

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2010UNAUDITEDTable of Contents

	<u>Page</u>
Review of Interim Consolidated Financial Statements	2-3
Consolidated Statement of Financial Position	4-5
Consolidated Statements of Income	6
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Changes in Equity	8-13
Consolidated Statements of Cash Flows	14-16
Notes to Interim Consolidated Financial Statements	17-48
Appendix to Consolidated Financial Statements	49-50

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 statement of financial position as of June 30, 2010, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month and six-month periods then ended. The Board Of Directors and the management are responsible for formulating and presenting the financial information for these interim periods, in accordance with IAS 34 - "Interim Financial Reporting", and are also responsible for formulating financial information for these interim periods pursuant to Chapter D of the Securities Regulations (Periodical and Immediate Reports) - 1970.

We have not reviewed the condensed financial statements of certain consolidated subsidiaries and partnerships, whose assets constitute approximately 44% of total consolidated assets as of June 30, 2010, and whose revenues constitute approximately 41% and 44% 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 companies accounted for by the equity method, the investment in which amounted to NIS 1,391 million as of June 30, 2010, and for whom the Group's share in their earnings amounted to NIS 33 million and NIS 18 million, for the six-month and three-month periods 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 the Review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel - "Review of Financial Information for Interim Periods Made by a Company's Auditing Certified Public Accountant". A review of the financial information for interim periods consists of examinations, primarily with the individuals responsible for the financial and accounting matters, coupled with the implementation of analytical review and other procedures. A review is substantially less in scope than an audit in accordance with generally accepted auditing standards in Israel, and accordingly, does not enable us to reach certainty in knowing all of the significant affairs that could have been identified as part of an audit. Accordingly, we do not express an opinion of an audit.

Conclusion

On the basis of our review and the report of the review of other CPAs, nothing has come to our attention so as to cause us to believe that the said financial information is not formulated - in all material aspects - in accordance with IAS 34.

In addition to the above mentioned, 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 aspects, 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 5 to the financial statements regarding claims filed against investees and motions to certify these claims as class action lawsuits.

Pro forma financial information

We have reviewed the accompanying pro forma financial information of the Company, which comprises the condensed consolidated pro forma statements of income and comprehensive income for the six-month and three-month periods ended June 30, 2010, which are disclosed in Note 3a2 to the financial statements. The Company's board of directors and management are responsible for the preparation and presentation of interim pro forma financial information in accordance with the accounting policies outlined in Note 2 and the assumptions set forth in Note 3a2 to the financial statements and are responsible for the preparation of interim pro forma financial information in accordance with Regulation 38b to the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express an opinion on this interim pro forma financial information based on our review.

We did not review the condensed interim financial information of certain subsidiaries, whose revenues constitute approximately 40% and 42% of total consolidated pro forma revenues for the six-month and three-month period ended June 30, 2010. 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. In addition, we did not review the pro forma financial information for the six-month and three-month periods ended June 30, 2010, of companies reported by the equity method, for whom the Group's share in the earnings of these companies amounted to NIS 26 million and NIS 14 million, 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.

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel - "Review of Financial Information for Interim Periods Made by a Company's Auditing Certified Public Accountant". A review of the financial information for interim periods consists of examinations, primarily with the individuals responsible for the financial and accounting matters, coupled with the implementation of analytical review and other procedures. A review is substantially less in scope than an audit in accordance with generally accepted auditing standards in Israel, and accordingly, does not enable us to reach certainty in knowing all of the significant affairs that could have been identified as part of an audit. Accordingly, we do not express an opinion of an audit.

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 pro forma financial information is not prepared, in all material aspects, in accordance with the accounting policies outlined in Note 2 and the assumptions outlined in Note 3a2 to the pro forma financial information.

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 pro forma financial information does not comply, in all material aspects, with Regulation 38b to the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv
August 18, 2010

Kost Forer Gabbay and Kasierer
CPAs



	As at June 30		As at
	2010	2009	December 31
	Unaudited		Audited
	NIS millions		
Current assets			
Cash and cash equivalents	1,012	1,371	1,239
Short-Term Investments	1,018	753	981
Accounts Receivable - Trade	1,063	696	1,006
Other Accounts Receivable	214	99	204
Inventories	843	729	813
Derivative financial instruments	5	15	9
	<u>4,155</u>	<u>3,663</u>	<u>4,252</u>
Non-current assets			
Inventory of land	25	27	25
Loans and receivables	42	85	40
Financial assets available for sale	238	152	128
Financial assets at fair value through the statement of income	16	-	-
Derivative Financial Instruments	103	105	112
Prepaid expenses and rights in respect of an operating lease	61	*) **)	67 *) **)
Investments in Associated Companies	1,978	1,065	1,955
Investment property (real estate)	291	255	256
Fixed assets, net	3,483	2,223 *)	3,451 *)
Intangible assets, net	895	442 **)	914 **)
Assets on account of employee benefits	23	20	24
Deferred taxes	57	29	55
	<u>7,212</u>	<u>4,403</u>	<u>7,027</u>
Total assets	<u><u>11,367</u></u>	<u><u>8,066</u></u>	<u><u>11,279</u></u>

*) Implemented retroactively , see note 2a3.

**) Reclassified, see note 2c.

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


Consolidated Statement of Financial Position

	As at June 30		As at
	2010	2009	December 31,
	Unaudited		Audited
	NIS millions		
<u>Current Liabilities</u>			
Credit from banks and other lenders	480	425	488
Current maturities of debentures	410	298	410
Trade payables	612	314	556
Taxes to pay	84	46	78
Other Accounts Payable	716	540	720
Derivative financial instruments	16	10	16
	<u>2,318</u>	<u>1,633</u>	<u>2,268</u>
<u>Long-Term Liabilities</u>			
Loans from banks and other lenders	1,065	649 *)	840 *)
Debentures	3,125	2,434	3,232
Derivative Financial Instruments	26	20	20
Employee benefits	216	202	220
Deferred taxes	332	310	338
Other Long-Term Liabilities	123	119	128
	<u>4,887</u>	<u>3,734</u>	<u>4,778</u>
<u>Equity</u>			
Share Capital	1,257	1,257	1,257
Premium on shares	574	574	574
Retained earnings	44	68	200
Capital Reserves	450	31	394
	<u>2,325</u>	<u>1,930</u>	<u>2,425</u>
Capital attributed to shareholders of the Company			
Non-controlling interests	<u>1,837</u>	<u>769 *)</u>	<u>1,808 *)</u>
<u>Total equity</u>	<u>4,162</u>	<u>2,699</u>	<u>4,233</u>
<u>Total liabilities and equity</u>	<u>11,367</u>	<u>8,066</u>	<u>11,279</u>

*) Retroactive implementation, see note 2a1

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

Nochi Dankner
Chairman of the Board
of Directors

Zvika Livnat
Joint CEO

Avi Fisher
Director and Joint
CEO

Yehuda Ben Ezra
VP Comptroller

August 18, 2010

Date of approval of the financial statements



Consolidated Statements of Income

	For the six-month period ended June 30		For the three-month period ended June 30		For the Year Ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions (except for net profit per share data)				
Revenues					
Sales and services	2,460	1,967	1,234	1,002	4,176
Group's share in earnings of associates, net	52	28	31	13	45
Gain on disposal of investments and assets	65	104	9	75	166
Other Income	14	43	6	13	232
Financial Revenues	50	139	9	39	201
	<u>2,641</u>	<u>2,281</u>	<u>1,289</u>	<u>1,142</u>	<u>4,820</u>
Expenditures					
Cost of Sales and Services	1,739	1,346	872	638	2,880
Selling and Marketing Expenses	246	204	123	101	435
General & Administrative Expenses	224	193	101	93	398
Loss on disposal and impairment of investments and assets	36	3	10	1	43
Other expenses	13	17	8	4	63
Financial Expenses	156	148	88	89	334
	<u>2,414</u>	<u>1,911</u>	<u>1,202</u>	<u>926</u>	<u>4,153</u>
Income before taxes on income	227	370	87	216	667
Taxes on Income	68	81	29	59	100
Net Income	<u>159</u>	<u>289</u>	<u>58</u>	<u>157</u>	<u>567</u>
Attributed to:					
Shareholders of the Company	126	211	41	104	450
Non-controlling interests	33	78	17	53	117
	<u>159</u>	<u>289</u>	<u>58</u>	<u>157</u>	<u>567</u>
Net earnings per share attributable to company shareholders (in NIS):					
Basic net earnings	<u>0.80</u>	<u>1.34</u>	<u>0.26</u>	<u>0.66</u>	<u>2.86</u>
Diluted net earnings	<u>0.79</u>	<u>1.24</u>	<u>0.25</u>	<u>0.65</u>	<u>2.75</u>

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



	For the six-month period ended June 30		For the three-month period ended June 30		For the Year Ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS millions				
Net Income	159	289	58	157	567
Other comprehensive income (loss):					
Revaluation reserve from business combination, net of tax	-	-	-	-	467
Impairment of assets recognized against revaluation reserve, net of tax	-	-	-	-	(7)
Revaluation reserve due to investment property, net of tax	-	-	-	-	1
Net change in fair value of financial assets available for sale, net of tax	11	8	9	(3)	(3)
Actuarial profits in respect of defined benefit plans, net of tax	-	2	-	1	3
Foreign currency translation differences for foreign operations, net	6	24	28	(30)	(4)
Loss due to cash flow hedges, net	(2)	-	(2)	-	(1)
Group's share of other comprehensive income (loss) of associates, net	2	11	7	(14)	(2)
Other comprehensive income (loss), net	17	45	42	(46)	454
Total comprehensive income	176	334	100	111	1,021
<u>Attributed to:</u>					
Shareholders of the Company	134	242	63	67	857
Non-controlling interests	42	92	37	44	164
	176	334	100	111	1,021

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



Consolidated Statements of Changes in Equity

	Attributed to company shareholders					Non-controlling interests	Total equity
	Share Capital	Premium on shares	Capital Reserves (*)	Retained Earnings (Loss)	Total		
	NIS Millions (Unaudited)						
Balance as at January 1, 2010 (audited)	1,257	574	394	200	2,425	1,808**)	4,233
Comprehensive income:							
Net income for the period	-	-	-	126	126	33	159
Net change in fair value of financial assets available for sale, net of taxes	-	-	7	-	7	4	11
Foreign currency translation differences for foreign operations, net	-	-	(1)	-	(1)	7	6
Loss due to cash flow hedges, net	-	-	(1)	-	(1)	(1)	(2)
Group's share of other comprehensive income of associates, net	-	-	3	-	3	(1)	2
Total	-	-	8	126	134	42	176
Transactions with shareholders of the Company and holders of non-controlling interests and other changes:							
Revaluation reserve recognized in retained earnings following achievement of control	-	-	(6)	6	-	-	-
Realizations and issue of shares to interested parties with no means of control in consolidated subsidiaries	-	-	60	-	60	91	151
Acquisition of shares from holders of non-controlling interests in subsidiaries	-	-	(6)	-	(6)	(11)	(17)
Cost of share-based payment	-	-	-	-	-	13	13
Dividend to holders of non-controlling interests	-	-	-	-	-	(106)	(106)
Dividend distributed	-	-	-	(288)	(288)	-	(288)
Total	-	-	48	(282)	(234)	(13)	(247)
Balance as at June 30, 2010	1,257	574	450	44	2,325	1,837	4,162

**) Retroactive implementation, see note 2a1.

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


CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributed to company shareholders						
	Share Capital	Premium on shares	Capital Reserves (*)	Retained Earnings (Loss)	Total	Non-controlling interests	Total equity
	NIS Millions (Unaudited)						
<u>Balance as at January 1, 2009</u> (audited)	1,257	574	7	(150)	1,688	726	2,414
Comprehensive income:							
Net income for the period	-	-	-	211	211	78	289
Net change in fair value of financial assets available for sale, net of tax	-	-	5	-	5	3	8
Actuarial profits in respect of defined benefit plans, net of tax	-	-	-	2	2	-	2
Foreign currency translation differences for foreign operations, net	-	-	14	-	14	10	24
Group's share of other comprehensive income of associates, net	-	-	9	1	10	1	11
Total	-	-	28	214	242	92	334
Transactions with shareholders of the Company and holders of non-controlling interests and other changes:							
Revaluation reserve recognized in retained earnings following achievement of control	-	-	(4)	4	-	-	-
Realizations and issue of shares to interested parties with no means of control in consolidated subsidiaries	-	-	-	-	-	(12)	(12)
Acquisition of shares from holders of non-controlling interests in subsidiaries	-	-	-	-	-	(15)	(15)
Changes in controlling shareholders' interests in subsidiaries that do not involve loss of control	-	-	-	-	-	(5)**	(5)
Cost of share-based payment	-	-	-	-	-	10	10
Dividend paid to holders of non-controlling interests	-	-	-	-	-	(27)	(27)
Total	-	-	(4)	4	-	(49)	(49)
<u>Balance as at June 30, 2009</u>	1,257	574	31	68	1,930	769**	2,699

***) Retroactive implementation, see note 2a1.

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


CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributed to company shareholders					Non-controlling interests	Total equity
	Share Capital	Premium on shares	Capital Reserves (*)	Retained earnings	Total		
	NIS Millions (Unaudited)						
<u>Balance as at April 1, 2010</u>	1,257	574	392	109	2,332	1,749	4,081
Comprehensive income:							
Net income for the period	-	-	-	41	41	17	58
Net change in fair value of financial assets available for sale, net of tax	-	-	5	-	5	4	9
Foreign currency translation differences for foreign operations, net	-	-	11	-	11	17	28
Loss due to cash flow hedges, net	-	-	(1)	-	(1)	(1)	(2)
Group's share of other comprehensive income of associates, net	-	-	7	-	7	-	7
Total	-	-	22	41	63	37	100
Transactions with shareholders of the Company and holders of non-controlling interests and other changes:							
Revaluation reserve recognized in retained earnings following achievement of control	-	-	(2)	2	-	-	-
Realizations and issue of shares to interested parties with no means of control in consolidated subsidiaries	-	-	41	-	41	70	111
Acquisition of shares from holders of non-controlling interests in subsidiaries	-	-	(3)	-	(3)	(7)	(10)
Cost of share-based payment	-	-	-	-	-	6	6
Dividend paid to holders of non-controlling interests	-	-	-	-	-	(18)	(18)
Dividend distributed	-	-	-	(108)	(108)	-	(108)
Total	-	-	36	(106)	(70)	51	(19)
<u>Balance as at June 30, 2010</u>	<u>1,257</u>	<u>574</u>	<u>450</u>	<u>44</u>	<u>2,325</u>	<u>1,837</u>	<u>4,162</u>

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


CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributed to company shareholders					Non-controlling interests	Total equity
	Share Capital	Premium on shares	Capital Reserves (*)	Retained Earnings (Loss)	Total		
	NIS Millions (Unaudited)						
<u>Balance as at April 1, 2009</u>	1,257	574	71	(39)	1,863	733	2,596
Comprehensive income:							
Net income for the period	-	-	-	104	104	53	157
Net change in fair value of financial assets available for sale, net of tax	-	-	(5)	-	(5)	2	(3)
Actuarial profits in respect of defined benefit plans, net of tax	-	-	-	1	1	-	1
Foreign currency translation differences for foreign operations, net	-	-	(19)	-	(19)	(11)	(30)
Group's share of other comprehensive income (loss) of associates, net	-	-	(15)	1	(14)	-	(14)
Total	-	-	(39)	106	67	44	111
Transactions with shareholders of the Company and holders of non-controlling interests and other changes:							
Revaluation reserve recognized in retained earnings following achievement of control	-	-	(1)	1	-	-	-
Realizations and issue of shares to interested parties with no means of control in consolidated subsidiaries	-	-	-	-	-	2	2
Acquisition of shares from holders of non-controlling interests in subsidiaries	-	-	-	-	-	(10)	(10)
Changes in controlling shareholders' interests in subsidiaries that do not involve loss of control	-	-	-	-	-	(5)**	(5)
Cost of share-based payment	-	-	-	-	-	5	5
Total	-	-	(1)	1	-	(8)	(8)
<u>Balance as at June 30, 2009</u>	1,257	574	31	68	1,930	769**	2,699

***) Retroactive implementation, see note 2a1.

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


CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

	Attributed to company shareholders					Non-controlling interests	Total equity
	Share Capital	Premium on shares	Capital Reserves (*)	Retained Earnings (Loss)	Total		
	NIS Millions (Audited)						
<u>Balance as at January 1, 2009</u>	<u>1,257</u>	<u>574</u>	<u>7</u>	<u>(150)</u>	<u>1,688</u>	<u>726</u>	<u>2,414</u>
Comprehensive income:							
Net income for the period	-	-	-	450	450	117	567
Other comprehensive income (loss):							
Revaluation reserve from business combination, net of tax	-	-	416	-	416	51	467
Impairment of assets recognized against revaluation reserve, net of tax	-	-	(7)	-	(7)	-	(7)
Revaluation reserve due to investment property, net of tax	-	-	1	-	1	-	1
Net change in fair value of financial assets available for sale, net of taxes	-	-	(3)	-	(3)	-	(3)
Actuarial profits in respect of defined benefit plans, net of tax	-	-	-	2	2	1	3
Foreign currency translation differences for foreign operations, net	-	-	1	-	1	(5)	(4)
Loss due to cash flow hedges, net	-	-	(1)	-	(1)	-	(1)
Group's share of other comprehensive income (loss) of associates, net	-	-	(3)	1	(2)	-	(2)
Total	-	-	404	453	857	164	1,021
Transactions with shareholders of the Company and holders of non-controlling interests and other changes:							
Revaluation reserve recognized in retained earnings following achievement of control	-	-	(11)	11	-	-	-
Realizations and issue of shares to interested parties with no means of control in consolidated subsidiaries	-	-	(6)	6	-	21	21
Acquisition of shares from holders of non-controlling interests in subsidiaries	-	-	-	-	-	(22)	(22)
Changes in controlling shareholders' interests in subsidiaries that do not involve loss of control	-	-	-	-	-	(5) **)	(5)
Cost of share-based payment	-	-	-	-	-	21	21
Dividend paid to holders of non-controlling interests	-	-	-	-	-	(81)	(81)
Dividend distributed	-	-	-	(120)	(120)	-	(120)
Acquisition of newly-consolidated subsidiaries	-	-	-	-	-	984	984
Total	-	-	(17)	(103)	(120)	918	798
<u>Balance as at December 31, 2009</u>	<u>1,257</u>	<u>574</u>	<u>394</u>	<u>200</u>	<u>2,425</u>	<u>1,808**)</u>	<u>4,233</u>

**) Retroactive implementation, see note 2a1.

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


 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

 (*) Composition of capital reserves:

	As at June 30		As at
	2010	2009	December
	Unaudited		31
	NIS Millions		2009
			Audited
Transactions with Interested Parties	6	6	6
Revaluation of investment following achievement of control	411	25	421
Hedging of cash flows	(1)	1	-
Available-for-sale financial assets	10	19	7
Translation differences of financial statements of foreign operations	(35)	(20)	(41)
Revaluation reserve in respect of investment property	1	-	1
Reserve in respect of changes in ownership interests in subsidiaries that do not involve loss of control	58	-	-
	<u>450</u>	<u>31</u>	<u>394</u>

