
Available-for-sale financial assets	N/A	1	1	15	(1)	(1)	N/A
Available-for-sale financial assets	7	2	1	22	(1)	(2)	(5)
Total	7	70	35	706	(35)	(70)	(5)

The instrument	Sensitivity test to changes in Israeli CPI				
	Gain (loss) from changes			Gain (loss) from changes	
	0.2% CPI increase	0.1% CPI increase	Fair value at 30.6.08	0.1% CPI decrease	0.2% CPI decrease
	NIS in millions				
	Debentures	(7)	(3)	(3,256)	3
Forward CPI not recognized for accounting purposes	2	1	32	(1)	(2)
Total	(5)	(2)	(3,224)	2	5

9. MEMBERS OF THE BOARD OF DIRECTORS

a. Changes in Board members:

1. On March 17, 2009, Mrs. Alicia Rotbard completed her term as external director in the Company possessing accounting and financial skills.
2. On March 22, 2009, the general meeting of the Company approved the appointment of Mrs. Liora Polchek as external director possessing professional skills and the appointment of Mr. Ze'ev Ben Asher as an external director having accounting and financial skills.

3. On April 28, 2009, Mr. Nahum Langental terminated his term as member of the Board possessing professional skills.
- b. The Company has chosen not to adopt in its articles of association the directive allowed by Article 219(e) to the Companies Law, 1999 regarding the percentage of independent directors.

10. PROCESS OF APPROVAL OF THE FINANCIAL STATEMENTS

The Company's Board appointed a balance sheet committee that provides recommendations regarding the discussion of the financial statements and their approval to the Board. The balance sheet committee consists of four directors: Yehezkel Dovrat, the Chairman of the committee (director with accounting and financial skills), Alicia Rotbard (external director with accounting and financial skills) – acted until March 17, 2009, Nahum Langental (external director with professional competence) – acted until April 28, 2009, and David Leviatan (director with accounting and financial skills). On March 22, 2009, Ze'ev Ben-Asher (an external director with accounting and financial skills) and Mrs. Liora Polchek (an external director with professional expertise) were both appointed to the balance sheet committee. The Company's auditors, who are required to present their principal findings, if any, arising from the audit or review of the financial statements, and the Company's internal auditor, Mr. Ilan Amit, must attend the meetings of the balance sheet committee and of the Board where the financial statements are discussed and approved.

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

The approval of the financial statements involves several meetings as required: one that takes place near the date of the approval of the financial statements for a deliberation of the results themselves in the context of the balance sheet committee and the second on the date of the approval of the financial statements by the Board for discussing the results themselves and the material reporting issues.

EXECUTIVE SUMMARY AS OF JUNE 30, 2009

11. SPECIFIC REPORTING TO HOLDERS OF LIABILITY CERTIFICATES

a. Data of debentures:

Name of debenture	Issuance date *)	Issued par value	Par value balance	Linked par value balance	Accrued interest	Book value	Quoted market price	Interest type	Principal payment dates	Interest payment dates	linkage	Details of trustee
Series I	13.08.2001	86	49	58	3	58	66 ⁶	Fixed 5.7%	7 annual payments from 30.08.06	Annual 30.08	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv., 1 Azrieli Center, Round Tower, Tel-Aviv, Israel 972-3-6005946
Series K	12.11.2003	137	78	88	0	88	98 ⁶	Fixed 5.95%	7 annual payments from 31.05.07	Annual 31.5	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv., 1 Azrieli Center, Round Tower, Tel-Aviv, Israel 972-3-6005946
Series L	02.05.2005	333	451	505	10	506	549	Fixed 4.35%	5 annual payments from 10.01.09	Annual 10.01	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv., 1 Azrieli Center, Round Tower, Tel-Aviv, Israel 972-3-6005946
	25.05.2005	140										
	11.04.2006	91										
	Total	564										
Series M ⁷	02.06.2005	70	533	592	2	564	615	Fixed 4.5%	5 annual payments from 13.06.2013	Annual 10.06	CPI	Aurora Fidelity Trust Company Ltd., Mrs. Iris Shelvin, Adv., 1 Azrieli Center, Round Tower, Tel-Aviv, Israel 972-3-6005946
	11.04.2006	151										
	13.07.2006	342										
	Total	563										
Series N ⁸	16.01.2007	500	477	519	12	518	494	Fixed 4.9%	5 annual payments from 16.01.2018	Annual 16.01	CPI	Reznik Paz Nevo Trustees Ltd., Mr. Yossi reznik, CEO, 14 Yad Harutzim St., Tel-Aviv, Israel 972-3-6393311 (c)

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

⁶ The debenture series is not traded. Fair value is determined according to interest quotes received from banks.

⁷ The balance presented (except "issued par value" data) is net of NIS 30 million par value held by a wholly-owned subsidiary.

⁸ The balance presented (except "issued par value" data) is net of NIS 23 million par value held by a wholly-owned subsidiary.

b. Rating of outstanding series of liability certificates:

In January 2007, Maalot rated the Company's long-term debt solvency as AA. Said rating is based on a variety of quantitative and qualitative parameters which examine the business positioning and financial stability of the Company and its investees. The rating was attached in an appendix to the Company's executive summary report as of December 31, 2008. In view of recent crisis in capital markets (see paragraph 1 above regarding the global economic crisis) and the continuing erosion in market prices, the adjusted ratio of holdings with the addition of cash to the Company's gross debt has also sustained erosion. As for the balances of cash and debt at June 30, 2009, see paragraph 4 above. On November 30, 2008, Maalot announced that the rating of the solvency of several Israeli holding companies, including the Company, is being reevaluated with negative credit watch implications.

On July 29, 2009, Maalot published an update to the rating of the Company's debentures from AA to A+. It also announced the removal of the debentures from the Credit Watch with negative outlook. According to Maalot's announcement, the rating forecast is stable. The update is attached as an appendix to this report.

The process of reevaluation may also have negative implications on the debt solvency evaluations of companies held by the Company⁹.

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

On July 24, 2008, the Company received the notification of Aurora Fidelity Trust Company Ltd. ("Aurora Fidelity") regarding the expiration of its service as trustee of debentures (series M) in accordance with the provisions of Article 35n(a)(3) to the Securities Act, 1968 ("the Securities Act"). The reason for this expiration, as delivered by Aurora Fidelity, is that its continued rendering of trust services to the holders of debentures (series M) will create a conflict of interests pursuant to the decision of the Securities Authority Plenum of July 26, 2005 regarding conflicts of interests with trustees of holders of liability certificates ("the Authority's directive"). Aurora Fidelity also informed the Company that it will continue to serve in this position until an alternative trustee is appointed by the Company and that the appointment of such alternative trustee requires the consent of the holders of debentures (series M) and the approval of the authorized court of law.

⁹ On March 5, 2009, Maalot announced that the ratings of the debt solvency of Mashav and of Neshet are being reevaluated with negative credit watch implications. Maalot announced that the reevaluation process reflects the fact that Mashav and Neshet are both private companies controlled by the Company. The announcement stresses that the reevaluation process is not a result of deterioration in Mashav's and Neshet's financial or business profile. Taavura's and Maman's liabilities were rated by Maalot for the purpose of recruiting debentures at AA-. In August 2009, Maalot announced that it had updated the rating of the debentures (series 1) of Maman and the rating of the debentures (series A) of Taavura from AA- to A+. The rating forecast is stable.

In the context of the Company's attempts to appoint an alternative trustee to Aurora Fidelity, the Company requested to appoint as trustee of the holders of debentures (series M) Hermetic Trust (1975) Ltd. ("Hermetic"), which acts as trustee for another series of the Company's debentures (series L). Pursuant to the Authority's directive, on December 23, 2008, the Company held a general meeting of holders of debentures (series L) where it obtained the consent of the holders of debentures (series L) to appointing Hermetic, which acts as their trustee, as the trustee of the holders of debentures (series M) as well. On January 25, 2009, the Company held a general meeting of holders of debentures (series M) for obtaining their consent to appointing Hermetic as their trustee. Since the appointment of Hermetic as trustee for the holders of debentures (series M) had not been approved, the Company called a general meeting of the holders of debentures (series M) for March 24, 2009 in order to approve the appointment of Reznik Paz Nevo Trustees Ltd. ("Reznik") as an alternative trustee to Aurora Fidelity in which it received the approval of the holders of debentures (series M) for appointing Reznik as trustee in lieu of Aurora Fidelity. Reznik's appointment will become effective upon the court's approval of the expiration of Aurora Fidelity's service as trustee for the holders of debentures (series M). On May 6, 2009, the Company filed with the Tel-Aviv District Court a request for approving Reznik as trustee for the holders of debentures (series M) in lieu of Aurora Fidelity. On May 26, 2009, the Tel-Aviv District Court approved the appointment of Reznik as trustee for the holders of debentures (series M) in lieu of Aurora Fidelity.