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



Consolidated Statements of Cash Flows

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS Millions				
Cash Flows from Operating Activities					
Net Income	159	289	58	157	567
Adjustments required to reflect cash flows from operating activities:					
Adjustments to statement of income items:					
Gain from changes in fair value of derivatives, net	(5)	(37)	(5)	(9)	(72)
Depreciation and amortization in respect of fixed assets and intangible assets	169	141	85	67	305
Loss (profit) on disposal and impairment of investments and assets, net	(29)	(101)	1	(74)	(123)
Taxes on Income	68	81	29	59	100
Recognition of negative goodwill in statement of income	-	-	-	-	(144)
Income tax paid, net	(78)	(76)	(47)	(45)	(136)
Financial expenses, net	106	9	79	50	133
Company's share in earnings of associated companies, net	(52)	(28)	(31)	(13)	(45)
Proceeds from disposal of derivatives	2	1	1	1	6
Change in fair value of investment property, net	(5)	(1)	-	(1)	(4)
Dividend received from associates	76	23	37	23	40
Cost of share-based payment	13	10	6	5	21
Change in liabilities on account of employee benefits, net	(8)	(7)	(4)	(11)	(13)
	257	15	151	52	68
Changes in asset and liability items:					
Decrease (increase) in accounts and trade receivables	(82)	4	31	(51)	23
Decrease (increase) in inventories and inventory of land, net	(50)	156	(36)	75	206
Increase (decrease) in accounts and trade payables	112	(93)	(14)	(1)	(107)
	(20)	67	(19)	23	122
Total adjustments to reconcile the cash flows from operating activities	237	82	132	75	190
Net cash provided by operating activities	396	371	190	232	757
Cash Flows from Investing Activities					
Acquisition of fixed assets and intangible assets	(214)	(135)	(89)	(68)	(315)
Acquisition of investment property	(1)	(1)	(1)	(1)	(3)
Acquisition of companies consolidated for the first time, net of acquired cash (a)	(24)	(15)	(24)	(15)	(189)
Acquisition of associates	(6)	(13)	(5)	(11)	(136)
Acquisition of financial assets available for sale	(19)	(1)	(17)	(1)	(1)
Proceeds from disposal of financial assets available for sale	1	7	-	19	20
Proceeds from realization of fixed assets	10	32	5	6	49
Proceeds from disposal of investments in associates	32	1	-	1	12
Proceeds from disposal (acquisition) of held-for-trade securities, net	(35)	85	21	42	5
Provision of loans and other long-term credit	(3)	-	(2)	-	(63)
Collection of loans and other long-term credit	23	-	23	-	14
Interest received	6	11	1	8	20
Bank deposits, net	-	(57)	-	(24)	(6)
Investment in derivative financial instruments	(3)	-	(3)	-	-
Net cash used in investing activities	(233)	(86)	(91)	(44)	(593)

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


CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS Millions				
Cash Flows from Financing Activities					
Issue of capital to holders of non-controlling interests in subsidiaries	80	31	40	25	107
Dividend distributed to company shareholders	(288)	-	(288)	-	(120)
Proceeds from disposal of derivatives, net	-	4	(1)	4	25
Interest paid	(177)	(160)	(82)	(72)	(197)
Dividend paid to holders of non-controlling interests	(106)	(27)	(68)	-	(81)
Acquisition of non-controlling interests in subsidiaries	(17)	(15) *	(10)	(9) *	(22) *
Receipt of loans and other long-term liabilities	603	313	465	281	706
Repayment of loans and other long-term liabilities	(428)	(382)	(219)	(202)	(579)
Short-term credit from banks and other service providers, net	(58)	1	(1)	(9)	(79)
Net cash provided by (used in) financing activities	(391)	(235)	(164)	18	(240)
Effect of exchange rate fluctuations on cash balances, net	(1)	22	8	(52)	11
Increase (Decrease) in Cash and Cash Equivalents	(229)	72	(57)	154	(65)
Cash and Cash Equivalents at Beginning of Period	1,234	1,299	1,062	1,217	1,299
Balance of cash and cash equivalents at end of period **)	1,005	1,371	1,005	1,371	1,234
**)	Presented in the statement of financial position as follows:				
Cash and cash equivalents	1,012	1,371	1,012	1,371	1,239
Overdrafts (in credit from banks)	(7)	-	(7)	-	(5)
	1,005	1,371	1,005	1,371	1,234
a. Acquisition of subsidiaries consolidated for the first time, net of cash acquired:					
Assets and liabilities of subsidiaries as of the acquisition date:					
Working capital, except for cash and cash equivalents	2	1	2	1	37
Fixed assets and prepaid expenses in respect of an operating lease	-	-	-	-	(1,274)
Intangible Assets	-	(16)	-	(16)	(503)
Other non-current assets	(36)	-	(36)	-	(114)
Long-Term Liabilities	-	-	-	-	835
Revaluation reserve due to business combination	-	-	-	-	467
Non-controlling interests	67	-	67	-	984
Recognition of negative goodwill in statement of income	-	-	-	-	144
Investment in associated companies	(57)	-	(57)	-	(765)
	(24)	(15)	(24)	(15)	(189)

*) Reclassified, see note 2a1, below.


CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	NIS Millions				
B. Significant non-cash transactions					
Acquisition of fixed assets on credit	5	-	-	-	11
Transfer of inventories to fixed assets	6	-	4	-	15
Conversion of option granted under technology acquisition agreement, in installments	-	7	-	-	23
Land swap	-	23	-	8	8
Reclassification from fixed assets to investment property	-	8	-	-	9
Reclassification from prepaid expenses to investment property	-	-	-	-	1
Conversion of options to shares in an associate	-	-	-	-	29
Acquisition of asset against the allocation of shares and options	67	-	67	-	-
Conversion of options for investment in a financial asset available for sale	2	-	2	-	-

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

**Note 1: General**

- a. Clal Industries and Investments Ltd. (hereinafter – "the Company") is a publicly-traded company, incorporated in Israel, whose shares are traded on the Tel Aviv Stock Exchange.

The Company is a holding company whose principal subsidiaries are primarily engaged in traditional industry, commerce and technology.

The Company is controlled by IDB Development Ltd., which is wholly owned by IDB Holdings Ltd.

- b. These financial statements have been prepared in a condensed format as at June 30, 2010, and for the six- and three-month periods then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as at December 31, 2009 and for the year then ended (hereinafter: "annual financial statements").

Note 2: Significant Accounting Policies

- a. 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 International Accounting Standard No. 34 - "Interim Financial Reporting", as well as in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and calculation methods that were implemented in the formulation of the interim consolidated financial statements are identical to those that were implemented in the formulation of the annual financial statements, except for the following.

1. IFRS 3 (revised) – "Business Combinations", IAS 27 (revised) "Consolidated and Separate Financial Statements" and IAS 28 (Revised) "Investments in Associates"

Under the new standards:

- The definition of the business was expanded to also include activities and assets that are not managed as a business, as long as the seller may operate them as a business.
- A choice is allowed on a transaction-by-transaction basis for the measurement of non-controlling interests, and consequently, goodwill, either at full fair value or at the non-controlling interests' proportionate share of the fair value of the identifiable net assets of the acquiree at the acquisition date.
- Contingent consideration in business combinations is measured at fair value. Changes in fair value of the contingent consideration, which do not constitute adjustments to cost of acquisition in the measuring period, are not recognized as goodwill adjustment. In cases where the contingent consideration constitutes a financial derivative in the scope of IAS 39, it is measured at fair value and changes are recognized in profit or loss.
- Direct acquisition costs attributed to a business combination are recognized in profit or loss as incurred.
- The adjusted balance of a deferred tax asset for temporary differences that were acquired and that do not comply with recognition requirements at the acquisition date, are recognized in profit or loss and not as adjusted goodwill.

**Note 2:** Significant Accounting Policies (continued):

- The losses of a subsidiary, even if they result in a deficit in the equity of the subsidiary, are allocated between the parent company and the non-controlling interests, even if the holders of non-controlling interests are not a guarantor or do not have a contractual liability to support the subsidiary or to make further investments.
- At the date of the loss or achievement of control in a subsidiary, the balance of the holding, if any, is revalued at fair value against profit or loss from the sale. This fair value will serve as the basis for its cost for subsequent accounting.
- A transaction with non-controlling interests, whether a sale or an acquisition, is accounted for as an equity transaction. Therefore, acquisition of non-controlling interests by the Group is recorded against a decrease in capital (capital reserve from transactions with non-controlling interests), calculated as the difference between the consideration paid by the Group and the amount of the part acquired in the non-controlling interests which is derecognized on the acquisition date. When this difference is negative, an increase in capital (capital reserve from transactions with non-controlling interests) is recognized in the amount of this difference. When disposing of the holding in a subsidiary that does not involve loss of control, an increase or decrease in capital (capital reserve from transactions with holders of non-controlling interests) is recognized in the amount of the difference between the consideration received by the Group and the balance in the financial statements of the non-controlling interests in the subsidiary, which were added to the equity of the Company, taking into account the realization of goodwill on account of the subsidiary - if any, and the use of capital reserves from other comprehensive income (loss), including any translation differences - if any, according to the decrease in the rate of holding in the subsidiary.

Losses are attributed to non-controlling interests even if as a result, the balance of non-controlling interests in the consolidated balance sheets is negative.
- At the acquisition date, the assets and liabilities are reclassified and redesignated according to the contractual, financial and other relevant terms in force at the acquisition date, except for leases and insurance contracts.
- In a business combination conducted in stages, the equity rights in the acquiree prior to acquisition of control are measured at fair value at the acquisition date and are included in the acquisition consideration. Profit or loss is recognized at fair value, including the disposal of amounts recognized in other comprehensive income.
- At the date of the loss of significant influence, the balance of the holdings, if any, is revalued at fair value against profit or loss from the sale. The balance of investment will be treated from that date in accordance with the provisions of IAS 39.
- Transactions with holders of non-controlling interests are accounted for, retroactively, in the statements of cash flows as a financing activity, rather than being classified, in some cases, as investment activity.

The standards are applied prospectively as of January 1, 2010. As a result of implementing the standards:

- A. As a result of transactions with holders of non-controlling interests during the reporting period, a sum of NIS 58 million was shown as an increase in equity attributed to shareholders of the Company rather than recognized in the statement of income.
- B. A subsidiary reclassified a sum of NIS 5 million from long-term loans to non-controlling interests in the comparative numbers as of December 31, 2009.

**Note 2: Significant Accounting Policies (continued):**

- C. A sum of NIS 15 million, NIS 9 million and NIS 22 million were respectively reclassified from cash flows from investment activities for periods of six months and three months ended on June 30, 2009 and for the year ended December 31, 2009, to cash flows from financing activities.
- D. As a result of presenting Nova Measurement Instruments Ltd. during the reported period as an available-for-sale financial asset, a sum of NIS 29 million was recognized in the statement of income in the first quarter of 2010. See note 3a5, below.

2. IAS 1 - Presentation of Financial Statements

In accordance with the amendment, it is possible to present the change between the opening balance and the closing balance on account of every component of other comprehensive income in the statement of changes in equity or as part of the notes to the annual financial statements. Accordingly, the company presents the said details in the statement of changes in equity.

3. IAS 17 - Leases

The amendment to IAS 17 eliminates specific guidance regarding classification of leases of land as operating or finance. As a result, leases of land are no longer classified as an operating lease in cases where the title is not expected to pass to the lessee at the end of the lease term. Classification of a lease as operating or finance is based on the general instructions in IAS 17 when signing the original agreement with the Israel Land Administration, taking account of the fact that land normally has an indefinite economic life span.

The Amendment is applied to annual accounting periods commencing January 1, 2010.

The Amendment is retroactively implemented for existing leases when the information is available when signing the lease. When the required information is not available, land leases will be re-examined on the date of adoption of the amendment.

The Group has lands that were leased from the Israel Land Administration and leasing fees in respect thereof were paid in full. As a result of the Amendment, amounts paid in respect of the above leases, and presented in previous financial statements under "prepaid expenses and rights in respect of an operating lease" are now presented under property, plant and equipment that continued to be depreciated over the term of the lease, which includes the option for extension. In addition, the Group did not recognize an asset and liability for future payments when exercising the option to extend the lease, as these payments will be based on the fair value of the land at the future exercise date and constitute contingent lease payment which, under IAS 17, are not taken into account.


Note 2: Significant Accounting Policies (continued):

Below is the effect of retroactive implementation on the statement of financial position in prior periods:

	Presented in the past	The change NIS Millions	Presented after the change
<u>As of June 30, 2009 (unaudited)</u>			
Prepaid expenses and rights in respect of an operating lease	35 (*)	(35)	-
Fixed assets, net	2,188	35	2,223
<u>As of December 31, 2009 (audited)</u>			
Prepaid expenses and rights in respect of an operating lease	171 (*)	(104)	67
Fixed assets, net	3,347	104	3,451

The retroactive implementation of the amendment did not have any impact on the Company's financial results and equity.

(*) Reclassified - See C, below.

4. IFRS 5 - Non-current assets held for sale and discontinued operations

Pursuant to the amendment to IFRS 5, when a parent company decides to realize part of its holdings in a consolidated subsidiary insofar as after the realization, the parent company will remain with holdings that do not provide control, for example rights that provide a material influence, all the assets and liabilities attributed to the consolidated company will be classified as held for sale and the relevant directives of IFRS 5 will apply, including the presentation as a discontinued operation. Moreover, an additional amendment clarifies the disclosure that is necessary for non-current assets (or realization groups) classified as held for sale or as discontinued operations. Pursuant to the amendment, it is necessary only to provide the necessary disclosure according to IFRS 5. The disclosure requirements that appear in other IFRS standards will apply to these assets only if they relate specifically to those same non-current assets or the same realization groups.

The amendment is effective prospectively from January 1, 2010. The implementation of the standard did not have a material impact on the consolidated interim financial statements.

5. IFRIC 17 - Distributions of Non-cash Assets to Owners

IFRIC 17 provides guidelines for accounting of distribution of non-cash assets to owners, without controlling shareholders, including property, plant and equipment, a business as defined in IFRS 3 and ownership rights in another company.

According to the clarification, liability on account of the distribution will be recognized when ratified by the relevant authority at the company. The liability would be measured according to the fair value of the transferred assets and will be charged directly to equity in the retained earnings. At every balance sheet date, until the full amortization of the asset, the liability will be measured according to the fair value of the asset, with changes in the fair value being charged to the retained earnings. Upon full amortization of the asset, profit or loss is recognized in the statement of income at the level of the difference between the sum of the liability and the outstanding balance of the asset in

**Note 2:** Significant Accounting Policies (continued):

the financial statements as at the date of full amortization. Moreover, the application of IFRS 5 as expanded to include the distribution of non-cash assets to owners.

The interpretation is effective prospectively as from January 1, 2010. The implementation of the interpretation did not have a material impact on the consolidated interim financial statements.

b. Adoption of new IFRS standards in the period prior to their implementation**1. IFRS 3 – Business Combinations**

The amendments to IFRS 3 deal with the following issues:

Measurement of non-controlling interests

The amendment limits the cases where there exists a possibility to select the manner of measurement of non-controlling interests according to their fair value on the acquisition date or according to their relative share in the net identified assets of the acquired entity. According to the amendment, this possibility exists only for types of non-controlling interests that grant their owners ownership rights and the right to obtain a relative share (pro rata) of the net assets of the acquired company in case of liquidation (usually shares). By comparison, other types of non-controlling interests (such as options that are equity instruments in the acquired company) do not possess this possibility to select and must therefore be measured according to fair value at the date of acquisition, except for cases where other forms of measurements are required according to other IFRS standards, such as IFRS 2. The amendment will be implemented starting with the financial statements for periods beginning January 1, 2011. The amendment will be implemented retroactively from the date when IFRS 3 (Amended) was first implemented. Early adoption is permitted.

Share-based payment bonuses as part of business combinations

The amendment outlines the requirements for accounting treatment as part of business combinations that relate to the replacement of share-based payment transactions of the acquired company (whether it is obligated or chooses to replace them) with the share-based payment transactions of the acquiring company. Accordingly, the acquiring company must attribute a sum to the proceeds from the transaction on the date of acquisition and a sum as an expenditure during the period subsequent to the date of acquisition. However, if as a result of the business combination, the bonus expires and is replaced by a new bonus, then the value of the new bonus according to IFRS 2, shall be recognized as an expenditure in the period subsequent to the date of acquisition and shall not be included in the proceeds from the acquisition. Moreover, if share-based payment bonuses are not replaced, then in the event that the instruments have vested, they constitute part of the non-controlling interests and are measured in accordance with the instructions of IFRS 2. If the instruments have not vested, they are measured according to the value that would have served in the event that they would have been granted anew at the date of acquisition, with this sum being allocated between the non-controlling interests and the expenditure subsequent to the date of acquisition. The amendment will be implemented starting with the financial statements for periods beginning January 1, 2011. The amendment will be implemented retroactively from the date when IFRS 3 was first implemented. Early adoption is permitted.

The Company is examining the effect of the amendment on the financial statements, however at this stage, it is unable to assess its results.

**Note 2:** Significant Accounting Policies (continued):2. 7 IFRS - Financial Instruments: Disclosure

The amendment to IFRS 7 clarifies the disclosure requirements presented in the standard. The amendment emphasizes the connection between the quantitative and qualitative disclosures, as well as the nature and scope of the risks derived from financial instruments. The disclosure requirements regarding securities held by the company have been reduced, while the disclosure requirements regarding credit risks have been amended. The amendment will be implemented retroactively starting with the financial statements for periods beginning January 1, 2011. Early adoption is permitted.

The required disclosures will be included in the financial statements of the company.

3. IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments, was published in November 2009 and will eventually be a complete replacement for IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 focuses primarily on the recognition and measurement of financial assets and it applies to all of the financial assets that are subject to IAS 39.

The standard stipulates that upon initial recognition, all financial assets (including combined instruments where the host contract is a financial asset) are to be measured at fair value. In subsequent periods debt instruments are to be measured at depreciated cost, following cumulative conditions exist:

- The asset is held within the framework of a business model intended to hold assets in order to collect the contractual cash flows derived therefrom.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the differences will be recognized in profit or loss or in other comprehensive income (loss), in accordance with the Company's selection on an instrument-by-instrument basis. If the equity instruments are held for trading purposes, they must be measured at fair value through profit or loss. The selection is final and may not be changed. However, when a company modifies its business model in terms of the management of its financial assets, it must reclassify all of the financial instruments that are affected by the change in the business model, so as to reflect this change. Under all other circumstances, the financial assets must not be reclassified.

The standard is effective from 1 January 2013, with early adoption permitted. Initial adoption will be made retroactively, while restating the comparison figures, subject to the alleviations stated in the standard.

The Company is examining the possible effect of the new Standard on its consolidated financial statements but is currently unable to assess such effects, if any.

4. IAS 34 – Financial Reporting for Interim Periods

In accordance with the amendment to IAS 34, additional disclosure requirements in the financial statements were determined regarding the circumstances that were likely to affect the fair value of financial instruments and their classification, transfer of financial instruments between various levels of the fair value ratings, changes in the classification of financial assets and changes in contingent liabilities and contingent assets. The amendment will be implemented retroactively


Note 2: Significant Accounting Policies (continued):

starting with the financial statements for periods beginning January 1, 2011. Early adoption is permitted.

The required disclosures will be included the financial statements of the company.

5. IFRIC 19 - Extinguishing financial liabilities with equity instruments

IFRIC 19 (hereinafter: the clarification) was published in November 2009 and determines the accounting treatment of transactions where financial liabilities are extinguished by the issuing of equity instruments. According to the clarification, equity instruments that were issued in order to replace debt will be measured according to the fair value of the equity instruments issued, if these can be reliably estimated. In the event that it is not possible to reliably estimate the fair value of the equity instruments that were issued, to be necessary to measure the equity instruments according to fair value of the financial liability that was settled at the date it was settled. The difference between the balance in the financial statements of the financial liability being settled and the fair value of the equity instruments that were issued is recognized as a profit for loss.

The clarification is to be implemented on annual periods commencing January 1, 2011 and thereafter. Early adoption is permitted.

C. A subsidiary reclassified NIS 20 million from "prepaid expenses and rights in respect of an operating lease" to "intangible assets, net", for the dates June 30, 2009 and December 31, 2009.

D. The following are data pertaining to the Consumer Price Index and the exchange rate of the US dollar:

	Consumer Price Index	Known Israeli CPI	Exchange Rate of US\$ 1
	Points *)		NIS
As at:			
June 30, 2010	123.4	123.0	3.875
June 30, 2009	120.5	119.4	3.919
December 31, 2009	122.6	122.6	3.775
	%	%	%
Rate of change during period of:			
Six months ended on:			
June 30, 2010	0.7	0.4	2.6
June 30, 2009	2.1	1.2	3.1
Three months ended on:			
June 30, 2010	1.5	1.3	4.4
June 30, 2009	2.3	1.9	(6.4)
Year ended December 31, 2009	3.9	3.8	(0.1)

*) Average index 2000 = 100 points.

**Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD**a. Main changes in investments during the reporting period1. Maman Cargo Terminals and Handling Ltd. (hereinafter – "Maman")

In February 2010, Maman, which is 76.8% held by Taavura Holdings Ltd. (which is indirectly held by the Company at a rate of 37.5%) entered into a framework agreement (hereinafter - "the framework agreement") with El Al Israel Airlines Ltd. (hereinafter - "El Al"), a major customer of Maman's cargo terminal operation, whereby Maman will grant El Al, during the term of the framework agreement, rebates on the prices charged before the signing of the agreement with respect to terminal services provided for El Al's cargo in the cargo terminal. Pursuant to the framework agreement, Maman has undertaken to allocate to El Al, subject to obtaining the requisite approvals, shares of Maman, which will be allocated in tranches, at a cumulative rate of up to 15% of the fully-diluted issued share capital of Maman, as well as non-marketable options to acquire shares of Maman, approximating 10% of the fully-diluted issued share capital of Maman, and exercisable, under varying conditions, over the course of six years.

On February 18, 2010, Maman received a letter from the Anti-Trust Authority. In the letter, the Anti-Trust Authority expressed its position that the arrangement included in the framework agreement, could allegedly constitute a "binding arrangement" pursuant to Section 2 of the Antitrust Law, 1988 (hereinafter - "the Law"), and could constitute an abuse of monopoly power under Section 29A of the Law.

The Antitrust Authority has therefore suggested that Maman and El Al would, at this stage, refrain from acting in accordance with the agreement and, inter alia, refrain from allocating the shares and granting discounts pursuant to the arrangement, until the legality of the arrangement has been asserted.

Pursuant to the receipt of the letter, Maman, in agreement with El Al, has delayed the allocation of the securities and the rebates to El Al, by virtue of the agreement.

See also Note 32a to the annual financial statements.

2. Hadera Paper Ltd. (hereinafter – "Hadera Paper")a. Pro forma information

Set forth below is the condensed pro forma statements of income, which were prepared to retroactively reflect the operating results of the Group, assuming that the business combination of Hadera Paper, as stated in note 11h2 of the annual financial statements, took place in the earliest period included in the financial statements.

The pro forma statements of income were prepared according to the principles and assumptions outlined below:

1. The data of the pro forma statements of income are based on the consolidation of the Group's consolidated statements of income and Hadera Papers' statements of income which were drawn up for the periods preceding the actual date of the business combination. The results of the Company's investment in Hadera Paper, which were previously accounted for by the equity method, were deducted from the Company's income statements.
2. The minority interest in the results of Hadera Paper was determined on the basis of its holdings in Hadera Paper subsequent to the business combination date (approximately 41%).

**Note 3:** MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):

3. The amount of acquisition was attributed to the net identifiable assets and liabilities of Hadera Paper, as described in note 11h(2)(b) of the annual financial statements. The consolidated pro forma statements of income include the amortization of the amount of acquisition attributable to the assets and liabilities as stated above commencing from the earliest period included in the financial statements (in accordance with the rates set forth above). The earnings in the amount of NIS 113 million, deriving from Hadera Paper's business combination, as stated in note 11h(2)(a) to the annual financial statements, were not included in the operating results of the pro forma reporting periods.
4. Financing income in the relevant years were reduced by the amount of the average interest that the Company received on shekel bank deposits in respect of the cash used to acquire the shares (NIS 246 million).

**Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):**

The condensed consolidated pro forma statements of comprehensive income are as follows:

	For the six-month period ended June 30 2009	For the three- month period ended June 30 2009	For the year ended December 31 2009
	Unaudited		Audited
	NIS millions (except for net profit per share data)		
<u>Revenues</u>			
Sales and services	2,401	1,206	4,831
Group's share in earnings of associates, net	38	21	74
Gain on disposal of investments and assets	104	75	166
Other Income	61	18	137
Financial Revenues	142	40	204
	2,746	1,360	5,412
<u>Expenditures</u>			
Cost of Sales and Services	1,722	819	3,447
Selling and Marketing Expenses	239	118	488
General & Administrative Expenses	223	109	442
Loss on disposal and impairment of investments and assets	3	1	43
Other expenses	17	4	48
Financial Expenses	157	94	344
	2,361	1,145	4,812
Income before taxes on income	385	215	600
Taxes on Income	85	53	99
Net Income	300	162	501
<u>Attributed to:</u>			
Shareholders of the Company	212	105	351
Non-controlling interests	88	57	150
	300	162	501
<u>Net earnings per share attributable to company shareholders (in NIS):</u>			
Basic net earnings	1.35	0.67	2.23
Diluted net earnings	1.25	0.64	2.12


Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):

The condensed consolidated pro forma statements of comprehensive income are as follows:

	For the six-month period ended June 30 2009	For the three-month period ended June 30 2009	For the year ended December 31 2009
	Unaudited		Audited
	NIS Millions		
Net Income	300	162	501
Other comprehensive income:			
Revaluation reserve from business combination, net of tax	-	-	155
Revaluation reserve due to investment property, net of tax	-	-	1
Net change in fair value of financial assets available for sale, net of tax	8	(3)	(3)
Actuarial profits in respect of defined benefit plans, net of tax	2	1	3
Foreign currency translation differences for foreign operations, net	24	(30)	(4)
Profit in respect of cash flow hedging, net	5	-	4
Group's share in other comprehensive loss of associates, net	10	(13)	(2)
Other comprehensive income, net	49	(45)	154
Total comprehensive income	349	117	655
Attributed to:			
Shareholders of the Company	245	69	456
Non-controlling interests	104	48	199
	349	117	655

b. Fixed Assets

In light of the existence of indications in the first quarter of 2010, regarding the impairment of the packaging paper cash-generating unit, Hadera Paper estimated the fair value of the fixed asset items that are included under the packaging paper sector, as at March 31, 2010, based on assessment reports. In this capacity, Hadera Paper found that the fair value of the fixed assets, net of the selling costs, is higher than the book value and in accordance with IAS 36, no recognition is necessary of a loss on account of the impairment of the fixed assets. See also Note 11h(2)(c) to the annual financial statements.

Below are detailed concerning the assessment:

The carrying value of the machine in the books of Hadera Paper plus projected completion and initial operation costs as of March 31, 2010, is expected to amount to NIS 580 million while the value of the machine based on the valuation as of March 31, 2010, amounts to NIS 770 million. The value of machinery and equipment is determined by an appraiser who specializes in this area, and whose valuation is based on the comparative analysis method by comparing technical

**Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):**

data/costs involved in the establishment of similar paper manufacturing projects to those of the machinery in the valuation. For the purpose of comparison, the appraiser used the set-up costs of two similar machines (with the necessary adjustments) and a price bid for a new machine. In order to determine the fair value the appraiser weighted the above prices.

3. Golf

During the first quarter of 2010, as a result of exercising Series 2 options of Golf, the Company recorded an increase of NIS 15 million in equity attributable to the shareholders of the Company. As a result of the exercise of the said options, the holdings in Golf decreased to 64%.

4. Clal Biotechnology Industries (hereinafter – "CBI")**a. Biomedical Investments (1997) Ltd. (hereinafter – "Biomedical")**

1. In February 2010, CBI entered into a share acquisition and swap agreement with Av-Ar Equity Investments 1997 Ltd. (hereinafter: "Av-Ar") and the shareholders of Av-Ar at the time, held in equal stakes by Arison Investments Ltd., Abramson Group and Teva Pharmaceutical Industries Ltd. (hereinafter: "Teva"). The transaction was finalized in April 2010. Pursuant to the agreement, CBI acquired 100% of the share capital of Biomedical in consideration for a cash payment of NIS 28 million, the allotment of 3,000,000 ordinary shares of CBI, which constituted, immediately after their allotment, 2.57% of the share capital of CBI on a fully diluted basis (hereinafter: "the allotted shares") and the allotment of a non-marketable option for the acquisition of 1,250,000 ordinary shares of CBI, at terms similar to those of the Series 3 options of CBI, that are traded on the stock exchange. The allotted shares and option will constitute, immediately subsequent to the allotment, 3.64% of the share capital of CBI on a fully diluted basis.

The economic value of the consideration in the said transaction, based on the value of the securities allotted on the date of completion of the transaction and the fact that the said securities are restricted for trading (in accordance with the Securities Law), is NIS 95 million.

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

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

a. Gamida Cell Ltd. (hereinafter: "Gamida Cell")

Gamida Cell is a leader in the development of stem cell therapy technologies and products. The therapies are based on expanded populations of cord blood stem cells. Gamida Cell's flagship product, StemEx®, is currently being studied as a treatment for hematological malignancies or blood cancers including leukemia and lymphoma in open, global, pivotal Phase II/III clinical trials. StemEx is developed under a joint venture, held in equal shares, between Gamida Cell and Teva, in the name of "Gamida Cell-Teva Joint Venture Ltd.". Biomedical holds 19.8% of the issued and paid-up share capital of Gamida Cell (17.0% fully diluted).


Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):
b. Transpharma Medical Ltd. (hereinafter: "Transpharma")

Transpharma is a specialty pharmaceutical company focused on the development and commercialization of drug products utilizing a proprietary active transdermal drug delivery technology. Biomedical holds 6.0% of the issued and paid-up share capital of Transpharma (5.6% fully diluted).

c. BioControl Medical (BCM) Ltd. (hereinafter: "BioControl")

BioControl is currently focused on the clinical development of the CardioFit™ System, intended to effectively treat congestive heart failure (CHF) via vagus nerve stimulation. Biomedical holds approximately 3% of the issued and outstanding share capital of Medimpulse Holding Ltd.(hereinafter: "Medimpulse"), that holds all of the rights to BioControl.

2. CBI has engaged with an independent assessor in order to estimate the fair value of the assets and liabilities of Biomedical as at the date of finalization of the transaction, as well as the fair value of the assets (including intangible assets) and liabilities of Gamida Cell, an associated company, as at the date of finalization of the transaction and the estimated useful life span of these assets.
3. The Biomedical acquisition transaction does not constitute a business combination, since CBI did not receive any business operations as part of the transaction. CBI actually acquired the assets and liabilities of Biomedical as at the date of finalization of the transaction - holdings in shares of companies active in the life sciences and biotechnology sector, as well as cash and cash equivalent balances and receivables and payables balances in immaterial sums - and is managing them, starting with the date of finalization of the transaction, as part of the CBI portfolio. The investments in the shares of the said companies were recognized on the basis of their relative fair value at the date of acquisition.
4. The assets and liabilities, as at the date of finalization of the transaction (April 13, 2010), are as follows:

	Fair value NIS Millions <u>(Unaudited)</u>
Current assets:	
Cash and cash equivalents	4
Non-current assets	
Associated company, see (6), below	57
Financial assets available for sale	20
Financial assets at fair value through the statement of income	16
Current Liabilities:	
Other accounts payable	<u>(2)</u>
Net assets acquired	<u><u>95</u></u>


Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):

5. Cash flows on account of the transaction, are as follows:

	NIS Millions (Unaudited)
Proceeds paid in cash upon acquisition	(28)
Cash and cash equivalents at subsidiary	4
Cash flows on account of the acquisition	<u>(24)</u>

6. The CBI share in the fair value of the principal assets and liabilities that were identified at Gamida Cell, as at the date of finalization of the transaction (April 13, 2010), is as follows:

	NIS Millions (Unaudited)
Intangible assets (primarily in-process R&D assets) *)	71
Liabilities on account of the R&D assets	(22)
Other assets, net	8
Total	<u>57</u>

*) The R&D assets will be amortized starting with the date of the initial sales of the products and until the termination of the patent period.

b. Andromeda Biotech Ltd. (hereinafter: "Andromeda")

In February 2010, CBI invested \$2.6 million in Andromeda. In April 2010, Teva invested a sum of \$1.9 million in Andromeda, thereby completing the initial investment as detailed in Note 11h(4)(a) to the annual financial statements.

In June 2010, Teva exercised its second option to invest in Andromeda. In accordance with the terms of the agreement from February 2008, as part of the exercise of the second option, Teva and CBI will invest a total sum of \$17.5 million in Andromeda, according to a company value of \$170 million for Andromeda (before the money). The CBI share in the second investment totals \$5.6 million. Subsequent to the completion of the second investment, the CBI holding percentage in Andromeda has decreased to 84%. In June 2010, Teva transferred the first payment, totaling \$4.8 million, to Andromeda, as an advance against the exercise of the second option.

As a result of the investment made by the parties in Andromeda and the decrease in the holding percentage of CBI in this company, the company recorded an increase of NIS 16 million in the second quarter of 2010, in the equity attributed to the shareholders of the company, carried to a capital surplus.

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

In May 2010, CBI exercised 900,000 options (series 1) of D-Pharm, a subsidiary in which 47% are held by CBI (51% fully diluted), in consideration for a total exercise price of approximately NIS 16 million.

In close proximity after the aforementioned exercise, CBI entered into an off-exchange agreement with a third party, to sell 600,000 ordinary shares of D-Pharm and 150,000 option warrants

**Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):**

(Series 1) of D-Pharm for a total consideration of approximately NIS 14 million.

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

Due to the fact that even after the decrease in the holding rate of CBI in D-Pharm to below 50%, CBI has retained the ability to direct the D-Pharm operations, to determine the financial and operational policy of D-Pharm and consequently, CBI continues to consolidate the D-Pharm financial statements, even subsequent to having conducted the said transactions. As a result of conducting the transactions and the decrease in the holding rate of the company in D-Pharm, the company recorded a decrease in the equity attributed to the shareholders of the company, in the sum of NIS 1 million, attributed to capital surplus.

d. Mediwound Ltd. (hereinafter: "Mediwound")

In June 2010, Mediowound (a company in which CBI holds 56%) signed non-committing memoranda of understanding with PolyHeal (a company in which CBI holds 41%) and with Teva, stipulating that the parties will collaborate in the area of wound healing, in the development, manufacture and marketing of the innovative products of Mediowound and PolyHeal.

The following are the main points of the agreement:

1. Mediowound would acquire an exclusive license to manufacture and develop PolyHeal products. In parallel, Teva will acquire the global exclusive license to commercialize the PolyHeal products.
2. Teva will finance the continued development of the PolyHeal products.
3. At the initial closing date, Teva will invest approximately \$7 million in Mediowound, according to a value of approximately \$200 million for Mediowound, before the money. Additionally, Teva will invest approximately \$65 million in Mediowound, subject upon meeting agreed-upon objectives (related to the progress of the PolyHeal products), according to a value ranging between \$200 million and \$300 million for Mediowound, before the money. The failure to make any of the above mentioned investments will lead to the cancellation of Teva's license for the PolyHeal products.
4. Moreover, Teva will pay Mediowound a sum of up to \$145 million, contingent upon the sales volumes of the PolyHeal products. Agreed upon royalties will be added to these sums.
5. Mediowound will acquire, at the initial closing date, from the PolyHeal shareholders, shares of PolyHeal in the total sum of \$7 million, according to a value of \$90 million for PolyHeal. Moreover, Mediowound will acquire from the PolyHeal shareholders, shares of PolyHeal in the sum of \$193 million, subject to meeting agreed-upon objectives related to the progress of PolyHeal products, according to a value ranging between \$90 million and \$270 million for PolyHeal. Additionally, Mediowound will pay to the PolyHeal shareholders, additional payments on the basis of the sale of PolyHeal products. The share of the company in the said payments under this section is approximately 40%.
6. Teva will acquire, at the initial closing date, from the Mediowound shareholders, shares of Mediowound in the total sum of \$5 million, according to a value of \$200 million for Mediowound. Additionally, Teva will acquire from the Mediowound shareholders, shares of Mediowound in the total sum of \$22 million and \$64 million, at

**Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):**

the date of approval of marketing of the Mediwound product in Europe and in the United States, respectively, according to a value of \$271 million and \$593 million for Mediwound, respectively.

These payments will be made in the event that Teva decides to expand the Teva license for Mediwound products in Europe and in the United States, respectively. The share of the company in the said payments under this section is approximately 57%. The contents of this section represent an amendment of the terms of the European and American options that were granted to Teva within the framework of the investment agreement date June 2007. See also Note 11h(4)c to the annual financial statements.

Upon the initial closing date, the Teva holdings in Mediwound will increase from approximately 12% to approximately 17%. In the event that all of the investments and acquisitions mentioned above are conducted, the Teva holdings Mediwound will increase to reach 51% of the issued share capital of Mediwound, while Mediwound will hold all of the share capital of PolyHeal.

At the initial closing date, the company will receive approximately \$6 million and will hold approximately 52% of the issued share capital of Mediwound (46% fully diluted) and approximately 38% of the issued share capital of PolyHeal (37% fully diluted), while Mediwound will hold approximately 7.5% of the issued share capital of PolyHeal (approximately 7% fully diluted). Upon completion of all of the stages outlined above, the company will hold approximately 29% of the issued share capital of Mediwound (28% fully diluted).

The completion of the transaction is contingent upon, inter alia, the signing of binding agreements by the parties and the shareholders of Mediwound and PolyHeal and is also contingent upon a series of preconditions, including obtaining the necessary approvals according to the law and the authorization of the certified organs of the parties to the agreements.

CBI is investigating the accounting implications of the agreements outlined above, to be completed subsequent to the formulation of the final agreements, as part of the binding agreements.

e. BioControl

Regarding the acquisition of rights in BioControl in April 2010 - See A1(c), above.

In May 2010, CBI and the other shareholders in MedImpulse, granted an option to acquire all other holdings in MedImpulse to a third-party. The option may be exercised according to the exclusive discretion of the third party and the exercise price is dependent upon the regulatory stage at which BioControl will be at the time of the exercise of the option. Moreover, the third-party has undertaken to make available a loan to BioControl, according to milestones that were set in the loan agreement. In the event that the option is exercised, CBI will record capital gains from its investment in BioControl, ranging between NIS 15 million and NIS 35 million, to be carried to the statement of income over the period until the exercise of the option.

CBI has intended for its investment in BioControl to be presented at fair value through the statement of income, since in its opinion, such a designation would lead to the presentation of more relevant information, due to the fact that the designation would serve to considerably lower any inconsistency in recognition that would have been created otherwise, as a result of

**Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):**

recognition according to different bases in profit and loss on account of the investment in BioControl and the liability associated with the Call option granted to Medtronic Inc. to acquire the CBI investment in BioControl.

f. Curetech Ltd. (hereinafter: "Curetech")

In January 2010, as part of the amended agreement from July 2008, Teva invested a further \$3 million in Curetech. Following the additional investment, the Company's holdings in Curetech fell to 61%. As a result of the decline in the holding percentage, an increase of NIS 4 million was recorded in the equity attributable to the shareholders of the Company.