12. DONATIONS AND SUPPORTING THE COMMUNITY

On March 17, 2009, the Company's Board decided to place the Company's overall donations budget for 2009 at NIS 3 million of which the Company will donate an amount of NIS 660 thousand through the IDB Foundation for the Community (R.A.).

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

Nochi Dankner
Chairman of the Board

Avi Fisher
Director and Co-CEO

Zvika Livnat
Co-CEO

CLAL INDUSTRIES AND INVESTMENTS LTD.

JUNE 30, 2009

- **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The English version of the 2nd quarter of 2009 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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2009

UNAUDITED

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Auditors' review report to the shareholders of Clal Industries and Investments Ltd.**Introduction**

We have reviewed the accompanying financial information of Clal Industries and Investments Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of June 30, 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose assets constitute approximately 29% of total consolidated assets as of June 30, 2009, and whose revenues constitute approximately 41% and 40% of total consolidated revenues for the six and three months then ended, respectively. In addition, we did not review the condensed interim financial information of certain associates, the investment in which, at equity, amounted to approximately NIS 628 million as of June 30, 2009, and the Group's share in their earnings amounted to approximately NIS 16 million and NIS 6 million for the six and three months then ended, respectively. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

Scope of review

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

Conclusion

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

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Without qualifying our above conclusion, we draw attention to Note 2d to the financial statements regarding a restatement of the financial statements in order to retroactively reflect a change in the accounting treatment in the financial statements of a subsidiary with respect to the presentation of stock options issued by its associate and to Note 5 to the financial statements regarding claims filed against investees and motions to recognize these claims as class actions.

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2009	*) 2008	2008
	Unaudited		Audited
	NIS in millions		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,371	1,256	1,306
Short-term investments	753	809	716
Trade receivables	696	692	703
Other receivables	99	104	86
Inventory	729	740	889
Financial derivatives	15	42	16
	<u>3,663</u>	<u>3,643</u>	<u>3,716</u>
NON-CURRENT ASSETS:			
Inventory of real estate properties	27	40	29
Loans and receivables	85	35	78
Available-for-sale financial assets	152	186	154
Financial derivatives	105	39	76
Prepaid operating lease expenses	55	40	47
Investments in investees	1,065	1,034	1,039
Investment property	255	264	252
Fixed assets, net	2,188	2,105	2,178
Intangible assets, net	422	368	400
Assets in respect of employee benefits	20	25	18
Deferred taxes	29	24	28
	<u>4,403</u>	<u>4,160</u>	<u>4,299</u>
<u>Total assets</u>	<u>8,066</u>	<u>7,803</u>	<u>8,015</u>

*) Reclassified, see Note 2c.

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

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2009	*) 2008	2008
	Unaudited		Audited
	NIS in millions		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	425	247	411
Current maturities of debentures	298	290	296
Trade payables	314	391	432
Taxes payable	46	86	36
Other payables	540	474	568
Financial derivatives	10	7	66
	<u>1,633</u>	<u>1,495</u>	<u>1,809</u>
LONG-TERM LIABILITIES:			
Loans from banks and others	644	430	449
Debentures	2,434	2,711	2,687
Financial derivatives	20	33	37
Deferred taxes	310	317	311
Liabilities in respect of employee benefits	202	204	223
Other long-term liabilities	119	97	85
	<u>3,729</u>	<u>3,792</u>	<u>3,792</u>
EQUITY:			
Share capital	1,257	1,257	1,257
Share premium	574	574	574
Capital reserves	31	(30)	7
Retained earnings (accumulated deficit)	68	(55)	(150)
	<u>1,930</u>	<u>1,746</u>	<u>1,688</u>
<u>Total equity attributable to equity holders of the Company</u>	<u>1,930</u>	<u>1,746</u>	<u>1,688</u>
Minority interests	774	770	726
	<u>774</u>	<u>770</u>	<u>726</u>
<u>Total equity</u>	<u>2,704</u>	<u>2,516</u>	<u>2,414</u>
<u>Total liabilities and equity</u>	<u>8,066</u>	<u>7,803</u>	<u>8,015</u>

*) Reclassified, see Note 2c.

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

.....
Nochi Dankner
Chairman of the Board

.....
Zvika Livnat
Co-CEO

.....
Avi Fischer
Director and Co-CEO

.....
Yehuda Ben Ezra
VP Comptroller

August 19, 2009
Date of approval of the
financial statements

CONSOLIDATED STATEMENTS OF INCOME

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions (except per share data)				
Revenues:					
Sales and services	1,967	2,068	1,002	1,107	4,204
Equity in earnings of associates, net	28	15	13	1	4
Gain from sale of investments and assets	104	9	75	3	33
Other income	43	10	13	1	24
Financial income	139	125	39	77	114
	<u>2,281</u>	<u>2,227</u>	<u>1,142</u>	<u>1,189</u>	<u>4,379</u>
Costs and expenses:					
Cost of sales and services	1,346	1,346	638	728	2,748
Selling and marketing expenses	204	199	101	112	422
General and administrative expenses	193	142	93	86	319
Loss from sale and amortization of investments and assets	3	37	1	6	68
Other expenses	17	18	4	10	54
Financial expenses	148	303	89	174	477
	<u>1,911</u>	<u>2,045</u>	<u>926</u>	<u>1,116</u>	<u>4,088</u>
Income before taxes on income	370	182	216	73	291
Taxes on income	81	101	59	45	158
Net income	<u>289</u>	<u>81</u>	<u>157</u>	<u>28</u>	<u>133</u>
Attributable to:					
Equity holders of the Company	211	13	104	5	26
Minority interests	78	68	53	23	107
	<u>289</u>	<u>81</u>	<u>157</u>	<u>28</u>	<u>133</u>
Net earnings per share attributable to equity holders of the Company (in NIS):					
Basic net earnings	<u>1.34</u>	<u>0.08</u>	<u>0.66</u>	<u>0.03</u>	<u>0.16</u>
Diluted net earnings	<u>1.24</u>	<u>0.06</u>	<u>0.65</u>	<u>0.02</u>	<u>0.14</u>

*) Reclassified, see Note 2c.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
Net income	289	81	157	28	133
Other comprehensive income (loss):					
Net change in fair value of available-for-sale financial assets net of taxes	8	1	(3)	(1)	4
Actuarial gains (losses) in respect of defined benefit plans net of taxes	2	-	1	-	(14)
Reserve from revaluation of investment following business combination	-	33	-	33	33
Foreign currency translation reserve in respect of foreign operations, net	24	(29)	(30)	(24)	16
Group's share in net other comprehensive income (loss) in associates	11	(65)	(14)	(5)	(26)
Other comprehensive income (loss), net	45	(60)	(46)	3	13
Total comprehensive income	334	21	111	31	146
Attributable to:					
Equity holders of the Company	242	(37)	67	16	31
Minority interests	92	58	44	15	115
	334	21	111	31	146