* Regarding an event subsequent to the balance sheet date, see Note 8c, below.

5. Nova Measuring Instruments Ltd. (hereinafter: "Nova")

In February 2010, Nova issued shares to the public. Consequently, the Company's holding percentage was diluted from 20.7% to 17.4%. In the first quarter of 2010, the Company recognized capital gains of NIS 7 million from the decline in its holding percentage.

On March 10, 2010, in the course of trading on the stock exchange, the Company sold 1,000,000 shares of Nova, constituting 4.2% of the issued and paid-up share capital of Nova, for a total consideration of \$5.1 million. As a result of the sale, the Company recognized gains of NIS 11 million in the first quarter of 2010.

On March 11, 2010, the Company exercised all of its cashless options to acquire Nova shares. As a result, the Company received 336,000 shares of Nova.

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

In view of the aforesaid, the Company changed the accounting treatment of its investment in Nova, such that Nova is presented in its financial statements as an available for sale financial asset, while according to the previous accounting treatment, the investment in Nova was accounted for by the equity method.

As a result of the change in accounting treatment, the Company recognized a gain of NIS 29 million following the revaluation of the balance of the investment in Nova to fair value.

As a result of the decrease in the value of the investment in the Nova shares on the stock exchange, the company allocated a sum of NIS 12 million (NIS 9 million after taxes) in the second quarter of 2010, to shareholders' equity, in the form of a negative capital reserve (other comprehensive loss).

6. Arcadian Networks Inc. (Hereinafter: "Arcadian")

During the first quarter of 2010, the Company included in its books a provision of NIS 17 million for impairment of its investment in Arcadian, a company in which the company holds 12%. The said provision is based on a valuation received by the Company from an independent external appraiser with respect to the fair value of the investment in Arcadian.

As of June 30, 2010, the Company's investment in Arcadian amounts to NIS 40 million. The investment in Arcadian is presented under "available-for-sale financial instruments".


Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):
7. Tigo Energy Inc. (hereinafter: "Tigo")

In the second quarter of 2010, the Company invested an additional sum of NIS 13 million in Tigo, thereby bringing the Company's total investment in Tigo to NIS 23 million, as the Company's holding rate in Tigo has increased to 13%. Following indications regarding an increase in the value of the investment and based on a valuation received by the company from an external and independent assessor, the company has estimated the investment at NIS 10 million (NIS 8 million after taxes), that were allocated as an increase in shareholders' equity, to a capital reserve. As at June 30, 2010, the company's investment in Tigo amounts to NIS 33 million and is included under the item financial instruments available-for-sale.

8. ECTel Ltd. (hereinafter – "ECTel")

On October 22, 2009, ECTel (an associate which at the time was 17% held by the Company) signed a merger agreement, pursuant to which ECTel would be acquired from all its shareholders by cVidya Networks Ltd. for a cash consideration of US \$21 million (net of transaction costs). Under the terms of the agreement, each shareholder of ECTel would receive, upon the completion of the transaction, US\$1.26 per each share held thereby. The transaction was finalized in January 2010. The proceeds from the sale of shares of ECTel amounted to NIS 13 million. Given the provision for impairment that the Company included in its books in 2009 in respect of its investment in ECTel, the Company did not record any gain or loss in 2010 as a result of the aforesaid sale.

b. Investments in companies whose shares are traded on the stock exchange

	The amount of investment in shares as stated in the statement of financial position as at June 30, 2010	Value on stock exchange as at		
		June 2010	30, 2010	August 16, 2010
NIS Millions				
<u>Associated Companies:</u>				
BioCancell Ltd.	5	9	11	
Beit Shemesh Engine Holdings (1997) Ltd.	35	17	17	
Netvision Ltd.	392	382	366	
<u>Newly-Consolidated Companies:</u>				
D-Pharm Ltd.	194	105	123	
Clal Biotechnology Industry Ltd.	324	1,120	1,052	
Maman - Cargo Terminals and Handling Ltd.	113	85	86	
Hadera Paper Ltd.	1,002	823	808	
Fundtech Ltd.	336	343	430	
Golf & Co. Group Ltd.	203	583	542	


Note 3: MATERIAL EVENTS DURING THE REPORTING PERIOD (continued):
C. Condensed information on associated company: Hoqla-Kimberly Ltd.
Condensed information taken from the statement of financial position

	As at June 30		As at
	2010	2009	December 31
	Unaudited		Audited
	NIS Millions		
Current assets	598	578	583
Non-current assets	406	390	408
Current Liabilities	482	441	460
Long-Term Liabilities	63	95	75
Equity attributable to shareholders of the Company	459	432	456

Condensed information taken from the statement of income

	For the six-month		For the three-month		For the year
	period ended June 30		period ended June 30		ended
	2010	2009	2010	2009	December 31
	Unaudited				Audited
	NIS Millions				
Revenues	859	884	417	446	1,727
Gross Profit	281	280	139	144	562
Operating Income	93	88	46	48	194
Net Income	69	63	34	35	151

**Note 4: Operating Segments**a. General1. Company Segments

In accordance with IFRS 8, segment information is presented with respect to the Company's operating segments, based on the Company's managerial and internal reports (hereinafter: "Managements' Reports").

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

In the three-month and six-month periods ended on June 30, 2009, KBA Townbuilders Ltd. (hereinafter: "KBA") represented a reportable segment. In view of KBA's failure to comply with the provisions of IFRS 8 in 2009 and during the reporting period, KBA is no longer presented as a reportable segment. The comparison figures as at June 30, 2009, were classified accordingly.

2. Segment Results

The segment results detailed below include the various profit and loss items of the segment companies and net of the share of others, represent the company's share in the net income (loss) of the segment companies.

The items Gain on disposal of investments and assets and the item Loss on disposal and impairment of investments and assets also include the profit or loss, respectively, recorded by the company from the realization of its investment in the segment companies.

Moreover, the general and administrative expenses of the segment companies include the amortization of the surplus original differences that the company amortizes on account of its investment in the segment companies.

3. Segment Assets

Information regarding the assets of the segment companies, as detailed below, includes the sum of the assets of the segment companies according to their financial statements.



Note 4: Information on operating segments (continued):

b. Information regarding segment results

	Cement	Taavura	Hadera Paper	Golf	Fundtech	CBI	Netvision	Others	Adjustm ents	Total
	(Unaudited)									
	NIS Millions									
For the six-month period ended June 30, 2010:										
Segment revenues:										
External revenues	806	1,061	508	314	256	10	632	1,137	(2,083)	2,641
Inter-segment revenues	-	22	13	-	-	-	-	3	(38)	-
	<u>806</u>	<u>1,083</u>	<u>521</u>	<u>314</u>	<u>256</u>	<u>10</u>	<u>632</u>	<u>1,140</u>	<u>(2,121)</u>	<u>2,641</u>
Net Income	<u>134</u>	<u>47</u>	<u>32</u>	<u>43</u>	<u>10</u>	<u>(66)</u>	<u>41</u>	<u>31</u>	<u>(113)</u>	<u>159</u>
Attributed to:										
The Company's share	100	16	19	29	6	(29)	11	6	(32)	126
Others	34	31	13	14	4	(37)	30	25	(81)	33
	<u>134</u>	<u>47</u>	<u>32</u>	<u>43</u>	<u>10</u>	<u>(66)</u>	<u>41</u>	<u>31</u>	<u>(113)</u>	<u>159</u>
For the six-month period ended June 30, 2009:										
Segment revenues:										
External revenues	843	1,085	491	342	222	104	616	1,163	(2,585)	2,281
Inter-segment revenues	-	18	-	-	-	-	-	2	(20)	-
	<u>843</u>	<u>1,103</u>	<u>491</u>	<u>342</u>	<u>222</u>	<u>104</u>	<u>616</u>	<u>1,165</u>	<u>(2,605)</u>	<u>2,281</u>
Net Income	<u>153</u>	<u>85</u>	<u>34</u>	<u>65</u>	<u>(12)</u>	<u>59</u>	<u>43</u>	<u>28</u>	<u>(166)</u>	<u>289</u>
Attributed to:										
The Company's share	115	28	13	51	(8)	42	2	12	(44)	211
Others	38	57	21	14	(4)	17	41	16	(122)	78
	<u>153</u>	<u>85</u>	<u>34</u>	<u>65</u>	<u>(12)</u>	<u>59</u>	<u>43</u>	<u>28</u>	<u>(166)</u>	<u>289</u>



Note 4: Information on operating segments (continued):

b. Information regarding segment results

	Cement	Taavura	Hadera Paper	Golf	Fundtech	CBI	Netvision	Others	Adjustm ents	Total
	(Unaudited)									
	NIS Millions									
For the three-month period ended June 30, 2010:										
Segment revenues:										
External revenues	420	525	256	146	131	5	316	597	(1,107)	1,289
Inter-segment revenues	-	12	8	-	-	-	-	-	(20)	-
	<u>420</u>	<u>537</u>	<u>264</u>	<u>146</u>	<u>131</u>	<u>5</u>	<u>316</u>	<u>597</u>	<u>(1,127)</u>	<u>1,289</u>
Net Income	<u>75</u>	<u>16</u>	<u>10</u>	<u>19</u>	<u>6</u>	<u>(29)</u>	<u>23</u>	<u>16</u>	<u>(78)</u>	<u>58</u>
Attributed to:										
The Company's share	56	6	8	12	4	(12)	6	(7)	(32)	41
Others	19	10	2	7	2	(17)	17	23	(46)	17
	<u>75</u>	<u>16</u>	<u>10</u>	<u>19</u>	<u>6</u>	<u>(29)</u>	<u>23</u>	<u>16</u>	<u>(78)</u>	<u>58</u>
For the three-month period ended June 30, 2009:										
Segment revenues:										
External revenues	443	577	230	168	116	45	305	597	(1,339)	1,142
Inter-segment revenues	-	10	-	-	-	-	-	-	(10)	-
	<u>443</u>	<u>587</u>	<u>230</u>	<u>168</u>	<u>116</u>	<u>45</u>	<u>305</u>	<u>597</u>	<u>(1,349)</u>	<u>1,142</u>
Net Income	<u>105</u>	<u>60</u>	<u>15</u>	<u>27</u>	<u>1</u>	<u>29</u>	<u>19</u>	<u>32</u>	<u>(131)</u>	<u>157</u>
Attributed to:										
The Company's share	79	20	6	19	(1)	20	2	10	(51)	104
Others	26	40	9	8	2	9	17	22	(80)	53
	<u>105</u>	<u>60</u>	<u>15</u>	<u>27</u>	<u>1</u>	<u>29</u>	<u>19</u>	<u>32</u>	<u>(131)</u>	<u>157</u>


Note 4: Information on operating segments (continued):

b. Information regarding segment results

	Cement	Taavura	Hadera Paper	Golf	Fundtech	CBI (Audited)	Netvision	Others	Adjustm ents	Total
	NIS Millions									
For the year ended December 31, 2009:										
Segment revenues:										
External revenues	1,632	2,142	1,075	709	475	142	1,256	2,405	(5,016)	4,820
Inter-segment revenues	-	39	27	-	-	-	-	6	(72)	-
	<u>1,632</u>	<u>2,181</u>	<u>1,102</u>	<u>709</u>	<u>475</u>	<u>142</u>	<u>1,256</u>	<u>2,411</u>	<u>(5,088)</u>	<u>4,820</u>
Net Income	<u>300</u>	<u>130</u>	<u>175</u>	<u>120</u>	<u>15</u>	<u>56</u>	<u>89</u>	<u>44</u>	<u>(362)</u>	<u>567</u>
Attributed to:										
The Company's share	228	42	139	96	10	49	10	16	(140)	450
Others	72	88	36	24	5	7	79	28	(222)	117
	<u>300</u>	<u>130</u>	<u>175</u>	<u>120</u>	<u>15</u>	<u>56</u>	<u>89</u>	<u>44</u>	<u>(362)</u>	<u>567</u>


Note 4: Information on operating segments (continued):

c. Information regarding segment assets

	Cement	Taavura	Hadera Paper	Golf	Fundtech	CBI	Netvision	Others	Adjustm ents	Total
	NIS Millions									
As at June 30, 2010 (Unaudited):										
Segment assets:										
Assets	2,828	2,525	3,438	425	731	1,029	1,774	2,518	(3,901)	11,367
Inter-segment assets	-	9	-	-	-	-	-	1	(10)	-
Total assets	<u>2,828</u>	<u>2,534</u>	<u>3,438</u>	<u>425</u>	<u>731</u>	<u>1,029</u>	<u>1,774</u>	<u>2,519</u>	<u>(3,911)</u>	<u>11,367</u>
As at June 30, 2009 (Unaudited):										
Segment assets:										
Assets	2,955	2,496	2,126	411	732	474	1,641	2,761	(5,530)	8,066
Inter-segment assets	-	10	-	-	-	-	-	-	(10)	-
Total assets	<u>2,955</u>	<u>2,506</u>	<u>2,126</u>	<u>411</u>	<u>732</u>	<u>474</u>	<u>1,641</u>	<u>2,761</u>	<u>(5,540)</u>	<u>8,066</u>
As at December 31, 2009 (Audited):										
Segment assets:										
Assets	2,908	2,492	3,224	443	680	936	1,838	2,736	(3,978)	11,279
Inter-segment assets	-	4	-	-	-	-	-	1	(5)	-
Total assets	<u>2,908</u>	<u>2,496</u>	<u>3,224</u>	<u>443</u>	<u>680</u>	<u>936</u>	<u>1,838</u>	<u>2,737</u>	<u>(3,983)</u>	<u>11,279</u>

**Note 5: Contingent Liabilities**a. General

The amounts of the claims below are presented in values as of the dates of the filing of the claims, unless stated otherwise.

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

b. Regarding contingent liabilities, lawsuits filed and material developments during and subsequent to the reporting period::1. Hadera Paper

On June 6, 2010, a lawsuit and approval to be recognized as a class action lawsuit was filed against Hogla Kimberly Ltd. (hereinafter: "Hogla"), an associated company of Hadera Paper and against an additional competitor of Hogla.

The plaintiff alleges that the companies being sued have misled the public by presenting plastic bags as being degradable and environmentally friendly, whereas in actual fact, the products are not degradable, but rather disintegrate into smaller pieces.

The plaintiff estimates the volume of the lawsuit against Hogla, if it is approved as a class-action lawsuit, at NIS 111 million. At this preliminary stage, according to the legal consultants of Hogla, the chances that the lawsuit will be rejected are higher than the chances that it will be approved as a class-action lawsuit.

2. Golf

Pursuant to that stated in Note 24c to the annual financial statements, a petition was filed against Golf and its CFO for the issuing of a court order regarding the discontinued use of the Golf store at Yarkonim Junction. In the said petition, that petitioner clarified that the indictment against Golf and additional managers, has been revoked. Golf has yet to receive any notice in this respect. Moreover, an identical petition for the issuing of a court order for discontinuing the use of the land has been filed against the owner of the real estate and other tenants.

Golf is relying on the claims of the real estate owners that the planning and designation modification processes in the compound have been completed in large part and/or will be completed soon and they are therefore eligible for an extraordinary authorization to use the compound.

The Golf management estimates that if Golf is forced to close down its store in the compound, it will not materially affect its results.

3. Netvision Ltd. (hereinafter – "Netvision")

- In January 2010, a lawsuit and motion to certify it as a class action lawsuit was filed (Tzur's motion, hereinafter: "the plaintiffs") against 013 Netvision and other defendants (hereinafter: "the defendants").

The lawsuit argues that the defendants have a duty to incur the cost of customer calls to the service center. The plaintiffs allege that the defendants breached their duty, imposed by their licenses, to incur the cost of a call to the service center which provides solutions in matters pertaining to customer service.

**Note 5: Contingent Liabilities (continued):**

The plaintiffs estimate that the amount of the claim is NIS 197 million, and 013 Netvision's share in this amount is estimated at NIS 36 million.

In Netvision's opinion, based on that of its legal advisors, at this stage, the chances that the motion to certify the lawsuit as a class action do not exceed the chances that it will not be certified as a class action. Therefore, Netvision did not include any provision in its financial statements in respect of this lawsuit.

- In January 2010, a lawsuit and motion to certify it as a class action lawsuit was filed (Atara's motion, hereinafter: "the plaintiff") against 013 Netvision.

The lawsuit argues, among others, that the Internet surfing speed provided to the plaintiff in practice was slower than the speed which Netvision has allegedly undertaken to provide in its Internet surfing package. The plaintiff claims that Netvision has this breached its contractual obligation toward him and misled him.

In the plaintiff's estimation, the amount of damages to be paid to the group of customers amounts to NIS 56 million.

In Netvision's opinion, based on that of its legal advisors, at this stage, the chances that the motion to certify the lawsuit as a class action do not exceed the chances that it will not be certified as a class action. Therefore, Netvision did not include any provision in its financial statements in respect of this lawsuit.

- In February 2010, a lawsuit and motion to certify it as a class action lawsuit was filed (Ariav Magic's motion, hereinafter: "the plaintiff") against 013 Netvision.

The lawsuit argues, among others, that the plaintiff had agreed to Netvision's offer to upgrade his Internet surfing speed, while in practice the communications infrastructure (which the plaintiff claims is provided by Bezeq) has not permitted him to surf at the speed guaranteed by Netvision. The plaintiff claims that Netvision had misled him, breached its duty of proper disclosure and its agreement with the plaintiff.

In the plaintiff's estimation, the amount of damages to be paid to the group of customers amounts to NIS 16 million.

In Netvision's opinion, based on that of its legal advisors, at this stage, the chances that the motion to certify the lawsuit as a class action do not exceed the chances that it will not be certified as a class action. Therefore, Netvision did not include any provision in its financial statements in respect of this lawsuit.

- In April 2010, a lawsuit and motion to certify it as a class action was filed (Shalem's motion, hereinafter: "the plaintiffs") against 013 Netvision. The lawsuit was filed against Netvision in the District Court of Jerusalem.

The lawsuit contends, inter alia, that Netvision unlawfully charged various amounts of money from the plaintiffs and failed to disconnect the plaintiffs from its services on the date of request for disconnection. The plaintiffs claim that Netvision has misled them, violated several provisions of the Consumer Protection Law, violated the provisions of the agreement with them and unlawfully enriched itself.

**Note 5: Contingent Liabilities (continued):**

The plaintiffs argue that there is justification to certify the lawsuit as a class action in the name of a group of Netvision customers, who subscribed to Netvision's Internet services, with no customer commitment or a short-term commitment and Netvision did not allow them to disconnect from its services at the end of the commitment period while continuing to collect payments for the disconnection of its services (hereinafter: "The Group").

The plaintiffs request that the court instruct the Company to refund the amounts which the group of plaintiffs were overcharged, plus linkage and interest differences until the actual date of payment. In the plaintiff's estimation, the amount of financial damages to the group totals NIS 44 million.

In Netvision's opinion, based on that of its legal advisors, at this stage, the chances that the motion to certify the lawsuit as a class action do not exceed the chances that it will not be certified as a class action. Therefore, Netvision did not include any provision in its financial statements in respect of this lawsuit.

- Following the contents of note 24d1f of the annual financial statements, concerning the lawsuit and motion to certify it as a class action lawsuit (Lankry's motion, hereinafter: "the plaintiffs") that was filed against Netvision and other companies (hereinafter: "the defendants") regarding the alleged non-reduction of subscription prices by the defendants by the rate of reduction in VAT, on March 23, 2010, the Tel Aviv District Court approved the plaintiff's withdrawal of the lawsuit and the motion to certify it as a class action lawsuit, and therefore the lawsuit and the motion to certify it as a class action were dismissed. At the same time, the plaintiffs preserve the right to reinstate the lawsuit and the motion to certify as class action, until a verdict is handed down in another lawsuit (Beeri against the Haaretz Press), which concerns a similar matter.
- Pursuant to that stated in Note 24d1d to the annual financial statements, regarding a lawsuit and request to approve the said lawsuit as a class action (Livay request, hereinafter: "The Plaintiffs"), filed against 013 Netvision, within whose framework it was alleged that 013 Netvision had misled the users of the international telephone calling cards Global Card and Home Card, regarding the nature and manner of charging of the calling cards. The ruling of the Central Division Regional Court was handed down July 5, 2010, whereby the court approved the withdrawal of the plaintiffs from the request to approve the lawsuit as a class action. In accordance with the decision of the court, the personal lawsuit of the plaintiffs was rejected and the request for approval as a class-action was removed.
- Pursuant to that stated in Note 24d1g to the annual financial statements, regarding a lawsuit and request to approve the said lawsuit as a class-action (Yehuday Netanel request, hereinafter: "The Plaintiff"), filed against 013 Netvision, within whose framework it was alleged, inter alia, that 013 Netvision has misled the plaintiff and created a misrepresentation regarding the marketing campaign that he had joined. On June 6, 2010, the court handed down its decision, approving the plaintiff's request to withdraw the petition and the lawsuit was removed.
- In June 2010, a lawsuit and motion to certify it as a class action was filed (Elgranati's motion, hereinafter: "the plaintiffs") against 013 Netvision. The lawsuit was filed against Netvision at the Tel Aviv District Court.

**Note 5: Contingent Liabilities (continued):**

According to the plaintiffs, in those cases when Netvision overcharged its customers, it then credits and refunds their payment in nominal values only, i.e. - with no interest and linkage. The plaintiffs claim that Netvision is operating against the law, while making ill-gotten gains and operating in a negligent manner in breach of good faith.

The plaintiffs estimate the class action lawsuit at approximately NIS 10 million. Netvision has yet to submit its response to the request.

In Netvision's opinion, based on that of its legal advisors, at this stage, the chances that the motion to certify the lawsuit as a class action do not exceed the chances that it will not be certified as a class action. Therefore, Netvision did not include any provision in its financial statements in respect of this lawsuit.

- Pursuant to that stated in Note 24d1i to the annual financial statements regarding a lawsuit, along with the request to approve the lawsuit as a class-action (Skorobogot request, hereinafter: "The Plaintiff"), filed against 013 Netvision and against an additional company, with the subject of the lawsuit being a program broadcast on Channel 9, to which 013 Netvision provides telephony services. On July 20, 2010, the plaintiff submitted a request to withdraw the request along with a request to reject the lawsuit in relation to 013 Netvision. The court decision has yet to be handed down.
- Regarding a lawsuit filed subsequent to the balance sheet date, see Note 8(b), below.

4. Kitan Textile Industries Ltd. (hereinafter: "Kitan")

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

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

The plaintiffs estimate the damage sustained by the residents of Dimona up to the date of filing the motion as a result of the non-compliance 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 smokestacks as well as other preemptive measures as detailed in the agreement. The agreement further stipulates that the parties recommended to the Court that Kitan would pay the petitioners and their representatives immaterial amounts as damages.

In October 2009, two residents of Dimona filed an objection to the settlement arrangement (hereinafter: "opposition of Dimona residents"). In the objection it was contended that the settlement arrangement does not comply with the terms of the Class Action Law, that the arrangement is not reasonable, fair or appropriate, and that the arrangement does not constitute an effective and fair way to decide the dispute under the circumstances.

On January 7, 2010, an objection was filed to the settlement agreement by the State Attorney-General, on similar grounds to those of the objection filed by the residents of Dimona.

**Note 5: Contingent Liabilities (continued):**

On March 28, 2010, Kitan and the petitioners submitted a response to the objection filed by the Dimona residents and the State Attorney General (hereinafter: "the response to the objections"). In the response to the objections, Kitan argued, inter alia, that the settlement agreement is beneficial to the members of the group, consistent with the objectives of the Class Action Law and adequately reflects the chances of the motion to be accepted.

On April 14, 2010, a hearing was held in the motion, during which it was agreed that the parties will enter into a negotiation process to amend the settlement agreement with mutual consent. The parties are to inform the court, by September 1, 2010, if they had reached an agreed upon version of the amended settlement agreement.

In Kitan's opinion, based on that of its legal advisors, at this stage it is not possible to assess the chances of approval of the settlement agreement by the court. Kitan did not include a provision in the financial statements in respect of this claim.

In order to clarify the issue further, it should be noted that in the first quarter of 2004, an indictment was filed with the Beer-Sheba Magistrate Court against Kitan and some of its managers by the Ministry of the Environment. Kitan was sued for breaching and failing to uphold the conditions of the business license for its plant in Dimona as well as for violating the provisions of the law relating to environmental pollution, air pollution and sewage discharge. In April 2008, Kitan was convicted of the said offenses. Under a plea bargain in which Kitan admitted to committing the said offenses, the company was fined NIS 450,000 and was instructed to comply with an environmental improvement plan.

5. KBA

Pursuant to a real estate sale transaction conducted by KBA in 2008, the Buyer turned to KBA with a request to pay him NIS 29 million on account of the betterment fees that KBA had undertaken to pay on his behalf. On the basis of a real estate professional assessment obtained by KBA, there should be no betterment fees on the real estate that is the subject of the transaction and accordingly, no provision was included in the financial statements. The parties have agreed to turn to a mutually acceptable real estate assessor for arbitration, so as to resolve the dispute.

Note 6: Dividend

- a. On March 21, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 180 million, representing 1.1430766 per each NIS 1 par value of shares. The dividend was distributed on April 13, 2010.
- b. On May 17, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 108 million, representing 0.685846 per each NIS 1 par value of shares. The dividend was distributed on June 15, 2010.
- c. On August 18, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 120 million, representing NIS 0.7620511 per each NIS 1 par value of shares, to be distributed on September 15, 2010. The record date was set at August 29, 2010, while the ex-date was set at August 30, 2010.

**Note 7: Related Parties**a. Employment of Mr. Gil Morel by Nesher Israel Cement Enterprises Ltd. (hereinafter: "Nesher")

On April 28, 2010, the general meeting of shareholders of the Company (after obtaining the approval of the audit committee and the board of directors) approved a change in the terms of employment of Mr. Gil Morel, son-in-law of Messrs. Ruth Manor and Yitzhak Manor, who are controlling shareholders of the Company.

For additional details, see note 31f3 to the annual financial statements.

b. Clalcom Ltd.

Regarding an amendment to the agreement between Clalcom and Mediterranean Nautilus Israel Ltd, see note 31g4 to the annual financial statements.

c. Officers' liability insurance

On July 28, 2010, a special general meeting of the shareholders of the company approved (after obtaining the approval of the Audit Committee and the Board Of Directors of the Company) the company's engagement in a basic insurance policy for officer liability insurance for the company, the wholly owned subsidiaries of the company and for some of its investee companies ("Company Division"), including officers who are controlling shareholders of the company or related thereto ("basic policy") and a mutual group insurance policy common to the company and additional subsidiaries, including IDB Holdings and other companies belonging to the IDB Group, regarding officer liability insurance for the company including officers who are controlling shareholders of the company or related thereto ("group policy") for a period of one year commencing August 1, 2010 and terminating July 31, 2011, along with an additional policy for a period of four years, commencing August 1, 2011 and terminating at July 31, 2015. The decision determined, inter alia, that (a) The maximum sum of the liability of the insurer as part of the basic policy common to the company and some of the entities held directly and/or indirectly by the company ("company division") will be in the range between \$40 million and \$60 million, per claim and cumulative, for the term of the insurance according to that policy. (b) The maximum sum of the liability of the insurer as part of the group policy that is common to the company division and additional divisions, including other companies belonging to the IDB group, including the company itself, shall be in the range between \$90 million and \$120 million, per claim and cumulative, for the term of the insurance according to that policy. (c) The approval being sought would include the possibility to acquire an additional level of insurance, that will grant insurance coverage that will supplement the limit of liability according to the group policy, until the sum of the original liability limit, in the event where the liability limit according to the group policy will be reduced or exhausted following a claim or multiple claims. (d) The total annual insurance premiums will be paid by the company division for any year of insurance, for officer liability insurance, will not exceed \$500,000. (e) The said insurance policies that will be issued by or with the participation of Clal Insurance Company Ltd., a company controlled by the controlling shareholder of the company ("Clal Insurance"), or an insurance company controlled by Clal Insurance; (f) The policies will cover several insurance periods that shall not exceed a cumulative period of five years. Pursuant to this decision, the company has entered into the said insurance policies issued by Clal Insurance. It should be noted that the said period of five years will terminate July 31, 2015.

It should further be noted that for the insurance policy with the term of one year commencing August 1, 2010 and terminating July 31, 2011, it was determined that the maximum sum of the liability limit of the insurer for the basic policy shall be \$50 million, while the maximum sum for the group policy shall be \$90 million.

**Note 7: Related Parties (continued):**d. Payments to directors by the company

On July 28, 2010, the general meeting of the company resolved (pursuant to approval by the Audit Committee and the Board of Directors of the company) to approve the payment of remuneration in the maximum sums appearing in the company regulations (Rules Regarding Compensation and Expense Reimbursement for Independent Board Members), 2000 (hereinafter: "Compensation Rules"), for each of the years between 2011 and 2015 (inclusive).

For each director of the company that is serving and/or will serve from time to time during the said period, whether as an independent director or as a non-independent director (including directors on behalf of controlling shareholders). The director compensation that will be paid to each director for each given period of time during the said period, shall be in the maximum possible set sums and in accordance with the classification of each director as an expert director or a non-expert director and according to the level at which the company is classified, as will be effective at that time according to the compensation rules.

This decision shall not apply to directors who also serve as employees of the company or of IDB Development or IDB Holdings or companies controlled by any of the companies or controlling shareholders above, or directors who have forfeited their right to obtain director compensation in respect of the period for which they have forfeited the said director compensation. This will be pursuant to the agreement from 2000, according to which IDB Development provides the company with comprehensive management services, including: The appointment of employees of IDB Development, IDB Holdings or subsidiaries thereof as company directors, including a director who will serve as chairman of the Board of Directors.

Note 8: Events Subsequent to the Balance Sheet Datea. Cargal Ltd. (hereinafter: "Cargal")

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

In return for acquiring all of the share capital of Amraz, Cargal will pay the sum of NIS 275 million, while in addition, Amraz will make a dividend payment of NIS 200 million, upon finalization of the transaction. Cargal has undertaken that for the purpose of dividend distribution, it will make available a loan to Amraz from financing entities, upon the finalization of the transaction. In the event that Amraz will distribute dividend lower than NIS 200 million, the difference between the dividend actually distributed and NIS 200 million will be added to the compensation on account of the shares.

The compensation on account of the shares is subject to the adjustments that will be made, if any adjustments are made, on the basis of the findings of the due diligence examinations conducted by Cargal, as determined in the memorandum of understanding.

The memorandum of understanding stipulates that within 60 days of its signing, the parties will enter into a detailed agreement regarding the acquisition transaction. Circumstances were also determined under which the parties will not be obligated to finalize the acquisition transaction. It was further agreed that in the event that by December 31, 2010, the acquisition transaction is not finalized, each of the sellers shall be eligible not to complete the acquisition transaction.

Amraz is a privately held company incorporated in Israel, that deals - on its own and through

**Note 8: Events Subsequent to the Balance Sheet Date (continued):**

subsidiaries - in the development, manufacture and marketing of plastic packaging and finished goods from a wide range of thermoplastic raw materials.

The finalization of the acquisition transaction is subject to meeting preconditions and to the necessary authorizations according to law, including the approval of the Antitrust Supervisor. As at the date of this report, the transaction has yet to be finalized.

In the event that the acquisition transaction is finalized, Cargal will become a reportable segment, within the company's financial statements.

b. Netvision

In July 2010, a lawsuit along with a request for the lawsuit to be recognized as a class action, was filed against 013 Netvision and against an additional company ("the defendants"), at the Central District Court.

The lawsuit claims, inter alia, that the defendants sent the plaintiff advertising materials without his consent and in breach of rejection notices, thereby he claims, breaching Section 30a of the Telecommunications Law (Bezeq and Services), 1982 ("Telecommunications Law").

According to the plaintiff, there exists just cause for approving the request as a class-action against the defendants on behalf of a group, that would include all of the addressees who have received advertising materials from any of the defendants, in any of the ways outlined in Section 30a of the Telecommunications Law and in breach of the instructions of the Section, since it entered into force and until the date of approval of the request as a class action.

The plaintiff estimates, without specifying the sums for each respondent separately, that the volume of financial compensation for the group of addressees (that includes addressees of both defendants) amounts to a total sum of NIS 519 million, without proof of damages and alternately, according to his claim and estimate, a sum of NIS 364 million according to actual damages. The specific damage claimed by the plaintiff is equal to NIS 17,500.

Netvision is studying the arguments of the claim and at this stage, is unable to estimate its chances of winning the claim or the claim's potential impact on Netvision.

c. CBI

In July 2010, as part of the amended agreement from July 2008, Teva invested a further \$2 million in Curetech. Following the additional investment, the Company's holdings in Curetech fell to 58%.

d. Dividend

With respect to a dividend declared subsequent to the balance sheet date, see note 6c, above.



APPENDIX - DETAILS OF INVESTMENTS*) OF THE COMPANY AND WHOLLY OWNED COMPANIES AS OF JUNE 30, 2010:

	Holdings %	Amount of investment in NIS Millions
<u>Listed companies</u>		
Hadera Paper Ltd.	59%	1,002
Golf & Co. Group Ltd.	64%	203
Netvision Ltd.	30%	392
Fundtech Ltd.	58%	336
Clal Biotechnology Industry Ltd.	61%	324
Beit Shemesh Engine Holdings (1997) Ltd.	36%	35
Nova Measuring Instruments Ltd.	14%	56
		2,348
<u>Private Companies</u>		
Mashav Initiating and Development Ltd.	75%	895
Kitan Textile Industries Ltd.	100%	33
Arcadian Networks Inc.	12%	40
Jaf-Ora Ltd.	30%	114
F.B.R. Infinity Ventures (Israel) – venture capital fund	39%	107
K.B.A. Townbuilders Group Ltd.	53%	12
Cargal Ltd.	26%	79
Millennium Materials Technologies Fund II L.P.	13%	11
Med 1 IC 1 (1991) Ltd.	31%	14
Infinity I-China Fund (Israel 2), L.P.	9%	34
Clal Energy Limited Partnership	100%	39



**APPENDIX - DETAILS OF INVESTMENTS*) OF THE COMPANY AND WHOLLY OWNED COMPANIES
AS OF JUNE 30, 2010: (Continued)**

	Holdings %	Amount of investment in NIS Millions
<u>Private Companies (Continued)</u>		
Additional private companies		26
		1,404
		3,752
Less investments in consolidated subsidiaries		(2,850)
With the addition of investments by consolidated subsidiaries		1,314
Investments in associates and available-for-sale financial assets		2,216

*) The investments include investments in investees and in available-for-sale financial assets. The list of investments includes investments where the amount invested (including investments in share capital and extended loans) recorded in the books exceeds NIS 10 million.



Management Discussion as of June 30, 2010

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

1. Company Description

a. General

The Board of Directors of Clal Industries and Investments Ltd. ("the Company" and/or "CII") is hereby pleased to present the Management Discussion as of June 30, 2010, which reviews the principal changes in the Company's activities between January and June 2010 ("the reported period"). The report was formulated in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970, based on the assumption that the reader is also in possession of the full Periodic Report of the company as at December 31, 2009 ("Annual Financial Statements"). The results of the company that are presented in the management discussion relate to the share of the shareholders of the company in the results, unless stated otherwise.

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

The CII Group consists of investees that operate primarily in the fields of traditional industry, commerce and technology. CII is engaged, directly and through its investees, in the establishment, acquisition, development and amelioration of its portfolio companies. CII strives to be involved in the management and steering of its investee companies, primarily when the Company possesses significant holdings in these companies. CII strives to enhance and maximize the value of its existing investments, with a view to realizing those investments at the appropriate time. CII has access to a variety of business opportunities, being constantly on the lookout for investments with a suitable potential return, in those sectors where it possesses experience and knowledge.

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

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

b. Objectives

The Company's principal objectives are:

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

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

- Focus on a limited number of material holdings possessing sustainable growth potential, wherein the Company can exert a significant influence while exploring new sectors of operation that meet these criteria;
- Continue to examine investment opportunities in leading companies, including investees.
- Exploit opportunities in relevant markets in order to realize investments.
- Continue to search for opportunities to expose and create value in investees.
- Intensify international operations, including those of investees. In this framework, the Company is examining a wide range of investment and cooperation proposals in the



Management Discussion as of June 30, 2010

various segments in which it operates, as well as through its investees, in different geographical regions.

- Nurture and strengthen the ties with existing and potential strategic partners in Israel and worldwide.
- Manage the Company's headquarters as a dynamic entity that works in cooperation with the investees.
- Occasional outsourcing of the management of certain activities, while exercising appropriate controls.
- Contributing to and assisting the community in Israel.

c. Profit Characteristics

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

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

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

d. The Situation in Real and Financial Markets in Israel and Worldwide and its Impact on the Company

The global financial crisis and the slowdown in the real term economic activity, that began in 2008 and grew stronger in early 2009 and which led to a recession in numerous countries in the West, have grown more moderate throughout 2009, alongside the gradual stabilization of both financial and real markets. Starting with the second half of 2009, a gradual global recovery in real term operations was evident, as various economies, including the United States, stabilized and even resumed growth. The global recovery was greatly attributed to the combination between fiscal expansionary programs and the continued expansionary monetary policy, that were led by economic policy leaders in the United States. This also contributed to the rising capital markets and to the improvement in the stability of international financial institutions.

The trend of economic recovery continued in the first half of 2010 in most financial and real markets, although the indicators of the financial crisis and its repercussions are still evident, with an emphasis on the euro zone, that still suffers from economic instability. The signs of the crisis and its implications are also creating significant fluctuations in financial markets, including stock market prices, bond prices and currency exchange rates, the continuing credit crunch among certain firms and certain countries, along with considerable uncertainty in economic activity. Similar trends to those in the global markets were also recorded in the Israeli economy and capital market during the said period, although it would appear that the signs of a recovery in the Israeli market were more pronounced. Starting with the second quarter of 2009, the trend of recovery that was observed in most of the sectors of the Israeli economy gained ground, as the Israeli capital market recorded a considerable increase in the prices of marketable securities, as the corporate debt market also began to recover, while gradually resuming the raising of capital by the business sector.