*) Reclassified, see Note 2c.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share capital	Share premium	Capital reserves *)	Retained earnings	Total	Minority interests	Total
				(accumulated deficit)			
NIS in millions							
Balance as of January 1, 2009 (audited)	1,257	574	7	(150)	1,688	726	2,414
Total comprehensive income	-	-	28	214	242	92	334
Reserve from revaluation of investment following achievement of control carried to retained earnings	-	-	(4)	4	-	-	-
Expiration of stock options in subsidiary	-	-	-	-	-	(14)	(14)
Acquisition of minority interests in subsidiary	-	-	-	-	-	(15)	(15)
Exercise of employee stock options and options into subsidiary shares	-	-	-	-	-	2	2
Cost of share-based payment	-	-	-	-	-	10	10
Dividend paid to minority	-	-	-	-	-	(27)	(27)
Balance as of June 30, 2009 (unaudited)	<u>1,257</u>	<u>574</u>	<u>31</u>	<u>68</u>	<u>1,930</u>	<u>774</u>	<u>2,704</u>
Balance as of January 1, 2008 (audited)	1,257	574	(2)	(50)	1,779	572	2,351
Total comprehensive income (loss)	-	-	(50)	13	(37)	58	21
Cost of share-based payment	-	-	-	-	-	4	4
Acquisition of minority interests in subsidiary	-	-	-	-	-	(26)	(26)
Acquisition of newly consolidated subsidiaries	-	-	-	4	4	223	227
Reserve from revaluation of investment following achievement of control carried to retained earnings	-	-	(3)	3	-	-	-
Dividend paid to minority	-	-	-	-	-	(61)	(61)
Balance as of June 30, 2008 (unaudited)	<u>1,257</u>	<u>574</u>	<u>(55)</u>	<u>(30)</u>	<u>1,746</u>	<u>770</u>	<u>2,516</u>
Balance as of April 1, 2009 (audited)	1,257	574	71	**) (39)	1,863	**) 733	2,596
Total comprehensive income (loss)	-	-	(39)	106	67	44	111
Reserve from revaluation of investment following achievement of control carried to retained earnings	-	-	(1)	1	-	-	-
Exercise of employee stock options and options into subsidiary shares	-	-	-	-	-	2	2
Acquisition of minority interests in subsidiary	-	-	-	-	-	(10)	(10)
Cost of share-based payment	-	-	-	-	-	5	5
Balance as of June 30, 2009 (unaudited)	<u>1,257</u>	<u>574</u>	<u>31</u>	<u>68</u>	<u>1,930</u>	<u>774</u>	<u>2,704</u>
Balance as of April 1, 2008 (audited)	1,257	574	(63)	(38)	1,730	619	2,349
Total comprehensive income	-	-	11	5	16	15	31
Cost of share-based payment	-	-	-	-	-	3	3
Acquisition of minority interests in subsidiary	-	-	-	-	-	(1)	(1)
Acquisition of newly consolidated subsidiaries	-	-	-	-	-	173	173
Reserve from revaluation of investment following achievement of control carried to retained earnings	-	-	(3)	3	-	-	-
Dividend paid to minority	-	-	-	-	-	(39)	(39)
Balance as of June 30, 2008 (unaudited)	<u>1,257</u>	<u>574</u>	<u>(55)</u>	<u>(30)</u>	<u>1,746</u>	<u>770</u>	<u>2,516</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company				Total	Minority interests	Total
	Share capital	Share premium	Capital reserves *)	Accumulated deficit			
	NIS in millions						
Balance as of January 1, 2008 (audited)	1,257	574	(2)	(50)	1,779	572	2,351
Total comprehensive income	-	-	19	12	31	115	146
Reserve from revaluation of investment following achievement of control carried to retained earnings	-	-	(10)	10	-	-	-
Issuance to minority in subsidiaries	-	-	-	-	-	9	9
Exercise of employee options into shares in subsidiaries	-	-	-	-	-	2	2
Cost of share-based payment	-	-	-	-	-	17	17
Dividend paid	-	-	-	(126)	(126)	-	(126)
Acquisition of minority interests in subsidiaries	-	-	-	-	-	(36)	(36)
Acquisition of newly consolidated subsidiaries	-	-	-	4	4	223	227
Dividend paid to minority	-	-	-	-	-	(176)	(176)
Balance as of December 31, 2008 (audited)	<u>1,257</u>	<u>574</u>	<u>7</u>	<u>(150)</u>	<u>1,688</u>	<u>726</u>	<u>2,414</u>

*) Composition of capital reserves:

	June 30,		December 31,
	2009	2008	2008
	Unaudited		Audited
NIS in millions			
Transactions with controlling shareholders	6	6	6
Revaluation of investment following achievement of control	25	30	29
Cash flow hedge	1	-	(2)
Available-for-sale financial assets	19	11	15
Foreign currency translation adjustments of investees	(20)	(102)	(41)
	<u>31</u>	<u>(55)</u>	<u>7</u>

**) Restated, see Note 2d.

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,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
Cash flows from operating activities:					
Net income	289	81	157	28	133
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Adjustments to profit and loss items:					
Depreciation of fixed assets and intangible assets	141	93	67	51	206
Loss (gain) from sale and amortization of investments and assets, net	(101)	28	(74)	3	35
Taxes on income	81	101	59	45	158
Income tax paid, net	(76)	(149)	(45)	(131)	(273)
Financial expenses, net	9	178	50	97	363
Equity in earnings of associates, net	(28)	(15)	(13)	(1)	(4)
Proceeds from disposal of financial derivatives	1	-	1	-	2
Change in fair value of investment property	(1)	(1)	(1)	(1)	3
Dividend received from associates	23	1	23	1	12
Cost of share-based payment	10	4	5	3	17
Change in liabilities in respect of employee benefits, net	(7)	(10)	(11)	(8)	(2)
	52	230	61	59	517
Changes in asset and liability items:					
Decrease (increase) in trade receivables and other receivables	(33)	(106)	(60)	(73)	12
Decrease (increase) in inventory and inventory of real estate properties, net	156	(16)	75	30	(164)
Increase (decrease) in trade payables and other payables	(93)	46	(1)	(66)	20
Total adjustments to reconcile net income to net cash provided by (used in) operating activities	82	154	75	(50)	385
Net cash provided by (used in) operating activities	371	235	232	(22)	518
Cash flows from investing activities:					
Purchase of fixed assets and intangible assets	(135)	(199)	(68)	(71)	(392)
Purchase of investment property	(1)	(11)	(1)	-	(11)
Acquisition of newly consolidated subsidiaries net of acquired cash (a)	(15)	9	(15)	20	(23)
Acquisition of associates and available-for-sale financial assets	(14)	(39)	(12)	(34)	(69)
Proceeds from sale of fixed assets	32	15	6	4	33
Proceeds from sale of investments in associates and available-for-sale financial assets	8	71	20	67	74
Acquisition of minority interests in subsidiaries	(15)	(26)	(9)	(1)	(34)
Proceeds from (acquisition of) held-for-trading securities, net	85	(112)	42	(70)	(161)
Long-term loans and other credit granted	-	-	-	-	(19)
Collection of long-term loans and other credit	-	15	-	15	31
Interest received	11	20	8	19	43
Bank deposits, net	(57)	(50)	(24)	80	60
Net cash provided by (used in) investing activities	(101)	(307)	(53)	29	(468)

*) Reclassified, see Note 2c.

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,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
<u>Cash flows from financing activities:</u>					
Issuance of share capital to minority in subsidiaries	31	-	25	-	50
Dividend paid to Company shareholders	-	-	-	-	(126)
Proceeds from sale of financial derivatives	4	25	4	25	47
Interest paid	(160)	(150)	(72)	(69)	(179)
Dividend paid to minority	(27)	(61)	-	(39)	(176)
Issuance of stock options to minority in subsidiary	-	-	-	-	5
Receipt of long-term loans and other liabilities	313	320	281	169	460
Repayment of long-term loans and other liabilities	(382)	(105)	(202)	(75)	(218)
Short-term credit from banks and others, net	1	54	(9)	58	87
Net cash provided by (used in) financing activities	(220)	83	27	69	(50)
Effect of exchange rate fluctuations on cash and cash equivalents, net	22	(87)	(52)	(21)	(33)
Increase (decrease) in cash and cash equivalents	72	(76)	154	55	(33)
Cash and cash equivalents at the beginning of the period	1,299	1,332	1,217	1,201	1,332
Cash and cash equivalents at the end of the period **)	1,371	1,256	1,371	1,256	1,299
**)	Presented in the balance sheet as follows:				
Overdrafts (in credit from banks)	-	-	-	-	(7)
Cash and cash equivalents	1,371	1,256	1,371	1,256	1,306
	1,371	1,256	1,371	1,256	1,299

*) Reclassified, see Note 2c.

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,
	2009	*) 2008	2009	*) 2008	2008
	Unaudited				Audited
	NIS in millions				
(a) <u>Acquisition of newly consolidated subsidiaries net of cash acquired:</u>					
The subsidiaries' assets and liabilities at date of acquisition:					
Working capital (excluding cash and cash equivalents)	1	(44)	1	(29)	(42)
Fixed and other assets	-	(236)	-	(52)	(236)
Intangible assets	(16)	(179)	(16)	(179)	(213)
Other non-current assets	-	(48)	-	(48)	(48)
Long-term liabilities	-	89	-	13	89
Minority interests	-	175	-	129	175
Investment in associate	-	252	-	186	252
	<u>(15)</u>	<u>9</u>	<u>(15)</u>	<u>20</u>	<u>(23)</u>
(b) <u>Significant non-cash transactions:</u>					
Acquisition of fixed assets on credit	<u>-</u>	<u>6</u>	<u>-</u>	<u>1</u>	<u>6</u>
Transfer of inventories to fixed assets	<u>7</u>	<u>12</u>	<u>-</u>	<u>12</u>	<u>9</u>
Share proceeds from sale of available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16</u>
Exchange of option granted under technology acquisition agreement in installments	<u>23</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Asset swap	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>-</u>

*) Reclassified, see Note 2c.