True to the date of the financial statements, it is not possible to estimate the impact of the direct and indirect economic repercussions of the financial crisis globally and domestically, nor what will be the duration of these repercussions, if at all. The indications of the said crisis, including the latest developments in the euro zone, as mentioned above, that are also characterized by fluctuations in the exchange rate of the euro, have affected and may continue to affect the business results of the company and its investees, their liquidity, the value of their shareholders'



Management Discussion as of June 30, 2010

equity, the value of their assets and their ability to realize these assets, the state of their business (and in this capacity, the demand for the products of the investee companies), their financial covenants and parameters, their credit ratings, their ability to distribute dividend and even their basic ability to raise funds for their current operations and long-term activity, as well as their financing terms.

e. Hodak Committee

In February 2010, the committee for determining parameters for institutional entities that provide credit by acquiring nongovernment bonds ("The Committee"), that was appointed by the Supervisor of the Capital Market Insurance and Savings at the Ministry of Finance ("The Supervisor"), published a final report of its findings and recommendations. In July 2010, the Supervisor published a memorandum implementing the recommendations of the Committee and including, inter alia, recommendations regarding the internal processes at an institutional entity prior to investing in bonds, recommendations regarding directives that must be included in the bond documents as a precondition for investment by institutional entities, recommendations regarding obligations of institutional entities to determine a policy regarding the rights for immediate repayment that will be included in the bonds, recommendations regarding the information that is necessary for an institutional entity to analyze a potential investment in bonds and to regularly monitor such bonds, as well as recommendations regarding creating mechanisms for cooperation between institutional entities in certain aspects related to investment in bonds, relating to the characteristics of the different bonds and issuers.

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

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

1. **Cement** – The principal company in this segment is Neshar Israeli Cement Enterprises Ltd. ("Neshar"). Neshar is wholly owned by Mashav Initiating and Development Ltd. ("Mashav") (75% owned). The presented segment data are the data of Mashav on a consolidated basis, less the data of Taavura Holdings Ltd.
2. **Taavura Holdings Ltd.** ("Taavura") (50% ownership by Neshar; 37.5% , concatenated ownership by the company) - Taavura's holdings include, inter alia, Maman Cargo Terminals and Handling Ltd. ("Maman") (77% held by Taavura). Taavura provides transport, infrastructure and logistic services and deals in the import and marketing of trucks, buses, heavy equipment and cranes and in the import and sale of automobiles in Europe, in addition to providing other services.
3. **Hadera Paper Ltd.** ("Hadera Paper") (59% ownership) - Hadera Paper is primarily active in the manufacture and marketing packaging paper, collecting and recycling paper, manufacture and marketing of packaging and cardboard products, household paper products, disposable diapers, products for house and kitchen cleaning and fine paper. Hadera Paper also holds Hogla Kimberly Ltd. (49.9% ownership) and Mondi Hadera Paper Ltd. (49.9% ownership).
4. **Golf & Co. Group Ltd. ("Golf") (64% owned).** Golf deals primarily in the marketing and sale of fashion and clothing, textile and home design products.
5. **Fundtech Ltd.** ("Fundtech") (58% ownership). Fundtech deals in the development and marketing of software programs that are used by financial institutions and provides related support services.

¹ The data relating to the ownership interests are as at June 30, 2010. Percentage shareholdings in this report have been rounded to the nearest whole number, unless otherwise indicated or unless figures are provided after the decimal point.



Management Discussion as of June 30, 2010

6. **Clal Biotechnology Industries Ltd.** ("CBI"), (61% owned). CBI operates in the life sciences sector by investing in biotechnology companies and ventures, mostly in the research and clinical trial stages. CBI's holdings include, inter alia, Mediwound Ltd. (56% ownership), D-Pharm Ltd. ("D-Pharm") (46% ownership), Curetech Ltd. (39% ownership, plus - through Clal Venture Capital Fund, 22% ownership), the company also owns Andromeda Biotech Ltd. (87% ownership) and Poliheal Ltd. (41% ownership).
7. **Netvision Ltd.** ("Netvision") (30% ownership). Netvision is a leading supplier of communication services in Israel and operates mainly as an Internet Service Provider (ISP), while also providing international long-distance telephony services and managed services (equipment and communication network endpoint services and domestic telephony services).
8. **Other sectors of operation** - Operations in this segment include, inter alia, Cargal Ltd. (26% ownership), Jaf-Ora Ltd. (30% ownership), Beit Shemesh Engines Holdings (1997) Ltd. (36% ownership), Clal Energy Limited Partnership (100% ownership), Clal Motors Ltd. (100% ownership), Kitan Textile Industries Ltd. (100% ownership), F.B.R. Infinity Israel II Fund (39% ownership) and Infinity I-China (Israel 2) Fund, L.P. (9% ownership). KBA - KBA Townbuilders Group Ltd. ("KBA") (53% ownership).

The Group's activities are affected by numerous external factors (see Section 7 to part A - Description of the Company's Business as of December 31, 2009).

2. Results of Operations

A. Statements of Income

1. Reported Period

The total net income attributable to the Company's shareholders and to rights that do not afford control, in the reported period amounted to NIS 159 million, as compared with net income of NIS 289 million in the corresponding period last year and net income of NIS 567 million in all of 2009.

The net income attributable to the Company's shareholders in the reported period amounted to NIS 126 million, as compared with net income of NIS 211 million in the corresponding period last year and net income of NIS 450 million in all of 2009.

Current income during the reported period amounted to NIS 100 million (see Section 2c, below), as compared with income of NIS 143 million the corresponding period last year. The current contribution of the sectors during the reported period amounted to NIS 144 million, as compared with NIS 187 million for the corresponding period last year. The financial expenses, headquarters and other expenses, amounted to NIS 44 million in the reported period and were similar to the corresponding period last year.

During the reported period, earnings from the realization of investments, adjustment of the value of investments and other net non-recurring influences amounted to NIS 26 million and consists primarily of earnings in the sum of NIS 18 million as a result of the decrease in the holding percentage of Nova and the sale of Nova shares, in addition to earnings of NIS 29 million on account of the revaluation of the balance of the investment in Nova to fair value, net of a loss of NIS 17 million on account of a provision for impairment at Arcadian. The earnings during the corresponding period last year originating from the realization of investments, adjustment of the value of investments and other net non-recurring influences amounted to NIS 68 million and consisted primarily of earnings from the expiry of options on Golf shares in the amount of NIS 14 million and earnings from the decrease in the holding percentage of CBI in Andromeda in the amount of NIS 35 million and the transition of Taavura to the alternate site, in the amount of NIS 12 million.



Management Discussion as of June 30, 2010

Basic net earnings per share in the reported period totaled NIS 0.80, as compared with net earnings of NIS 1.34 in the corresponding period last year and net earnings of NIS 2.86 for all of 2009. The diluted net earnings per share in the reported period totaled NIS 0.79, as compared with net earnings of NIS 1.24 in the corresponding period last year and net earnings of NIS 2.75 for all of 2009.

2. For the six-month period ended June 30, 2010

The total net income attributable to the Company's shareholders and to rights that do not afford control, in the second quarter, amounted to NIS 58 million, as compared with net income of NIS 157 million in the corresponding quarter last year.

Net income attributable to the Company's shareholders in the second quarter of 2010 amounted to NIS 41 million, as compared with net income of NIS 104 million in the corresponding quarter last year.

Net income in the second quarter of 2010 totaled NIS 42 million, as compared with net income of NIS 62 million in the corresponding quarter last year. The current contribution of the segments in the second quarter of 2010 totaled NIS 73 million, as compared with operating income of NIS 113 million in the corresponding quarter last year. Financial, headquarter and other expenses decreased to reach NIS 31 million, as compared with expenses of NIS 51 million in the corresponding quarter last year. 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 loss in the second quarter of 2010 from the realization of investments, adjustments of the values of investments and other net non-recurring factors totaled NIS 1 million.

The income in the second quarter of 2009 from realization of investments, adjustment of the value of investments and other net non-recurring factors, 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.

Basic net earnings per share in the second quarter of 2010 totaled NIS 0.26, as compared with net earnings of NIS 0.66 in the corresponding quarter last year. Diluted net earnings per share in the second quarter of 2010 totaled NIS 0.25, as compared with net earnings of NIS 0.65 in the corresponding quarter last year.



Management Discussion as of June 30, 2010

b. Data of principal investees and their contribution to earnings

Data from the financial statements of principal investees ² (in NIS millions):

Revenues					
	Six months ended June 30,		Three months ended June 30,		For the year ended On December 31
	2010	2009	2010	2009	2009
Companies that prepare financial statements in NIS (in NIS millions)					
Mashav (excluding Taavura)	779	761	402	397	1,508
Taavura	1,070	1,021	531	509	2,079
Hadera Paper	489	434	249	204	892
Golf	311	319	145	167	666
CBI	19	108	6	53	183
Netvision	628	611	314	305	1,250
Companies that prepare financial statements in dollars (in US\$ millions)					
Fundtech ³	68.2	54.3	34.8	28.3	117.8
Net Income (loss)					
	Six months ended June 30,		Three months ended June 30,		For the year ended On December 31
	2010	2009	2010	2009	2009
Companies that prepare financial statements in NIS (in NIS millions)					
Mashav (excluding Taavura)	134	153	76	105	284
Taavura	42	83	15	61	122
Hadera Paper	42	35	18	16	91
Golf	43	49	19	25	88
CBI	(43)	63	(19)	31	65
Netvision	44	55	24	25	106
Companies that prepare financial statements in dollars (in US\$ millions)					
Fundtech ³	3.8	(0.3)	2.4	0.5	4.7

² The presented data refer to the results of the investees as presented in their respective financial statements, while disregarding the Company's holding rate therein and disregarding cancelations of inter-company and inter-segment transactions.

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



Management Discussion as of June 30, 2010

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

	For the six months ended June 30, 2010:			Six months ended on 30 June 2009		
	Current ⁴	Other ⁵	Total	Current ⁴	Other ⁵	Total
Sectors of operation						
Cement	108	(8)	100	118	(3)	115
Taavura	16	-	16	16	12	28
Hadera Paper	19	-	19	7	6	13
Golf	29	-	29	36	15	51
Fundtech	6	-	6	(8)	-	(8)
CBI	(32)	3	(29)	5	37	42
Netvision	9	2	11	1	1	2
Others	(11)	17	6	12	-	12
Total segment contributions	144	14	158	187	68	255
Financing, headquarters and other	(44)	12	(32)	(44)	-	(44)
Net Income	100	26	126	143	68	211

	For the three months ended June 30, 2010			For the three months ended June 30, 2009		
	Current ⁴	Other ⁵	Total	Current ⁴	Other ⁵	Total
Sectors of operation						
Cement	58	(1)	57	79	-	79
Taavura	5	-	5	8	12	20
Hadera Paper	8	-	8	6	-	6
Golf	12	-	12	18	1	19
Fundtech	4	-	4	(1)	-	(1)
CBI	(13)	1	(12)	(8)	28	20
Netvision	5	1	6	1	1	2
Others	(6)	(1)	(7)	10	-	10
Total segment contributions	73	-	73	113	42	155
Financing, headquarters and other	(31)	(1)	(32)	(51)	-	(51)
Net Income	42	(1)	41	62	42	104

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

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



Management Discussion as of June 30, 2010

	Year ended Thursday, December 31, 2009		
	Current ⁴	Other ⁵	Total
Sectors of operation			
Cement	209	19	228
Taavura	27	15	42
Hadera Paper	18	121	139
Golf	63	33	96
Fundtech	(2)	12	10
CBI	(21)	70	49
Netvision	9	1	10
Others	31	(15)	16
Total segment contributions	334	256	590
Financing and headquarters	(129)	(11)	(140)
Net Income	205	245	450

1. Cement segment

A. Review of the cement segment:

The net income in the reported period amounted to NIS 100 million, as compared with net income of NIS 115 million in the corresponding period last year.

Net income in the second quarter of 2010 totaled NIS 57 million, as compared with net income of NIS 79 million in the corresponding quarter last year.

The decrease in net income in the reported period and in the second quarter of 2010, in relation to the corresponding period and quarter of last year, respectively, arises mainly from the decrease in the current income of the cement sector, as detailed below.

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

Revenues during the reported period amounted to NIS 779 million, as compared with NIS 761 million in the corresponding period last year (growth of approximately 2%), primarily due to a quantitative increase in sales to the domestic market and to the Palestinian Authority, that served to offset the decrease in clinker exports.

The first half of the year was characterized by the operation of the manufacturing network at full capacity (other than a seasonal refurbishment), as compared with the corresponding period last year when the company prepared itself for a decrease in operations as a result of the crisis and shut down part of the manufacturing network, while consuming costly inventories.

The net income in the reported period amounted to NIS 134 million, as compared with net income of NIS 153 million in the corresponding period last year. The decrease in net income during the reported period, as compared with the corresponding period last year, originates primarily from the transition to financing expenses during the reported period, as compared with financial revenues thanks to irregular price hikes in the capital markets during the corresponding period last year.

Revenues in the second quarter of 2010 amounted to NIS 402 million, as compared with NIS 397 million in the corresponding quarter last year (growth of approximately 1%), primarily due to a quantitative increase in sales to the domestic market and to the Palestinian Authority, that served to offset the decrease in clinker exports.



Management Discussion as of June 30, 2010

The net income in the second quarter of 2010 amounted to NIS 76 million, as compared with net income of NIS 105 million in the corresponding quarter last year.

The decrease in net income in the second quarter of 2010, in relation to the corresponding quarter last year, originates primarily from the transition to financing expenses during the reported period, as compared with financing revenues thanks to unusual price hikes in the capital markets during the corresponding period last year, coupled with an increase in production costs, that served to offset the influence of the increase in sales - as mentioned above - and the contribution of the power station that began to operate at the beginning of the year.

2. Taavura

A. Review of the Taavura segment

The net income in the reported period amounted to NIS 16 million, as compared with net income of NIS 28 million in the corresponding period last year.

Net income in the second quarter of 2010 totaled NIS 5 million, as compared with net income of NIS 20 million in the corresponding quarter last year.

The decrease in net income in the reported period and in the second quarter of 2010, in relation to the corresponding period and quarter of last year, respectively, arises mainly from net revenues of NIS 12 million on account of the relocation to the alternate site last year.

b. Review of the condensed operating results of Taavura:

The revenues in the reported period totaled NIS 1,070 million, as compared with revenues of NIS 1,021 million in the corresponding period last year, representing an increase of 5%. The increase is attributed to growth in several operations and primarily in the sale of trucks, public transport, shuttles and transportation, coupled with the revenues of a subsidiary consolidated for the first time, net of a decrease in the sale of vehicles and in several other operations.

The Company's net income in the reported period amounted to NIS 42 million, as compared with net income of NIS 83 million in the corresponding period last year. The decrease in net income during the reported period, as compared with the corresponding period last year is mainly a result of Taavura's relocation to the alternative compound, which led to earnings of NIS 41 million last year.

Revenues in the second quarter of 2010 totaled NIS 531 million, as compared with NIS 509 million in the corresponding quarter last year. The increase is attributed to growth in several operations and primarily in the sale of trucks, public transport, shuttles and transportation, the operations of the cargo terminal, coupled with the revenues of a subsidiary consolidated for the first time, net of a decrease in the sale of vehicles, a decrease in the generator operations and in several other operations.

Net income in the second quarter totaled NIS 15 million, as compared with net income of NIS 61 million in the corresponding period last year. The decrease in net income during the reported period, as compared with the corresponding period last year is mainly a result of Taavura's relocation to the alternative compound, which led to earnings of NIS 41 million in the corresponding quarter last year.

3. Hadera Paper

A. Review of the Hadera Paper segment:

The net income in the reported period amounted to NIS 19 million, as compared with net income of NIS 13 million in the corresponding period last year.

Net income in the second quarter of 2010 totaled NIS 8 million, as compared with net income of NIS 6 million in the corresponding quarter last year.



Management Discussion as of June 30, 2010

The increase in net income during the reported period and in the second quarter of 2010, as compared with the corresponding period last year and the corresponding quarter last year, respectively, is attributed to a rise in current income and an increase in the percentage of holdings of CII in Hadera Paper, net of a current write-off of original differences on account of the CII investment in Hadera Paper and net of non-recurring revenues of NIS 6 million last year on account of unilateral dividend.

b. Review of the condensed operating results of Hadera Paper:

Revenues in the reported period totaled NIS 489 million, as compared with NIS 434 million in the corresponding period last year, representing an increase of 13%. Most of the increase in revenues originates from an increase in the revenues of the packaging paper sector that originates from a quantitative growth as a result of the operation of the new packaging paper manufacturing line - Machine 8 - coupled with the increase in exports to Europe and the growth in the demand of the domestic market, coupled with the higher selling prices in relation to the corresponding period last year.

The operating income for the reported period amounted to NIS 13 million, as compared with NIS 14 million in the corresponding period last year. Net of non-recurring revenues in the amount of NIS 16 million last year, on account of unilateral dividend, the operating loss in the corresponding period last year amounted to NIS 2 million. The increase in operating income during the reported period is primarily attributed to the increase in sales, as mentioned above.

The equity in earnings of associates in the reported period totaled NIS 40 million, as compared with NIS 35 million in the corresponding period last year.

Net income in the reported period totaled NIS 42 million, as compared with net income of NIS 35 million in the corresponding period last year.

The revenues in the second quarter of 2010 amounted to NIS 249 million, as compared with revenues of NIS 204 million in the corresponding quarter last year, representing an increase of 22%, that is primarily attributed to the growth in sales of the packaging paper and recycling sector in relation to the corresponding quarter, in light of the quantitative increase in sales as a result of the continuing growth in demand due to awakening of operations in the sector, as a result of the recognition of revenues from sales attributed to Machine 8, starting in June.

The operating income in the second quarter of 2010 totaled NIS 5 million, as compared with an operating loss of NIS 5 million in the corresponding quarter last year. The transition to operating loss from operating income is mainly due to the increase in revenues.

The equity in earnings of associates in the second quarter of 2010 totaled NIS 21 million, as compared with NIS 20 million in the corresponding quarter last year.

Net income in the second quarter of 2010 totaled NIS 18 million, as compared with net income of NIS 16 million in the corresponding quarter of last year.

4. Golf

A. Review of the Golf segment

The net income in the reported period amounted to NIS 29 million, as compared with net income of NIS 51 million in the corresponding period last year. The decrease in net income during the reported period, as compared with the corresponding period last year, is primarily attributed to earnings of NIS 14 million in the corresponding period last year, as a result of the expiry of the outstanding Series 1 Golf options.

Net income in the second quarter of 2010 totaled NIS 12 million, as compared with net income of NIS 19 million in the corresponding quarter last year. The decrease in net income originates primarily from the timing of the Passover holiday, as detailed below.

b. Review of the condensed operating results of Golf:



Management Discussion as of June 30, 2010

The revenues in the reported period totaled NIS 311 million, as compared with revenues of NIS 319 million in the corresponding period last year, representing a decrease of 3%. The decrease in revenues during the reported period in relation to the corresponding period last year is attributed to the hot weather that was recorded at the beginning of the year and served to lower the sales of the winter collection, coupled with a partial shortage in merchandise.

The gross profit in the reported period amounted to NIS 196 million, and was similar to the corresponding period last year, representing 63% of revenues, as compared with 61% of revenues in the corresponding period last year.

The higher gross margin during the reported period as compared with the corresponding period last year originated primarily from a lower level of offered discounts, coupled with a decrease in the dollar and euro exchange rates in relation to the NIS, along with a decrease in slow-moving and nonmoving inventories.

Income from ordinary operations in the reported period totaled NIS 54 million, as compared with NIS 59 million in the corresponding period last year. The main decrease in operating income is due to the increase in selling and marketing and general and administrative expenses of NIS 5 million compared to the corresponding period last year.

Net income in the reported period totaled NIS 43 million, as compared with net income of NIS 49 million in the corresponding period last year. The decrease in net income in the reported period, as compared with last year is mainly a result of the increase in selling and administrative expenses and the decrease in net financing revenues in the amount of NIS 3 million.

Revenues in the second quarter of 2010 totaled NIS 145 million, as compared with NIS 167 million in the corresponding quarter last year (a 14% decrease). The decrease in sales during the second quarter of the year, as compared with the corresponding period last year, is primarily attributed to the earlier sales preceding the Passover holiday, that occurred mostly in the first quarter this year, as compared with the second quarter last year.