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

These financial statements have been prepared in a condensed format as of June 30, 2009 and for the six and three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2008 and for the year then ended and accompanying notes, as included in the Company's shelf prospectus of May 2009 ("annual financial statements").

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, except for the noted below:

IAS 1 (Revised) - Presentation of Financial Statements:

IAS 1 (Revised) introduces an additional statement, "statement of comprehensive income". The statement may be presented as a separate statement which includes net income and all items carried in the reported period directly to equity that do not result from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as adjustments arising from translating the financial statements of foreign operations, fair value adjustments of available-for-sale financial assets, changes in revaluation reserve of fixed assets and etc. and the tax effect of these items carried directly to equity, with allocation between the Company and the minority interests. Alternatively, the items of other comprehensive income may be displayed along with the items of the statement of income in a single statement entitled "statement of comprehensive income" which replaces the statement of income, while properly allocated between the Company and the minority interests. Items carried to equity resulting from transactions with the shareholders in their capacity as shareholders (such as capital issues, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, with allocation between the Company and the minority interests.

IAS 1 (Revised) also requires entities to present a balance sheet as of the beginning of the comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the annual financial statements.

The revision was adopted on January 1, 2009 with a retrospective restatement of comparative figures.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 2 (Revised) - Share-based Payment:

Pursuant to an amendment to IFRS 2, the definition of vesting terms will only include service conditions and performance conditions and the cancellation of a grant that includes non-vesting conditions by the Company or the counterparty, will be accounted for by way of acceleration of vesting and not by forfeiture.

Vesting conditions include only service and performance conditions. Conditions that are other than service and performance conditions will be viewed as non-vesting conditions and must therefore be taken into account when estimating the fair value of the instrument granted.

This amendment was adopted on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 20 (Revised) - Government Grants:

Pursuant to an amendment to IAS 20, interest-free loans or loans with a below-market rate of interest received by a company from the State will be accounted for upon initial recognition and in subsequent periods pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, the loan will be initially measured at fair value and discounted at market interest. The difference between the loan amount received and the fair value will be accounted for thereafter as a Government grant according to the provisions of the Standard.

The amendment was adopted as a prospective change on January 1, 2009 with respect of Scientist's grants received after that date. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 28 (Revised) - Investment in Associates:

Pursuant to an amendment to IAS 28, the test of impairment of an investment in an associate will be carried out with reference to the entire investment. Accordingly, a recognized impairment loss is not allocated specifically but rather attributed to the investment as a whole. Therefore, the entire impairment loss previously recognized may be reversed to the extent that the relevant conditions are satisfied.

The amendment was adopted as a prospective change on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 38 (Revised) - Intangible Assets:

Pursuant to an amendment to IAS 38, expenses incurred from advertising, marketing or promotional activities will be recognized as an expense when the company has the right to access to the advertising goods or when the company receives those services. For these purposes, the activities also include production of catalogs and promotional pamphlets. Also, IAS 38 is amended to allow the unit of production amortization method for all intangible assets even if it results in a lower amount of accumulated amortization than under the straight-line method.

The amendment was adopted on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRIC 13 - Customer Loyalty Programmes:

IFRIC 13 applies to customer loyalty awards which the company grants as part of a sales transaction in order to promote future purchases by the same customers. Subject to meeting qualifying conditions, the customer can redeem the award in the future for free or discounted goods or services.

The Interpretation prescribes that customer credit awards granted are accounted for as a separate component of the sales transaction in which they were granted. Total sale consideration is allocated between the award credits and the other components of the sale (such as the main product or service) by reference to the fair value of the credit award.

The Interpretation was applied retrospectively on January 1, 2009. The initial adoption of the Interpretation did not have any material effect on the interim consolidated financial statements.

IFRIC 15 - Agreements for the Construction of Real Estate:

IFRIC 15 establishes rules for distinguishing between agreements for the construction of real estate under the scope of IAS 11 and similar agreements under the scope of IAS 18. When an agreement is specifically negotiated for the construction of an asset or a combination of assets when the buyer is able to specify the major structural elements and specify any changes therein, the agreement is within the scope of IAS 11. Accordingly, revenue will be recognized by reference to the stage of completion. In contrast, when the buyer has only limited ability to influence the design or to specify only minor variations, the agreement is an agreement for the sale of real estate within the scope of IAS 18.

The Interpretation was applied retrospectively on January 1, 2009. The initial adoption of the Interpretation did not have any material effect on the interim consolidated financial statements.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation:

IFRIC 16 prescribes that a risk arising from foreign exchange differences of the presentation currency of a company does not create an exposure to which hedge accounting can be applied, consequently, a hedged risk may be designated only in respect of the company's functional currency. Moreover, the risk arising from foreign exchange differences of the functional currency of any subsidiary may be hedged by any entity within the Group even if that subsidiary is indirectly controlled by another entity within the Group. The Interpretation also prescribes that the hedging instrument may be held by any entity within the Group.

The Interpretation was adopted as a prospective change on January 1, 2009. The initial adoption of the Interpretation did not have any material effect on the interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)***IAS 23 (Revised) - Borrowing Costs:*

In accordance with the revised IAS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and includes fixed assets, investment property and inventories that take a substantial period of time to get ready for sale. The possibility of immediately carrying these costs as an expense has been removed.

The amendment was adopted as a prospective change on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 40 (Revised) - Investment Property:

Pursuant to an amendment to IAS 40, investment property under construction or development for future use as an investment property will be classified as investment property if the fair value model is applied and it can be measured reliably. Investment property under construction will be measured at cost if fair value can not be measured reliably until such time as the fair value becomes reliably measurable or construction is completed, whichever comes earlier.

The amendment was adopted as a prospective change on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 16 (Revised) - Property, Plant and Equipment:

Pursuant to an amendment to IAS 16, fixed assets held for rental that are routinely sold in the ordinary course of business will be transferred to inventories when rental ceases and, accordingly, their sale will be presented in the statement of income as (gross) revenue rather than a (net) gain. Simultaneously, cash payments and cash receipts from investment in such assets will be presented within operating activities in the statement of cash flows rather than within investing activities.

The amendment was adopted as a prospective change on January 1, 2009. The initial adoption of the Standard did not have any material effect on the interim consolidated financial statements.

IAS 19 (Revised) - Employee Benefits:

The Company early adopted IAS 19 (Revised) as from the financial statements as of December 31, 2008. Pursuant to IAS 19 (Revised), a group of other long-term benefits will also comprise employee benefits to which entitlement is established in a short period of time but whose expected utilization date occurs over one year from the period qualifying for the benefits, such as cumulative benefits in respect of vacation pay and sick leave that are expected to be utilized in the period exceeding one year subsequent to balance sheet date. Accordingly, these benefits are now required to be recognized in the financial statements based on an actuarial calculation given future salaries and as discounted to present value. Following a re-examination of the interpretation to the amendment in the first quarter of 2009, the accounting treatment was remodified to the previous accounting treatment, namely, the liability for these benefits is measured in nominal values. The effect of this change on the financial statements is immaterial.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Disclosure of new IFRS Standards in the period prior to their adoption:

1. IFRS 3 (Revised) - Business Combinations and IAS 27 (Revised) - Consolidated and Separate Financial Statements:

The amendments to IFRS 3 and to IAS 27 ("the Standards") will be effective for annual financial statements for periods beginning on January 1, 2010. The combined early adoption of the two Standards is permitted.

The principal changes expected to take place following the adoption of the Standards are:

- a) Full fair value treatment of transactions that result in deconsolidation so that the remaining stake after deconsolidation is revalued at fair value to the income statement.
- b) Full fair value treatment of transactions that result in (first time) consolidation in the financial statements so that the original investment prior to the consolidation is revalued at fair value to the income statement. In the existence of minority, goodwill for each transaction can individually be measured at full fair value and not only the acquired part.
- c) Treating the acquisitions of additional shares or the sales of some of the existing shares when the Company still consolidates the financial statements of the companies that are counterparty to the transactions such that all the differences arising from the transactions are carried directly to equity (including differences previously carried to profit and loss or to goodwill).
- d) Carrying the transactions costs to profit and loss directly.
- e) Measuring contingent considerations in business combinations at fair value and carrying the changes in estimates therein to profit and loss.
- f) Not updating goodwill for the utilization of losses carried forward for tax purposes as they were on the date of business acquisition.
- g) A subsidiary's losses, even if they lead to the subsidiary's deficiency, will be allocated between the parent company and minority interests even if the minority did not provide guarantees for the subsidiary or has no contractual obligation to support the subsidiary or to make another investment.

The Company is examining the early adoption of these Standards and if and when they are adopted, they might have a material effect on the Company's operating results and financial position.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. IFRS 5 (Revised) - Non-current Assets Held for Sale and Discontinued Operations:

Pursuant to an amendment to IFRS 5, when the parent company decides to sell part of its holdings in a subsidiary whereby following the sale, the parent company will maintain a percentage of holding that does not confer control, for example, rights entitling to significant influence, all of that subsidiary's assets and liabilities will be classified as held for sale when the criteria in IFRS 5 are met, including disclosures for discontinued operations. The amendment to IFRS 5 will be prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted.

The Company believes that the effect of the amendment on its financial position, operating results and cash flows is not expected be material.

3. IFRIC 18 - Transfers of Assets from Customers:

IFRIC 18 ("the Interpretation") provides guidance on the accounting treatment in a Company that receives fixed assets or cash from its customers for the acquisition, rendering of services or construction of assets. The Interpretation applies prospectively to transactions made on or after July 1, 2009. Earlier application is permitted.

According to the Interpretation, when an item of fixed asset is received, as above, it should be assessed whether the transferred item meets the definition of fixed assets, including control of the asset. If the definition is met, the transferred asset should be recognized in the financial statements at its fair value as an asset received in an exchange transaction that has commercial substance in accordance with IAS 18. Simultaneously with the recognition of an asset, revenue is recognized for the asset or the supply of services if the relevant criteria of IAS 18 are met, including those addressing the existence of several separately identifiable components. Accordingly, revenue should be recognized over the period in which the services are rendered based on the agreement for the supply of services.

The Company believes that the effect of the new Interpretation on its financial position, operating results and cash flows is not expected be material.

4. IAS 17 - Leases:

The amended IAS 17 ("the amendment") deals with the classification of land and buildings. Pursuant to the amendment, the specific criteria for land classification were removed. Consequently, the requirement to classify a lease of land as an operating lease when title does not pass at the end of the lease no longer exists but the classification of the lease of land shall be examined by reference to the general guidance in IAS 17 which addresses the classification of a lease as finance or operating while taking into account that land, normally, has an indefinite economic life.

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

The amendment will be retrospectively or prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted. For the retrospective adoption, at the date of adoption of the amendment, the classification of the land shall be reassessed on the basis of information existing at the inception of the lease and if there has been a change in the lease classification, the guidance of IAS 17 shall be applied retrospectively at the inception of the lease. However, if the entity does not have the information necessary to apply the amendment retrospectively, it shall apply the amendment prospectively on the basis of the information existing at the date it adopts the amendment and recognize the asset and liability relating to the land lease newly classified as a finance lease at the fair value on that date. Any difference between the fair value of the asset and the fair value of the liability will be recognized in retained earnings.

The Company is examining the effect of the amendment on its financial statements but is currently unable to assess its results.

5. *IAS 36 - Impairment of Assets:*

The amended IAS 36 ("the amendment") defines the required accounting unit to which goodwill will be allocated for impairment testing of goodwill. Pursuant to the amendment, the largest unit permitted for impairment testing of goodwill acquired in a business combination is an operating segment as defined in IFRS 8, "Operating Segments" before the aggregation for reporting purposes. The amendment will be prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted.

The Company believes that the effect of the amendment on its financial position, operating results and cash flows is not expected to be material.

- c. The Company reclassified various asset and liability items in the balance sheet as of June 30, 2008 as well as income and expense items in the income statement for the six and three months then ended in immaterial amounts.

d. Restatement:

Due to the amendment of the financial statements of D-Pharm Ltd. ("D-Pharm"), an associate that is 41% held by Clal Biotechnology Industries Ltd. ("CBI"), the financial statements of CBI and of the Company as of March 31, 2009 and for the three months then ended were amended and the equity items as of April 1, 2009 were restated.

CBI's financial statements were amended as above to retroactively reflect the change in the accounting treatment of stock options issued to investors in D-Pharm's financial statements. Pursuant to IAS 32, "Financial Instruments: Presentation", the stock options as above, which entitle their holders to a cashless exercise (exercise in net shares) were reclassified from equity to a liability at fair value through profit or loss. This change in accounting treatment had no material effect on the financial statements of previous years.

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

The effect on the equity items at April 1, 2009 (unaudited) is as follows:

	As previously reported	Adjustment NIS in millions	As presented in these financial statements
Accumulated deficit	(45)	6	(39)
Minority interests	731	2	733
Total equity	2,588	8	2,596

e. Following are data regarding the Israeli CPI and the exchange rates of the U.S. dollar:

As of	Israeli CPI Points *)	Known Israeli CPI Points *)	Exchange rate of one U.S. dollar NIS
June 30, 2009	120.5	119.4	3.919
June 30, 2008	116.3	116.2	3.352
December 31, 2008	118.0	118.1	3.802
Change during the period	%	%	%
Six months ended			
June 30, 2009	2.1	1.2	3.1
June 30, 2008	2.4	2.8	(12.8)
Three months ended			
June 30, 2009	2.3	1.9	(6.4)
June 30, 2008	2.2	2.4	(5.7)
Year ended December 31, 2008	3.8	4.5	(1.1)

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

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD

a. Principal changes in investments during the reported period:

1. Taavura Holdings Ltd. ("Taavura"):

In furtherance to Note 24a to the annual financial statements, in the second quarter of 2009, Taavura recognized a gain from an agreement signed with Israel Railways Ltd. in connection with the evacuation of the compound in which it operated and the receipt of an alternative compound. The share of the Company's shareholders in the gain is NIS 12 million.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

2. Golf & Co. Group Ltd. ("Golf"):

In March 2009, Golf's remaining options (series 1) expired. Consequently, the Company derived a gain of NIS 14 million carried to the income statement in the first quarter of 2009.

As stated in Note 2b(1) above, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the amount carried to the gain will be carried directly to the Company's equity.

As for the exercise of Golf's options (series 2) after the balance sheet date, see Note 6c below.

3. CBI:

a) Andromeda Biotech Ltd. ("Andromeda"):

- 1) In furtherance to the matters discussed in Note 11h(4)(a) to the annual financial statements, in August 2008, Teva informed CBI of its decision to exercise the option and invest in Andromeda under the terms specified in the amendment to the agreement signed by the parties in February 2008. Shortly after the announcement, Teva invested in Andromeda an amount of \$ 3 million out of the overall investment amount based on the option granted to it (\$ 10 million). In February 2009, after receiving another interim report regarding the trial being performed by Andromeda, Teva announced its intention to complete its investment in Andromeda based on the option.

In March 2009, Teva transferred to Andromeda an amount of \$ 1.5 million out of the total investment amount. Due to the decrease in CBI's stake in Andromeda following said investment, the Company derived a gain (attributable to the Company's shareholders) of approximately NIS 8 million carried to the income statement in the first quarter of 2009 to gain from sale of investments and assets. Following the investment, CBI's stake in Andromeda decreased to 95.2%.

In June 2009, Teva transferred to Andromeda another amount of \$ 5.5 million thereby completing its investment in respect of the exercise of the option. Teva also extended to Andromeda a loan of \$ 3.5 million used to repay a portion of the shareholders' loan previously provided by CBI to Andromeda. Due to the additional decrease in CBI's stake in following said investment and in view of the fair value of the loan extended by Teva to Andromeda, the Company derived a gain (attributable to the Company's shareholders) of approximately NIS 27 million, carried to the income statement in the second quarter of 2009 to gain from sale of investments and assets. Following the additional investment, CBI's stake in Andromeda decreased to about 90%.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)

As stated in Note 2b(1) above, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the amount of NIS 35 million that was carried to earnings will be carried directly to the Company's equity.

Also in the context of said announcement, Teva undertook to provide to Andromeda loans for financing expenses relating to obtaining product marketing approval in both the U.S. and in Europe, excluding expenses relating to the completion of two phase III trials up to 65% of said expenses (and the balance financed by Andromeda).

CBI hired an independent outside appraiser to quarterly evaluate the series of options exchanged between Andromeda, CBI and Teva, as stated in Note 11h(4)(a) to the annual financial statements. These options include Call options of Teva for Andromeda shares and Put options of shares of Andromeda and of CBI to Teva as well as a Call option granted by Andromeda to Develogen (as for the cancellation of this option, see 2) below). As a result of updating the value of the series of options, in the first half of 2009, CBI recorded a gain attributable to the equity holders of the Company of NIS 30 million (of which NIS 5 million in the second quarter of 2009).