The Group's gross profit during the second quarter of 2010 amounted to NIS 94 million, as compared with NIS 105 million in the corresponding period last year, representing approximately 65% revenues, as compared with 63% of revenues in the corresponding period last year.

Operating income in the second quarter of 2010 totaled NIS 24 million, as compared with NIS 35 million in the corresponding quarter last year. Most of the decrease in the operating income is attributed the decrease in sales, as mentioned above.

Net income in the second quarter of 2010 totaled NIS 19 million, as compared with net income of NIS 25 million in the corresponding quarter 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 net financing expenses.

5. **Fundtech**

A. Review of the Fundtech segment

The net income in the reported period amounted to NIS 6 million, as compared with a net loss of NIS 8 million in the corresponding period last year.

Net income in the second quarter of 2010 totaled NIS 4 million, as compared with a net loss of NIS 1 million in the corresponding quarter last year.

The transition from a loss in the corresponding period last year and in the corresponding quarter last year, to a profit in the reported period and in the second quarter of 2010, respectively, is attributed to an increase in the current income of Fundtech, coupled with a decrease in the current write-offs of original differences on account of the CII investment in Fundtech.



Management Discussion as of June 30, 2010

b. Review of the condensed operating results of Fundtech

Revenues in the reported period totaled \$68.2 million, as compared with \$54.3 million in the corresponding period last year, representing an increase of 26%.

The operating income in the reported period amounted to \$5.8 million, as compared with an operating loss of \$0.1 million in the corresponding period last year. The main increase in operating income is a result of the increase in revenues, as mentioned above.

The net income in the reported period amounted to \$3.8 million, as compared with a net loss of \$0.3 million in the corresponding period last year. The increase in income is primarily attributed to the \$5.9 million increase in operating income in relation to the corresponding period last year, net of the increase in tax and financing expenses amounting to \$1.8 million.

Revenues in the second quarter of 2010 totaled \$34.8 million, as compared with \$28.3 million in the corresponding quarter last year (a 23% decrease).

The operating income in the second quarter of 2010 amounted to \$3.5 million, as compared with operational break-even in the corresponding quarter last year. The main increase in income is a result of the increase in revenues, as mentioned above.

The net income in the second quarter of 2010 amounted to \$2.4 million, as compared with net income of \$0.5 million in the corresponding quarter last year. The increase in income is primarily attributed to the said increase in operating income, net of the increase in tax and financing expenses amounting to \$1.6 million.

6. CBI

A. Review of the CBI segment

The loss in the reported period amounted to NIS 29 million, as compared with net income of NIS 42 million in the corresponding period last year. The earnings in the corresponding period last year included non-recurring profits of NIS 37 million due to the completion of the exercise of Teva's investment option in Andromeda and revenues of NIS 29 million from the increase in the value of financial derivatives relating to CBI's investment in Andromeda.

The loss in the second quarter of 2010 totaled NIS 12 million, as compared with net income of NIS 20 million in the corresponding quarter last year. The earnings in the corresponding quarter last year included non-recurring profits of NIS 28 million due to the completion of the exercise of Teva's investment option in Andromeda and revenues of NIS 5 million from the increase in the value of financial derivatives relating to CBI's investment in Andromeda.

b. Review of the condensed operating results of CBI:

The transition from earnings of NIS 63 million in the corresponding period last year, to a loss of NIS 43 million in the reported period is primarily attributed to: (a) Decrease in earnings from the realization of assets (NIS 48 million), while in the corresponding period last year, this item included earnings from a decrease in the holding percentage in Andromeda in the amount of NIS 52 million; (b) Decrease in earnings from the modified value of derivative financial instruments (NIS 33 million), while last year earnings of NIS 45 million were included on account of derivatives related to the CBI investment in Andromeda; (c) Increase in the CBI share in the losses of investee companies (NIS 16 million), primarily on account of the transition to a loss at D-Pharm (NIS 14 million), attributed to the increase in the volume of R&D expenditures, coupled with the fact that the corresponding period last year included earnings from the impairment of options to investors in D-Pharm; (d) The transition from financing and management revenues to expenditures (NIS 12 million) as a result of a decrease in financing revenues and an increase in management expenses.

The transition from earnings of NIS 31 million in the corresponding quarter last year, to a loss of NIS 19 million in the second quarter of 2010 is primarily attributed to: (a) Decrease in earnings from the realization of assets (NIS 44 million). In the corresponding quarter last year, this item included earnings from the decrease in the rate of holding in Andromeda in the amount of NIS 41



Management Discussion as of June 30, 2010

million (b) Increase in the CBI share in the losses of investee companies (NIS 8 million). The CBI share in the losses of investee companies has increased by NIS 8 million in relation to the corresponding quarter last year, primarily as a result of the increase in the losses of Andromeda (NIS 8 million) and D-Pharm (NIS 4 million), originating from an increase in the volume of R&D expenses at these companies, net of the decrease in the losses of other investee companies (NIS 7 million), primarily as a result of changes in the value of debentures and convertible options at BioCancell.

7. Netvision

A. Review of the Netvision segment

The net income in the reported period amounted to NIS 11 million, as compared with net income of NIS 2 million in the corresponding period last year.

Net income in the second quarter of 2010 totaled NIS 6 million, as compared with net income of NIS 2 million in the corresponding quarter last year.

The increase in net income during the reported period and in the second quarter of 2010, in relation to the corresponding period last year and the corresponding quarter last year, respectively, is primarily attributed to the decrease in the current write-off of the original differences on account of the CII investment in Netvision and the increase in the holding percentage of CII in Netvision.

b. Review of the condensed operating results of Netvision

The revenues in the reported period amounted to NIS 628 million, as compared with NIS 611 million in the corresponding period last year, representing an increase of approximately 3%, originating from an increase in revenues from ISP operations. Most of the growth in the ISP operations is attributed to the sale of information security products, growth in Internet operations and value added services sold to customers and the consolidation for the first time of the financial statements of Rimon Israel 2009 Ltd., net of a decrease in the sales of the telephony sector during the reported period, originating primarily as a result of a decrease in the number of minutes, that is explained by a general decrease in the volume of minutes in the market, coupled with a decrease in the market share of Netvision as compared with its market share in 2009. Moreover, the decrease in the dollar exchange rate in relation to the corresponding period last year also affected the sales in the telephony sector.

Income from operations for the reported period amounted to NIS 63 million, as compared with NIS 80 million in the corresponding period last year. The decrease in income from operations in relation to the corresponding period last year is primarily attributed to the decrease in income from operations of the telephony sector.

Netvision's net income in the reported period amounted to NIS 44 million, as compared with net income of NIS 55 million in the corresponding period last year. The decrease in net income is attributed to the decrease in operating income, as explained above.

The revenues in the reported quarter amounted to NIS 314 million, as compared with NIS 305 million in the corresponding quarter last year, representing an increase of approximately 3%, originating from an increase in revenues from ISP operations. Most of the growth in the ISP operations is attributed to the sale of information security products, growth in Internet operations and value added services sold to customers and the consolidation for the first time of the financial statements of Rimon Israel 2009 Ltd., net of a decrease in the sales of the telephony sector during the reported quarter, originating primarily as a result of a decrease in the number of minutes, that is explained by a general decrease in the volume of minutes in the market, coupled with a decrease in the market share of Netvision as compared with its market share in the corresponding quarter of 2009. The sales in the telephony sector were also affected by the 5% decrease in the dollar exchange rate, in relation to the corresponding quarter last year.



Management Discussion as of June 30, 2010

The operating income amounted to NIS 34 million for the reported quarter, as compared with operating income of NIS 36 million in the corresponding quarter last year. The decrease in the income from operations in relation to the corresponding period last year originates primarily from a decrease in the income from operations of the telephony sector as a result of Netvision's entry into the home telephony sector, that led to an operating loss of approximately NIS 6 million as compared with an operating loss of approximately NIS 1 million in the corresponding quarter last year, coupled with the fact that in the corresponding quarter last year, non-recurring revenues of NIS 4 million were recorded on account of a settlement agreement with a telecom plant.

Netvision's net income in the reported quarter amounted to NIS 24 million, as compared with net income of NIS 25 million in the corresponding quarter last year.

3. Major Changes in Investments and in Investee Companies

A. Maman

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

For additional details, see Note 3a1 to the Company's financial statements as at June 30, 2010.

b. Hadera Paper Ltd.

1. Pro forma information

See Note 3a2a to the Company's financial statements as of June 30, 2010, regarding the condensed pro forma statement of income, that were prepared in order to retroactively reflect the results of operations of the Group, under the assumption that the business combination of Hadera Paper, as mentioned in the above note, had already been made in the earliest period presented.

2. Fixed Assets

In light of the existence of indications in the first quarter of 2010, regarding the impairment of the packaging paper cash-generating unit, Hadera Paper estimated the fair value of the fixed asset items that are included under the packaging paper sector, as at March 31, 2010, based on assessment reports. In this capacity, Hadera Paper found that the fair value of the fixed assets, net of the selling costs, is higher than the book value and in accordance with IAS36, no recognition is necessary of a loss on account of the impairment of the fixed assets. For details, see also Note 3a2b to the Company's financial statements as of June 30, 2010.

The Management Discussion of the company as at March 31, 2010, included information required in relation to a material valuation according to Section 8b of the Securities Regulations (Periodical and Immediate Reports), 1970.

c. Golf

In the course of the first quarter of 2010, as a result of the exercise of all the Golf Series 2 options, the Company's holding percentage in Golf decreased to 64%. The company recorded an increase in shareholders' equity attributed to the company shareholders in the sum of NIS 15 million.



Management Discussion as of June 30, 2010

d. **CBI**1. **Biomedical Investments (1997) Ltd. ("Biomedical")**

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

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

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

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

For additional details, see Note 3a4a to the Company's financial statements as of June 30, 2010.

2. **Andromeda Biotech Ltd. (hereinafter: "Andromeda")**

In February 2010, CBI invested \$2.6 million in Andromeda. Additionally, Teva invested \$6.7 million in Andromeda during the reported period.

For additional details, see Note 3a4b to the Company's financial statements as of June 30, 2010.

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

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

To the best of CBI's knowledge, D-Pharm intends to use part of the said proceeds in order to expand its clinical operations and to promote the clinical development of the DP-VPA product, subject to the discretion of the Board of Directors of D-Pharm, from time to time.

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

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

For additional details, see Note 3a4c to the financial statements dated June 30, 2010.



Management Discussion as of June 30, 2010

4. Mediowound Ltd. (hereinafter: "Mediowound")

In June 2010, Mediowound (a company in which CBI holds 56%) signed non-committing memoranda of understanding with Poliheal (a company in which CBI holds 41%) and with Teva, stipulating that the parties will collaborate in the area of wound healing, in the development, manufacture and marketing of the innovative products of Mediowound and Poliheal. The structure of the transaction includes the acquisition of Poliheal by Mediowound. In parallel, the options for acquiring control over Mediowound, that were signed with Teva in 2007, were updated. The joint product range will include a series of products addressing the healing of wounds.

For more details, see Note 3a4d to the Company's financial statements as of June 30, 2010.

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

In January 2010 and in July 2010, Teva invested an additional \$3 million and \$2 million, respectively, in Curetech. The sum of the investment constitutes part of a total sum of \$10.5 million that are intended to allow Curetech to expand the development operations.

For more details, see Note 3a 4f to the Company's financial statements as of June 30, 2010.

e. Nova Measuring Instruments Ltd. ("Nova")

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

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

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

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

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

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

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

For additional details, see Note 3a5 to the Company's financial statements as of June 30, 2010.

f. Arcadian Networks Inc. (hereinafter – "Arcadian")

During the first quarter of 2010 the Company included in its books an NIS 17 million provision for impairment of its investment in Arcadian, a company in which 12% are held.

For additional details, see Note 3a6 to the Company's financial statements as of June 30, 2010.

g. Tigo Energy Inc. (hereinafter: "Tigo")

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



Management Discussion as of June 30, 2010

For additional details, see Note 3a7 to the Company's financial statements as of June 30, 2010.

4. Financial Situation, Sources of Finance and Liquidity

- a. Total assets in the consolidated balance sheets of the Company as of June 30, 2010, amounted to NIS 11,367 million, as compared with NIS 11,279 million as of December 31, 2009.
- b. As of June 30, 2010, the Group's long-term external financing sources (net of current maturities) amounted to NIS 4,190 million, as compared With NIS 4,072 million as of December 31, 2009. As of June 30, 2010, the Group's short-term financing sources (including current maturities) amounted to NIS 890 million, as compared With NIS 898 million as of December 31, 2009.
- c. The Company's shareholders' equity totaled NIS 4,162 million at June 30, 2010, as compared with NIS 4,233 million as at December 31, 2009. The equity attributed to the shareholders totaled NIS 2,325 million at June 30, 2010, as compared with NIS 2,425 million as at December 31, 2009.
The Company's equity as of June 30, 2010 represents a source for financing 37% of the Company's assets, as compared with 38% as of December 31, 2009.
- d. The working capital in the consolidated balance sheets totaled NIS 1,837 million at June 30, 2010, as compared with NIS 1,984 million as at December 31, 2009. Total liquid assets (cash and cash equivalents and short-term investments) as of June 30, 2010, amounted to NIS 2,030 million, as compared with NIS 2,220 million as of December 31, 2009. The quick ratio in the consolidated financial statements is equal to 1.43, as compared with 1.52 as at December 31, 2009.
- e. The principal cash sources in the reported period were mainly derived from the cash flows from operating activities of NIS 396 million, proceeds from the realization of investments in investee companies in the sum of NIS 32 million, an issue of debentures in the sum of NIS 180 million, issue of equity to interested parties with no means of control in consolidated subsidiaries in the sum of NIS 80 million and the receipt of long-term loans and other liabilities of NIS 423 million. The cash sources served primarily for investments in fixed assets and intangible assets in the total sum of NIS 214 million, in the acquisition of securities held for trade in the sum of NIS 35 million, interest payments and the repayment of long-term loans in the sum of NIS 605 million, dividend payments to the minority interests in the sum of NIS 106 million, distribution of dividends to the company shareholders in the sum of NIS 288 million and the repayment of short-term credit from banks in the sum of NIS 58 million.
- f. 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 433 million (December 31, 2009 - NIS 686 million).
- g. As of June 30, 2010, the balance of liabilities, net, of the Company and its wholly-owned headquarter companies (mainly debentures) amounted to NIS 1,543 million (December 31, 2009: NIS 1,532 million).
- h. The Company's working capital as at June 30, 2010, on a solo basis (according to the financial information attributed to the company in the attached financial statements, according to Regulation 38d of the Securities Regulations (Periodical and Immediate Reports), 1970, amounts to a deficit of NIS 191 million.
on August 18, 2010, the Company's Board Of Directors determined that the existence of the said deficit in working capital does not indicate a liquidity problem since the company's working capital, net of the current liabilities of the company toward its wholly-owned subsidiaries (headquarter companies) in the amount of NIS 191 million, with the addition of cash and cash equivalents balances amounting to NIS 182 million, held at wholly-owned subsidiaries of the company (headquarter companies), amounts to a positive sum of NIS 182 million.



Management Discussion as of June 30, 2010

5. Dividend

- a. On March 21, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 180 million, representing NIS 1.1430766 per each NIS 1 par value of shares. The dividend was distributed on April 13, 2010.
- b. On May 17, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 108 million, representing 0.685846 per each NIS 1 par value of shares. The dividend was distributed on June 15, 2010.
- c. On August 18, 2010, the Board of Directors of the Company decided to distribute a cash dividend of NIS 120 million, representing 0.7620511 per each NIS 1 par value of shares. The dividend was distributed on September 15, 2010. The determining date was set as August 29, 2010, while the ex-date was set as August 30, 2010.
- d. Following below are details regarding the examinations conducted by the Board of Directors pertaining to the decisions made regarding the said dividend distributions:
 1. The Board of Directors of the company analyzed the company's ability to meet the profit test and its ability to meet the regular repayment outlined in Section 302(a) of the Companies Law - 1999, and following this examination, it has confirmed that the company has met these tests, regarding the said dividend distributions.
 2. Regarding the company meeting the profit test - The Board of Directors approved the said distribution of dividend based on the net income accumulated for the shareholders of the company in the two years ended on December 31, 2009, on March 31, 2010 and on June 30, 2010, respectively.
 3. Regarding the ability to meet the repayment test - The board of directors took into consideration the following matters: Information regarding the financial position of the company, including information regarding the company's liquid balances; the outstanding debts of the company and its net outstanding debt; the market value of the negotiable investments and the surplus liquid balances and negotiable investments over the company's net debt; the company's future expected cash flows, up to and including the years 2011 and 2012, respectively; the distribution of the company's debt payments; the additional sources of finance available to the company, including the receipt of dividends from investee companies, the realization of investments and the raising of funds; and the company's ability to meet the rating of its debentures. Following the analysis of the above points, the Board of Directors has confirmed that the company does indeed meet the repayment test with respect to the said dividend distribution, also under conservative scenarios pertaining to the expected future proceeds from dividends and from the realization of investments.
 4. The Board of Directors of the company estimates that the dividend distribution will not have a material adverse effect on the financial situation of the company, including its capital structure, the level of its leverage, the level of its liquidity and its ability to continue to operate in its existing form.

The expected data and the said estimates appearing in sections 3 and four above constitute forward-looking information as defined in the securities law - 1968, based on an analysis of the data appearing in section 3 above, conducted by the company. These expectations and estimates may not materialize - in whole or in part - or may materialize in a different manner than anticipated. The principal factors that may affect the data include changes in economic markets in Israel and worldwide, changes in capital market conditions, the inflation rate, exchange rates, various market conditions in which the investee companies of the company operates, political and security changes as well as regulatory changes - may all influence the operations of the company and its investee companies.