- 2) In March 2009, the parties signed an amendment to the agreement between Teva and Develogen as described in Note 11h(4)(a)(1) to the annual financial statements. According to the amendment, the rate of royalties payable to Develogen Israel was decreased to 3.5% of Andromeda's (net) product sales up to a cumulative amount of € 200 million and 1.5% of net sales in excess of a cumulative amount of € 200 million. Furthermore, Andromeda's investment options in Develogen Israel were cancelled and the amounts that Andromeda might pay Develogen Israel, if and as far as all the milestones are met, may reach some € 18 million, of which approximately € 1.2 million will be paid upon the completion of Teva's investment in Andromeda as stated in 1) above.
- b) Investment in D-Pharm:

In June 2009, in the context of a convertible loan agreement signed in December 2008, D-Pharm completed raising another \$ 1.15 million (of which \$ 0.75 million from CBI and the rest from a third party) by way of loan that is automatically convertible into D-Pharm shares in the occurrence of certain events as stipulated in the loan agreement.

As for developments after the balance sheet date, see Note 6d below.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3:- SIGNIFICANT EVENTS DURING THE REPORTED PERIOD (Cont.)**

- b. Investments in listed companies:

	Amount of investment in shares as presented in the balance sheet at June 30, 2009	Market value at	
		June 30, 2009	August 17, 2009
NIS in millions			
Associates:			
Netvision Ltd.	300	283	276
Hadera Paper Ltd.	311	333	374
Beit Shemesh Engine Holdings (1997) Ltd.	38	12	14
ECTel Ltd.	24	5	8
Nova Measuring Instruments Ltd.	18	16	19
BioCancell Inc.	5	12	12
D-Pharm *)			
Subsidiaries:			
Golf & Co. Group Ltd.	202	463	509
Fundtech Ltd.	328	335	307
CBI	194	606	543
Maman - Cargo Terminals and Handling Ltd.	98	70	74

*) D-Pharm shares were listed for trade on the Tel-Aviv Stock Exchange on August 12, 2009, see Note 6d below.

- c. Shelf prospectus:

On May 26, 2009, the Company published a prospectus based on its financial statements as of December 31, 2008 for offering in the context of a shelf prospectus shares, convertible debentures, non-convertible debentures and stock options that are exercisable into shares and debentures and commercial securities.

NOTE 4:- OPERATING SEGMENTS

- a. General:

The Company early adopted IFRS 8, "Operating Segments", for the first time in the annual financial statements. According to IFRS 8, segment information is presented for the Company's operating segments based on the Company's executive and internal reports ("executive reports"). The Company adopted IAS 14 in its interim financial statements as of June 30, 2008 and reported business segments. Accordingly, the operating segments for June 30, 2008 were restated.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

In these financial statements, the Company's determination of reportable operating segments in accordance with IFRS 8 was derived from the executive reports based on the Company's investment in each held investee ("the segment company") such that each Company investee represents an operating segment. Certain investees held by the Company that meet the criteria prescribed by IFRS 8 represent a reportable operating segment: Cement, Taavura, Hadera Paper, Golf, KBA, Fundtech, CBI and Netvision.

1. Cement - the principal company in this segment is Neshor Israeli Cement Enterprises Ltd. ("Neshor"). Neshor is wholly owned by Mashav Initiating and Development Ltd. ("Mashav") (75% owned). The presented segment data are the data of Mashav on a consolidated basis less the data of Taavura.
2. Taavura Holdings Ltd. ("Taavura") (37.5% owned) - Taavura provides transport, infrastructure and logistic services, imports and markets trucks, buses, heavy equipment and cranes and imports and markets automobiles in Europe as well as provides other services.
3. Hadera Paper Ltd. ("Hadera Paper") (38% owned) - Hadera Paper is mainly engaged in manufacturing and marketing packaging paper and cardboards, collecting and recycling paper, manufacturing and marketing writing and printing paper, home paper products, disposable diapers and home and kitchen cleaning products.
4. Golf & Co. Group Ltd. ("Golf") (73% owned) - Golf is mainly engaged in marketing and selling clothing for various settings.
5. KBA Townbuilders Group Ltd. ("KBA") (53% owned) - KBA deals in holding land reserves and upgrading and selling them.
6. Fundtech Ltd. ("Fundtech") (58% owned) - Fundtech develops, markets and supports software programs that are used by financial institutions.
7. Clal Biotechnology Industries Ltd. ("CBI"), (67% owned) - CBI operates in the biotechnological field by investing in life science companies and ventures that are mostly in research and clinical trial stages.
8. Netvision Ltd. ("Netvision") (24% owned) - Netvision, a main supplier of communication services in Israel, is mainly engaged in providing internet connectivity services, international telephony services and managed services (equipment and communication network endpoint and domestic telephony services).

The segment results detailed below include the various items of profit and loss of the segment companies less the other segment and represent the Company's share in the net income (loss) of the segment companies. The segment expenses include the amortization of excess costs by the Company in respect of its investment in the segment companies.

Information regarding the assets and liabilities of the segment companies as detailed below includes their total assets based on their financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 4:- OPERATING SEGMENTS (Cont.)**

b. Information of operating segments:

1. Segment results:

	<u>Cement</u>	<u>Taavura</u>	<u>Hadera Paper</u>	<u>Golf</u>	<u>KBA</u>	<u>Fundtech Unaudited</u>	<u>CBI</u>	<u>Netvision</u>	<u>Other</u>	<u>Adjusted amount *)</u>	<u>Total</u>
	NIS in millions										
Six months ended June 30, 2009:											
Segment revenues:											
Revenues from external factors	843	1,085	491	342	17	222	104	616	1,146	(2,585)	2,281
Inter-segment revenues	-	18	-	-	-	-	-	-	2	(20)	-
	<u>843</u>	<u>1,103</u>	<u>491</u>	<u>342</u>	<u>17</u>	<u>222</u>	<u>104</u>	<u>616</u>	<u>1,148</u>	<u>(2,605)</u>	<u>2,281</u>
Net income	<u>153</u>	<u>85</u>	<u>34</u>	<u>65</u>	<u>9</u>	<u>(12)</u>	<u>59</u>	<u>43</u>	<u>19</u>	<u>(166)</u>	<u>289</u>
Attributable to:											
Equity holders of the Company	115	28	13	51	4	(8)	42	2	8	(44)	211
Others	38	57	21	14	5	(4)	17	41	11	(122)	78
	<u>153</u>	<u>85</u>	<u>34</u>	<u>65</u>	<u>9</u>	<u>(12)</u>	<u>59</u>	<u>43</u>	<u>19</u>	<u>(166)</u>	<u>289</u>
Six months ended June 30, 2008:											
Segment revenues:											
Revenues from external factors	843	1,120	305	356	154	213	5	608	1,228	(2,605)	2,227
Inter-segment revenues	-	27	-	-	-	-	-	-	4	(31)	-
	<u>843</u>	<u>1,147</u>	<u>305</u>	<u>356</u>	<u>154</u>	<u>213</u>	<u>5</u>	<u>608</u>	<u>1,232</u>	<u>(2,636)</u>	<u>2,227</u>
Net income	<u>121</u>	<u>57</u>	<u>39</u>	<u>53</u>	<u>89</u>	<u>2</u>	<u>(69)</u>	<u>36</u>	<u>(20)</u>	<u>(227)</u>	<u>81</u>
Attributable to:											
Equity holders of the Company	90	19	15	39	46	(1)	(43)	1	2	(155)	13
Others	31	38	24	14	43	3	(26)	35	(22)	(72)	68
	<u>121</u>	<u>57</u>	<u>39</u>	<u>53</u>	<u>89</u>	<u>2</u>	<u>(69)</u>	<u>36</u>	<u>(20)</u>	<u>(227)</u>	<u>81</u>

*) Cancellation of segment revenues included in the financial statements as associates and adjustment of amounts relating to jointly controlled entity.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Cement	Taavura	Hadera Paper	Golf	KBA	Fundtech Unaudited	CBI	Netvision	Other	Adjusted amount *)	Total
	NIS in millions										
Three months ended June 30, 2009:											
Segment revenues:											
Revenues from external factors	443	577	230	168	13	116	45	305	584	(1,339)	1,142
Inter-segment revenues	-	10	-	-	-	-	-	-	-	(10)	-
	443	587	230	168	13	116	45	305	584	(1,349)	1,142
Net income	105	60	15	27	6	1	29	19	26	(131)	157
Attributable to:											
Equity holders of the Company	79	20	6	19	3	(1)	20	2	7	(51)	104
Others	26	40	9	8	3	2	9	17	19	(80)	53
	105	60	15	27	6	1	29	19	26	(131)	157
Three months ended June 30, 2008:											
Segment revenues:											
Revenues from external factors	462	612	146	190	28	110	5	299	623	(1,286)	1,189
Inter-segment revenues	-	16	-	-	-	-	-	-	2	(18)	-
	462	628	146	190	28	110	5	299	625	(1,304)	1,189
Net income	74	24	18	33	14	1	(41)	14	(6)	(103)	28
Attributable to:											
Equity holders of the Company	55	7	7	24	7	(1)	(25)	(1)	4	(72)	5
Others	19	17	11	9	7	2	(16)	15	(10)	(31)	23
	74	24	18	33	14	1	(41)	14	(6)	(103)	28

*) Cancellation of segment revenues included in the financial statements as associates and adjustment of amounts relating to jointly controlled entity.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- OPERATING SEGMENTS (Cont.)

	<u>Cement</u>	<u>Taavura</u>	<u>Hadera Paper</u>	<u>Golf</u>	<u>KBA</u>	<u>Fundtech Audited</u>	<u>CBI</u>	<u>Netvision</u>	<u>Other</u>	<u>Adjusted amount *)</u>	<u>Total</u>
	<u>NIS in millions</u>										
Year ended December 31, 2008:											
Segment revenues:											
Revenues from external factors	1,585	2,348	741	715	242	441	12	1,246	2,487	(5,438)	4,379
Inter-segment revenues	-	54	-	-	-	-	-	-	8	(62)	-
	<u>1,585</u>	<u>2,402</u>	<u>741</u>	<u>715</u>	<u>242</u>	<u>441</u>	<u>12</u>	<u>1,246</u>	<u>2,495</u>	<u>(5,500)</u>	<u>4,379</u>
Net income	<u>182</u>	<u>89</u>	<u>68</u>	<u>102</u>	<u>140</u>	<u>(15)</u>	<u>(93)</u>	<u>67</u>	<u>(139)</u>	<u>(268)</u>	<u>133</u>
Attributable to:											
Equity holders of the Company	137	28	27	77	71	(11)	(56)	1	(53)	(195)	26
Minority interests	45	61	41	25	69	(4)	(37)	66	(86)	(73)	107
	<u>182</u>	<u>89</u>	<u>68</u>	<u>102</u>	<u>140</u>	<u>(15)</u>	<u>(93)</u>	<u>67</u>	<u>(139)</u>	<u>(268)</u>	<u>133</u>

*) Cancellation of segment revenues included in the financial statements as associates and adjustment of amounts relating to jointly controlled entity.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
NOTE 4:- OPERATING SEGMENTS (Cont.)

2. Segment assets:

	<u>Cement</u>	<u>Taavura</u>	<u>Hadera Paper</u>	<u>Golf</u>	<u>KBA</u>	<u>Fundtech</u>	<u>CBI</u>	<u>Netvision</u>	<u>Other</u>	<u>Adjusted amount *)</u>	<u>Total</u>
	<u>NIS in millions</u>										
At June 30, 2009 (unaudited):											
Segment assets:											
Assets	2,955	2,496	2,126	411	75	732	474	1,641	2,686	(5,530)	8,066
Inter-segment assets	-	10	-	-	-	-	-	-	-	(10)	-
<u>Total assets</u>	<u>2,955</u>	<u>2,506</u>	<u>2,126</u>	<u>411</u>	<u>75</u>	<u>732</u>	<u>474</u>	<u>1,641</u>	<u>2,686</u>	<u>(5,540)</u>	<u>8,066</u>
At June 30, 2008 (unaudited):											
Segment assets:											
Assets	2,849	2,364	1,360	404	113	629	401	1,559	2,794	(4,670)	7,803
Inter-segment assets	-	12	-	-	-	-	-	-	2	(14)	-
<u>Total assets</u>	<u>2,849</u>	<u>2,376</u>	<u>1,360</u>	<u>404</u>	<u>113</u>	<u>629</u>	<u>401</u>	<u>1,559</u>	<u>2,796</u>	<u>(4,684)</u>	<u>7,803</u>
At December 31, 2008 (audited):											
Segment assets:											
Assets	2,815	2,650	2,063	380	77	735	426	1,682	2,827	(5,640)	8,015
Inter-segment assets	-	6	-	-	-	-	-	-	3	(9)	-
<u>Total assets</u>	<u>2,815</u>	<u>2,656</u>	<u>2,063</u>	<u>380</u>	<u>77</u>	<u>735</u>	<u>426</u>	<u>1,682</u>	<u>2,830</u>	<u>(5,649)</u>	<u>8,015</u>

*) Adjustments for segment assets included in the financial statements as associates, adjustments of amount of assets relating to jointly controlled entity and adjustments of non-segment specific assets.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- CONTINGENT LIABILITIES**

a. General:

The amounts of the claims mentioned below are true as of the date of their filing, unless stated otherwise.

As for contingent liabilities and claims against investees of the Company that are pending as of the date of the approval of the annual financial statements, see Note 24b to the annual financial statements.

b. Contingent liabilities incurred and claims filed and material developments therein in and subsequent to the reported period:

1. Netvision Ltd. ("Netvision"):

- a) In furtherance to the matter discussed in Note 24b(d)(2)(f) to the annual financial statements regarding two separate claims (Aviad Seren Management Ltd. and Universal Mobile Ltd.), attached with a motion for approving each of these two claims as a class action, which were filed in July 2008 alleging that Netvision had acted illegally in unilaterally changing the engagement price with customers by fixing the U.S. dollar-NIS exchange rate in invoices issued starting December 31, 2007 at NIS 4.1 per dollar. Following the consent of the parties to strike Universal Mobile's request, on July 9, 2009, this request was stricken. Another pre-trial hearing in the case of the second claim (Aviad Seren) was scheduled for December 13, 2009.

Based on the assessment of its legal counsel, Netvision believes that at this stage, the chances that the claim will be approved as a class action do not exceed its chances of not being approved as a class action and therefore, Netvision did not include any provision in its financial statements for this claim.

- b) On June 18, 2009, a claim and a motion to approve the claim as a class action were filed against Netvision with the Central Region District Court. The claim alleges, among other things, that Netvision had misled the plaintiff and made it a false presentation whereby under the upgrading of its internet speed and for a certain fee, it will receive Norton's antivirus program whereas in practice, it was asked to pay for this product a higher price. The petitioner is arguing that Netvision failed to provide proper disclosure and misled it by offering the petitioner a "bargain" price whereas the price of the program in the free market is considerably lower than the price charged from the petitioner. The petitioner is assessing the overall damage sustained to the group at approximately NIS 68 million.

Based on the information and data held by it and the assessment of its legal counsel, Netvision believes that the chances that the claim will be approved as a class action are remote.

- c) In furtherance to the matter discussed in Note 24b(d)(2)(g) to the annual financial statements regarding a class action filed on February 24, 2009 against Netvision in which the petitioner alleges, among other things, that Netvision had misled him in subscribing him to a certain special price per call minute which was lower than the rate actually charged for the call minute, a pre-trial hearing was scheduled for October 27, 2009.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- CONTINGENT LIABILITIES (Cont.)**

Based on the assessment of its legal counsel, Netvision believes that at this stage, the chances that the claim will be approved as a class action do not exceed its chances of not being approved as a class action and therefore, Netvision did not include any provision in its financial statements for this claim.

2. Kitan Textile Industries Ltd. ("Kitan"):

In April 2008, a claim and a motion for approving a class action were filed against Kitan, a wholly owned investee of the Company, pursuant to the Class Action Law ("the claim").

The claim consists of arguments pertaining to failure to comply with the standard of emissions of pollutants into the air at the Kitan plant located in Dimona ("the non-compliance"). The plaintiffs have asked the Court for monetary compensation for the damage caused to the autonomy of the will and exposure to health risks and have also asked that Kitan place a fund for medical surveillance.

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

On August 2, 2009, the parties signed a compromise according to which Kitan undertook to carry out a series of inspection and maintenance activities in order to reduce the emissions of pollutants from the plant as well as other preemptive measures as detailed in the agreement. It was also decided between the parties that they would recommend to the Court that Kitan pay remuneration in an immaterial amount to the petitioners and the representatives of the petitioners.

On August 3, 2009, the parties filed a motion with the Court to approve the compromise.

According to Kitan's legal advisors, the chances that the Court will approve the compromise cannot be evaluated at this stage.

NOTE 6:- SUBSEQUENT EVENTS

a. Hanson (Israel) Ltd.:

On July 29, 2009, Mashav signed an agreement to purchase 100% of the shares of Hanson (Israel) Ltd. ("Hanson") in consideration of NIS 450 million (with the addition of any net cash balances, if and as far as there are any, in Hanson's treasury upon closing) ("the consideration" and "the agreement", respectively).

The agreement includes presentations regarding Hanson's position. It also includes a non competition clause whereby the sellers and related parties (as this term is defined in the agreement) are restricted from competing with Hanson's business in Israel, Judea and Samaria and the Gaza Strip for a period of four years from closing.

The agreement is subject to obtaining the Anti-trust Commissioner's approval and to no material adverse change taking place in Hanson's business position pending the date of closing.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSEQUENT EVENTS (Cont.)

Furthermore, shortly after the agreement was signed, Mashav placed an advance of 15% of the consideration in a trust account (not including the cash balances) of which a small part will not be reimbursed to Mashav under certain circumstances as agreed upon between the parties. The final date stipulated in the agreement for completing the prerequisites, including the Anti-trust Commissioner's approval, is at the end of 150 days from closing.

There is no certainty that the transaction will be consummated.

b. Hadera Paper:

On August 19, 2009, the Company's audit committee and Board approved the Company's engagement in an agreement with Discount Investments Ltd. ("Discount Investments") whereby the Company will acquire from Discount Investments the latter's entire stake in Hadera Paper shares (representing 21.45% of Hadera Paper's share capital) in consideration of NIS 246 million, subject to adjustments ("the agreement"). After the completion of this acquisition, Discount Investments will cease to be a shareholder in Hadera Paper.

The price for Discount Investments' stake in Hadera Paper was determined in negotiations held between the parties following a valuation performed by an independent outside appraiser hired by the Company and Discount Investments. According to the valuation, the fair value of Discount Investments' holdings in Hadera Paper at June 30, 2009 is estimated between NIS 223 million and NIS 268 million based on which the parties negotiated the consideration to be paid to the sellers for their holdings in Hadera Paper as an approximate average range of said valuation. The Company and Discount Investments also received independent opinions for the fairness and reasonableness of the determined consideration.

After closing, the Company is expected to hold some 59% of Hadera Paper's share capital. The Company is studying the accounting implications of the transaction.

The execution of the transaction is subject to entering into a binding agreement, the consummation of the transaction is contingent on obtaining the approvals of the general meetings of the Company and of Discount Investments at the majority prescribed by the Companies Law for the approval of an extraordinary transaction in which the controlling shareholder in each of the parties has a personal interest, this within 90 days from entering into the transaction.

There is no certainty that the transaction will be consummated.

c. Golf:

In the period from July 1, 2009 until near the date of the approval of the financial statements, some of Golf's options (series 2) and employee options were exercised. Consequently, the Company derived a gain of NIS 7 million to be carried to the income statement in the third quarter of 2009.

As stated in Note 2b(1) above, should the Company retroactively early adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", and IFRS 3 (Revised), "Business Combinations" starting January 1, 2009, the amount carried to the gain will be carried directly to the Company's equity.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSEQUENT EVENTS (Cont.)

d. D-Pharm:

In July 2009, CBI, other D-Pharm shareholders and third parties undertook to invest a total of approximately NIS 57 million in D-Pharm (of which approximately NIS 38 million by CBI) in return for shares and options to be allocated to them by D-Pharm ("the early raising"). The performance of the early raising is contingent on completing the issuance of D-Pharm's securities to the public by September 15, 2009.

On August 12, 2009, D-Pharm issued to the public according to a prospectus Ordinary shares of D-Pharm and stock options that are exercisable into Ordinary shares of D-Pharm at an overall scope of NIS 25 million (for immediate gross proceeds of NIS 28 million). Upon completion of the public offering, the early raising was also completed.

Following the completion of the offering and of the early raising from the shareholders and other investors, CBI's holding rate in D-Pharm's issued share capital increased to 47% (about 51% of D-Pharm's share capital on a fully diluted basis). CBI is examining the implications of D-Pharm's public offering on its financial statements.

e. Netvision:

On August 19, 2009, the Company's audit committee and Board approved the Company's engagement with Discount Investments in an agreement with Elron Electronic Industries Ltd. ("Elron"), which is 49% held by Discount Investments, whereby the Company and Discount Investments will acquire from Elron its entire stake in Netvision shares for NIS 49.6 per Netvision share such that the Company will acquire from Elron 8.55% of Netvision's share capital (7.92% on a fully diluted basis) in consideration of NIS 128 million ("the agreement"). It should be noted that the acquisition of Elron's stake in Netvision shares by the Company and Discount Investments ("the buyers") is divided between the buyers based on each buyer's interest in the shares of Netvision prior to closing.

The price of Elron's interest in Netvision shares was determined in negotiations between the parties following a valuation by an independent outside appraiser hired by the Company, Discount Investments and Elron. According to the valuation, the fair value of Elron's holdings in Netvision shares at June 30, 2009 is estimated between NIS 221 million and NIS 244 million. This price is identical to the average range of the valuation net of Elron's share in a dividend declared by Netvision in August 2009. The Company, Discount Investments and Elron also received independent opinions for the fairness and reasonableness of the determined consideration.

After the completion of said acquisitions, the Company will hold 31.06% (28.75% on a fully diluted basis) and Discount Investments will hold 39.74% (36.78% on a fully diluted basis) of Netvision's issued share capital and voting rights (based on Netvision's known issued share capital on that date) and Elron will cease to be a shareholder in Netvision.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSEQUENT EVENTS (Cont.)

The transaction is subject to prerequisites such as obtaining the required regulatory approvals, Elron's authorized entities and the general meetings at the majority prescribed by the Companies Law for the approval of an extraordinary transaction in which the controlling shareholder in each of the parties has a personal interest, this within 90 days from entering into the transaction. If all prerequisites are not met for only one of the buyers ("the restricted buyer"), the other buyer's share in said acquisitions will be performed and in addition, this other buyer will be entitled, at its discretion, (but not obligated) to acquire from Elron under the conditions stipulated in the agreement all of (but not less than all of) Netvision's shares which were held for sale to the restricted buyer according to the agreement.

There is no certainty that the transaction will be consummated.

f. Decrease in tax rates:

In furtherance to Note 23b to the annual financial statements, on July 14, 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the Israeli corporate tax rate up to 18% in 2016 and thereafter. According to this amendment, the corporate tax rates applicable in the 2009 tax year are as follows: 2009 - 26%, 2010 - 25%, 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

The implications of the decrease in the tax rates as above will be expressed in the financial statements for the third quarter of 2009 by a decrease in deferred tax balances and in deferred tax liabilities. The Company expects that the effect of these changes will be an increase currently estimated at NIS 45 million in the income attributable to equity holders of the Company in the third quarter of 2009.

**DETAILS OF INVESTMENTS (*) OF THE COMPANY AND ITS WHOLLY OWNED
HEADQUARTER COMPANIES AS OF JUNE 30, 2009**

<u>Listed companies</u>	<u>Ownership</u>	<u>Amount of investment in NIS in millions</u>
Hadera Paper Ltd.	38%	311
Golf & Co. Group Ltd.	73%	202
Netvision Ltd.	24%	300
Fundtech Ltd.	58%	328
Clal Biotechnology Industries Ltd.	67%	194
Beit Shemesh Engines Holdings (1997) Ltd.	36%	38
Nova Measuring Instruments Ltd.	21%	18
ECTel Ltd.	17%	24
		<hr/>
		1,415
		<hr/>
<u>Private companies</u>		
Mashav Initiating and Development Ltd.	75%	951
Kitan Textile Industries Ltd.	100%	78
Arcadian Networks Inc.	12%	71
Jaf-Ora Ltd.	30%	115
F.B.R. Infinity Ventures (Israel) L.P.	39%	90
KBA Townbuilders Group Ltd.	53%	17
Cargal Ltd.	26%	76
Clal Venture Capital Fund - Limited Partnership	67%	24
Millennium Materials Technologies Fund II L.P.	13%	11
Med 1 IC 1 (1999) Ltd.	31%	9
Infinity I - China Fund (Israel 2), L.P.	12%	26
Clal Energy Limited Partnership	100%	16
FBR Infinity II China	22%	6
Other private companies		15
		<hr/>
		1,505
		<hr/>
		2,920
Less investments in subsidiaries		(1,810)
With the addition of investments of subsidiaries		107
		<hr/>
Investments in associates and available-for-sale financial assets		1,217
		<hr/> <hr/>

(*) Investments include investments in investees and investments in available-for-sale financial assets. The list of investments includes investments (including investments in share capital and extended loans) whose amount in the books exceeds NIS 5 million.

APPENDIX - MAALOT'S RATING UPDATE REPORT

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