Management Discussion as of June 30, 2010

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

6. Summarized sensitivity analysis tables

For the complete tables, see the appendix to the management discussion.

a. June 30, 2010

Instrument	Profit (loss) from change					Fair value as at Jun-30-10	Profit (loss) from change				
	Up 2% (absolute)	Up 10%	Up 5%	Up 2%	Up 1%		Down 1%	Down 2%	Down 5%	Down 10%	Down 2% (absolute)
Total sensitivity to changes in US dollar exchange rate	-	40	20	-	-	383	-	-	(20)	(40)	-
Total sensitivity to changes in € exchange rate	-	4	2	-	-	3	-	-	(1)	(4)	-
Total sensitivity To Interest Rate changes	340	63	31	-	-	(4,738)	-	-	(32)	(65)	(375)
Total sensitivity to changes in stock market prices	-	90	44	-	-	897	-	-	(44)	(90)	-
Total sensitivity To changes in Consumer Price Index	-	-	-	(48)	(22)	(3,078)	22	48	-	-	-

b. June 30, 2009

Instrument	Profit (loss) from change					Fair value as at Jun-30-09	Profit (loss) from change				
	35% rise in prices	Up 10%	Up 5%	Up 2%	Up 1%		Down 1%	Down 2%	Down 5%	Down 10%	31% drop in prices
Total sensitivity to changes in US dollar exchange rate	-	52	29	-	-	536	-	-	(29)	(52)	-
Total sensitivity to changes in € exchange rate	-	(7)	(4)	-	-	(66)	-	-	4	7	-
Total sensitivity To Interest Rate changes	-	60	30	-	-	(3,658)	-	-	(31)	(60)	-
Total sensitivity to changes in stock market prices	4	58	28	-	-	579	-	-	(28)	(58)	(3)
Total sensitivity To changes in Consumer Price Index	-	-	-	(27)	(14)	(2,635)	15	28	-	-	-



Management Discussion as of June 30, 2010

c. December 31, 2009

Instrument	Profit (loss) from change					Fair value as at Dec-31-09	Profit (loss) from change				
	Up 2% (absolute)	Up 10%	Up 5%	Up 2%	Up 1%		Down 1%	Down 2%	Down 5%	Down 10%	Down 2% (absolute)
Total sensitivity to changes in US dollar exchange rate	-	23	10	-	-	197	-	-	(10)	(23)	-
Total sensitivity to changes in € exchange rate	-	(2)	(2)	-	-	(74)	-	-	-	-	-
Total sensitivity To Interest Rate changes	161	70	35	-	-	(4,494)	-	-	(35)	(73)	(173)
Total sensitivity to changes in stock market prices	-	60	30	-	-	599	-	-	(30)	(60)	-
Total sensitivity To changes in Consumer Price Index	-	-	-	(55)	(28)	(3,514)	28	55	-	-	-

7. Remuneration of Senior Officers

Determining Salaries and Bonuses

The Board of Directors of the company (after obtaining the approval of the Audit Committee) decides once a year on the update of salaries in the granting of bonuses to senior officers at the company, while taking into consideration, inter alia, the performance of the company in the past year. On March 21, 2010, in determining the level of the annual bonus for 2009 that was granted to senior officers, the Board of Directors took into consideration, inter alia, the basic salary of each officer, the degree of complexity of their position, the responsibility they were entrusted with, special efforts invested during the relevant period, the desire to retain the officer as a human resource, the volume of company operations and their complexity and the personal contribution made by each officer to the success of the company's business. The Board of Directors of the company estimates that the said bonuses reflect the contribution of each of the senior officers to the company and that these are reasonable given the circumstances. For additional details, see Regulation 21 in part D - Additional Details regarding the Corporation, as at December 31, 2009.

b. Exposure and Management of Market Risks

1. The following report relates to the Company and its wholly-owned headquarter companies whose exposure to market risks is managed by the Company ("the Corporation"). Regarding the principal subsidiaries, see Section 9, below.
2. The officer responsible for managing the financial risks to which the Corporation is exposed is Mr. Gonen Biber, CFO ("The Responsible Officer").
3. **Market risks to which the Corporation is exposed**

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



Management Discussion as of June 30, 2010

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

Direct exposure to a rise in the CPI - As at June 30, 2010, the company possesses CPI-linked liabilities totaling some NIS 1.7 billion with an average life span of approximately 4.7 years, as compared with CPI-linked liabilities totaling approximately NIS 1.8 billion, with an average life span of 4.7 years, as at December 31, 2009.

The company partially hedges this exposure by acquiring forward contracts on the CPI. True to June 30, 2010, such contracts amounted to NIS 474 million, with an outstanding average weighted term of approximately 17 months. True to December 31, 2009, such contracts amounted to NIS 344 million, with an outstanding average weighted term of approximately 16 months.

For information regarding the situation in real-term and financial markets in Israel and worldwide, see Section a1d, above.

4. Corporation's Market Risk Management Policy

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

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

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

5. Methods of Supervision and Implementation of Policies

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

- a. To enter into hedging transactions, from time to time, at its discretion, including forward exchange transactions, options and other financial instruments (with respect to principal or interest), for the purpose of reducing or completely eliminating such exposures as may arise from time to time in consequence of the financial structure of the Corporation and/or in order to reduce financial expenses.
- b. With respect to exposure to 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.



Management Discussion as of June 30, 2010

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

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

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

6. **Report of linkage bases of the Company and its wholly-owned headquarter companies as of June 30, 2010, for which the Company manages the currency exposure:**

	Index-linked	\$-linked	Unlinked	Non-monetary balances	Total
NIS millions					
Current assets	118	100	246	2	466
Non-current assets	6	2	23	3,871	3,902
Current Liabilities	(258)	(2)	(63)	-	(323)
Non-current liabilities	(1,457)	-	(258)	(5)	(1,720)
Total balance sheet amounts, net	<u>(1,591)</u>	<u>100</u>	<u>(52)</u>	<u>3,868</u>	<u>2,325</u>

7. **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:**

	Index-linked	\$-linked	Unlinked	Non-monetary balances	Total
NIS millions					
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)
Total balance sheet amounts, net	<u>(1,808)</u>	<u>100</u>	<u>608</u>	<u>3,030</u>	<u>1,930</u>



Management Discussion as of June 30, 2010

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

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

9. Subsidiaries

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

A subsidiary utilizes contracts for periods of up to one year in various commodities and energy products in order to hedge against unexpected increases in prices on the global market.

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

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

10. Consolidated linkage basis report as of June 30, 2010:

	Index-linked	\$-linked	Linked to other foreign currency	Unlinked	Non-monetary balances	Total
NIS millions						
Current assets	426	474	287	2,078	890	4,155
Non-current assets	48	166	2	81	6,915	7,212
Current Liabilities	(543)	(110)	(188)	(1,361)	(116)	(2,318)
Non-current liabilities	(2,616)	(70)	(41)	(1,544)	(616)	(4,887)
Total balance sheet amounts, net	<u>(2,685)</u>	<u>460</u>	<u>60</u>	<u>(746)</u>	<u>7,073</u>	<u>4,162</u>



Management Discussion as of June 30, 2010

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

	Index-linked	\$-linked	Linked to other foreign currency	Unlinked	Non-monetary balances	Total
	NIS 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)	(46)	(53)	(532)	(583)	(3,734)
Total balance sheet amounts, net	(2,575)	531	(14)	501	4,256	2,699

12. Consolidated linkage basis report as of December 31, 2009:

	Index-linked	\$-linked	Linked to other foreign currency	Unlinked	Non-monetary balances	Total
	NIS millions					
Current assets	284	497	182	2,393	896	4,252
Non-current assets	48	137	1	56	6,785	7,027
Current Liabilities	(718)	(104)	(211)	(1,182)	(53)	(2,268)
Non-current liabilities	(2,864)	(63)	(47)	(1,182)	(622)	(4,778)
Total balance sheet amounts, net	(3,250)	467	(75)	85	7,006	4,233

13. For sensitivity analysis tables for sensitive instruments, according to changes in market elements - see appendix.

c. Corporate Governance Issues

1. Donations and Supporting the Community

On March 18, 2010, the Company's Board decided to set the Company's overall donations budget at NIS 5 million ("Donations Budget for 2010"). Out of the donations budget for 2010, the Company will donate an amount of NIS 3 million through the IDB Foundation for the Community (R.A.).

2. Process of approval of the financial statements

The Company's Board of Directors appointed a Balance Sheet Committee that provides recommendations regarding the discussion of the financial statements and their approval to the Board. The Balance Sheet Committee consists of four directors: Yehezkel Dovrat - Chairman of the Committee (director possessing accounting and financial skills), David Leviathan (director possessing accounting and financial skills), Ze'ev Ben Asher (external director possessing accounting and financial skills) and Liora Polacheck (external director possessing professional skills). The meetings of the Balance Sheet Committee, as well as the board meetings during which the financial statements are discussed and approved, are attended by the company's auditing CPAs, who are instructed to present the principal findings - if there are any - that surfaced during the audit or review process, as well as by the Internal Auditor - Ilan Amit.



Management Discussion as of June 30, 2010

2. Process of approval of the financial statements (continued)

The Balance Sheet Committee conducts its examination via detailed presentations from company executives and others, including: The Company's VP Comptroller, Mr. Yehuda Ben Ezra and the CFO, Mr. Gonen Biber - covering 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: The first, held several days before the approval date of the financial statements, is held to discuss the actual results and the material reporting issues, whereas the second, held at the approval date of the financial statements, is held by the Board Of Directors, to discuss the actual results and the material reporting issues.

3. Procedures

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

1. As detailed in Section 19 of the Management Discussion of the company for 2007, the Board of Directors of the company ratified a procedure on March 23, 2008, determining guidelines and rules for the company to examine whether a particular event or matter of the company and or an investee company ("The Event") is material to the company in terms of the obligation to submit an immediate report by virtue of Regulation 36 to the Securities Regulations (Periodical and Immediate Reports), 1970 ("The Procedure"). According to the procedure that was adopted, a quantitative and qualitative examination will be conducted with respect to the relevant event, while taking into consideration all of the relevant information and circumstances. Pursuant to the procedure, the quantitative examination will be conducted according to quantitative parameters relevant to the event, on the basis of the consolidated financial statements and the data appearing therein, including asset ratios, profit ratios, shareholders' equity ratios and liability ratios.

2. On March 21, 2010, the Board of Directors of the company approved the amendment of a procedure, to the effect that from the date of the resolution and thereafter, the profit ratio will be calculated as follows: The actual or forecasted profit or losses attributed to the event divided by the average annual profit or loss (i.e. in four quarters) in the preceding three years, calculated on the basis of the last 12 quarters in which audited or reviewed financial statements were published; in this respect, the profit or loss attributed to the event and the profit or loss in each quarter will be calculated in their absolute value. It should be noted, that prior to the amendment of the procedure, the calculation of the average annual profit was based on the quarterly profit or loss data as is (positive or negative).

There are no changes to the remaining directives of the procedure.

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

b. Procedure for classifying transactions as marginal

In March 2009, the Company's Board of Directors resolved to adopt rules and guidelines for categorizing a transaction of the Company or of one of its consolidated subsidiaries - with a controlling shareholder ("controlling shareholder transaction") - as a negligible transaction as set forth in Regulation 41(a)(6) of the Securities Regulations (Preparation of Annual Financial



Management Discussion as of June 30, 2010

3. Procedures (continued)

Statements), 2010 ("Financial Statements Regulations"). These rules and guidelines shall also serve to examine the extent of disclosure in the periodical report and the prospectus (including shelf prospectus reports) regarding a transaction of the company, Corporation under its control and any related company, with a controlling shareholder, or in whose approval a controlling shareholder possesses a personal interest, as set forth in Regulation 22 of the Securities Regulations (Periodic and Immediate Reports) ("Periodic Report Regulations") and in Regulation 54 of the Securities Regulations (Prospectus Details and Prospectus Draft - Form and Shape), as well as for the purpose of submitting an immediate report regarding a said transaction of the company, as stipulated in Regulation 37(a)(6) of the Periodic Report Regulations (the types of transactions determined in the Financial Statements Regulations, Periodical Statements Regulations and in the Prospectus Details Regulations mentioned above, hereinafter: "Related Party Transactions"). On August 18, 2010, the Company's Board of Directors decided to update the rules and guidelines for the classification of an interested party transaction as a negligible transaction for the purposes described above, as follows:

The Company and its associated and related companies, are conducting or may conduct interested-party transactions in the course of their normal state of affairs, and they possess or may possess undertakings to conduct such transactions, including transactions of the type and possessing the characteristics outlined below: Obtaining banking, financial and/or economic services (such as: portfolio management, investment consulting, managing funds provided for the employees, deposits) from a banking corporation and financial institutions; purchasing insurance policies (such as: Managers liability insurance, employee loyalty insurance, property insurance and managers insurance); purchase of products and services (such as: Communication products and services, Call Center services, food products, office supplies, paper and cardboard products, clothing, textile, hygiene products, complementary products for cleaning and kitchen use and pesticides); sale and purchase of gifts and gift certificates; purchase and/or rental and/or operational leasing of vehicles; purchase of commercial vehicles, trucks and generators; purchase of travel, flights and tourism services in Israel and overseas and conference and event planning services; legal services; purchasing; rental of real estate property; property management services; vehicle repair services; transportation and courier services, packaging and export services; archive services, warehouse management services and logistic services; administrative services; underwriting engagements; irrigation and pest control services, shredding and waste treatment; rental of advertising space; supply of newspapers, magazines and periodicals.

In the absence of any special qualitative considerations arising from the circumstances, a transaction with an interested party shall be deemed negligible if it is not an exceptional transaction (as defined in the Companies Law)⁶ for the purposes outlined above, if the applicable benchmark calculated for the transaction is less than 0.5% and the volume of the transaction does not exceed NIS 8 million (with this sum being adjusted according to the rise, from time to time, in the consumer price index, in relation to the Known Index starting at the beginning of 2010).

In any interested party transaction classified as a negligible transaction, one or more of the criterions relevant to the specific transaction will be calculated based on the consolidated audited or reviewed financial statements of the Company: (a) Upon the acquisition of a fixed asset ("non-current asset") - The volume of the transaction in relation to the total assets (in the report of the financial situation that is included in the company's last consolidated financial statements); (b) Upon the sale of a fixed asset ("non-current asset") - The profit/loss from the transaction in relation to the average annual earnings (i.e.- four quarters) in the report of the financial situation that is included in the company's last consolidated financial statements), according to the last 12 quarters from which consolidated financial statements of the company have been published. In this respect, the profit/loss from the transaction and the profit/loss in any quarter will be calculated

⁶ It is clarified, that a transaction that falls outside the normal course of business of the company, or that is not under market conditions, or that may materially affect the profitability of the company, its property or its liabilities, shall not be classified as a negligible transaction. It should be noted that the company is working on the formulation of parameters for the classification of exceptional transactions or transactions that are not exceptional. The company will publicly disclose these parameters once they are adopted.



Management Discussion as of June 30, 2010

3. Procedures (continued)

at their absolute value; (c) Upon assuming a monetary liability - The volume of the transaction in relation to the total liabilities in the report of the financial situation that is included in the last consolidated financial statements; (d) Upon the acquisition or sale of products (excluding fixed assets) or services - The volume of the transaction in relation to the total revenues from sales and services over the last four quarters for which consolidated financial statements of the company have been published. Regarding multi-annual interested party transactions, the volume of the transaction will be calculated for the purpose of analyzing the negligibility on an annual basis. Thus, for example, in an insurance transaction for several years, the paid annual insurance premiums shall be considered as the volume of the transaction.

In cases where, at the Company's discretion, all the aforementioned quantitative benchmarks are not applicable for evaluation of the negligibility of the transaction with an interested party, the transaction shall be deemed negligible, in accordance with another applicable benchmark to be determined by the Company, provided that the applicable benchmark calculated for said transaction is less than 0.5% and that the volume of the transaction shall not exceed NIS 8 million (with this sum being adjusted with the increase - from time to time - in the consumer price index, in relation to the Known Index at the beginning of 2010).

The consideration of the quantitative benchmarks of an interested-party transaction may lead to the classification of the transaction as a transaction that is not negligible despite the aforesaid. Thus - and only as an example - a transaction with an interested party shall not usually be deemed negligible if it is conceived as a significant event by the Company's management, and if it serves as a basis for making managerial decisions, or if in the course of the transaction with an interested party, the latter is expected to receive benefits which are important to disclose publicly.

Separate interested-party transactions that are in fact interconnected and that are in fact part of the same engagement (for example: conducting negotiations regarding the entirety of the transactions), shall be examined as a single transaction.

An interested-party transaction that was classified as negligible by an investee company of the Company, shall also be considered negligible at the parent company level. A transaction that was classified by the investee company as a transaction that is not negligible, shall be examined against the relevant benchmarks at the parent company level.

The Audit Committee of the Company shall annually review the manner of implementation of the instructions in this procedure by the Company, and will conduct sample examinations of interested-party transactions to which the company is a party directly, that were classified as negligible transactions according to the procedural instructions. As part of the sample examinations of the said transactions, the Audit Committee shall examine, inter alia, the manner by which the prices and other terms of the transaction were determined, as the circumstances may be, and will analyze the impact of the transaction on the business situation of the company and the results of its operations. The operations of the Audit Committee as stated in this section, including the sample examination mentioned above, the manner of its implementation and the summarized results and conclusions, shall be disclosed in the periodical report of the company.

The Company's Board of Directors shall examine the need to update the instructions of this procedure from time to time, while taking into consideration the interest-party transactions undertaken by the company and the relevant changes in the legislation.

4. Related Parties

Regarding developments that occurred during the reported period, see Note 7 to the financial statements dated June 30, 2010.

5. Officers and Directors' Insurance

See Note 7c to the Company's financial statements as of June 30, 2010.



Management Discussion as of June 30, 2010

6. Directors' Compensation

See Note 7d to the Company's financial statements as of June 30, 2010.

7. Details regarding the preparations and progress of the Corporation in implementing directives regarding the effectiveness of the internal control over the financial reporting and disclosure

a. General

Following the recommendations of the Committee for the Examination of Corporate Governance in Israel, headed by Prof. Zohar Goshen, from December 2006, and the proposal of the Securities Authority, the reporting regulations were amended in December 2009 (hereinafter: "Amendment 2010"), within whose framework regulations and conditions were sent for the process of approval of the financial statements and the setting of internal processes within the Corporation, that were intended to preserve an appropriate level of financial reporting and disclosure.

The objective of Amendment 2010 was to improve the quality of financial reporting and disclosure by the way of three principal elements:

1. Provision of a report by the Board of Directors and company management regarding the effectiveness of internal control over the financial reporting and disclosure, so as to strengthen the network of internal controls within the company.
2. Provision of personal affidavits from the company CEO and the most senior officer responsible for finance at the company, affirming that, inter alia, according to their knowledge: (a) The financial statements and other financial information included in the financial statements do not include any misrepresentation of a material fact and are not lacking any representation of a material fact necessary in order for the representations included therein not to be misleading; (b) The financial statements and other financial information included in the financial statements present fairly, in conformity with generally accepted accounting principles, in all material aspects, the financial position, results of operation and cash flows of the Company; Moreover, the CEO and the said officer will declare that they have assessed the effectiveness of internal control on the financial reporting and disclosure, insofar as it relates to the financial statements and other financial information included in the financial statements.
3. Attached to the periodical report will be a professional opinion on the part of the company's auditing CPA, regarding the effectiveness of the internal control on the financial reporting at the company and regarding any material weaknesses identified in this control.

The said directives included in the Amendment 2010 shall enter into force starting with the periodical report dated December 31, 2010, although in accordance with the directives of Amendment 2010, during the transitional period prior to the validity, the Management Discussion shall include the details regarding the preparations and progress of the company in the implementation of the directives of the amendment.

b. In the Management Discussion for 2009, the Company reported as follows:

1. A steering committee was established added by the company's VP Comptroller, Yehuda Ben Ezra, was responsible for the implementation of the project at the company. Moreover, the Auditing Committee and Board Of Directors of the company have held discussions regarding the company preparations in this respect, in accordance with this amendment.
2. The company has mapped and analyzed the internal control over the reporting and disclosure in the financial statements and the highly material processes related to financial reporting and disclosure, including:
 - Mapping and documentation of processes and identifying controls in the formulation and discovery process of the financial statements.



Management Discussion as of June 30, 2010

7. Details regarding the preparations and progress of the Corporation in implementing directives regarding the effectiveness of the internal control over the financial reporting and disclosure (continued)

- Mapping of the most material processes for the company operations and identifying control deficiencies therein.
- Mapping the control environment processes and identifying control deficiencies therein.
- Mapping information system processes related to financial reporting and identifying control deficiencies therein.

3. As part of the work planning and the mapping of issues, items, highly material processes and the consolidated subsidiaries that will be included in the work, the company has analyzed issues and items that may include or may cause material errors in reporting and in the disclosure of the financial statements.

The principal qualitative criteria that served the company in selecting the issues and items were:

- Assessment by the company of the inherent exposure to loss following errors and fraud associated with the issues and items.
- Exposure to errors as a result of infrastructure components (such as information systems and personnel) necessary for handling the issues.
- The risk associated with the essence of the item or issue.
- The accounting complexity associated with the issue or item.

4. The principal criteria in determining the material consolidated subsidiaries of the holding company for the purpose of meeting the regulations, take into consideration:

- The total assets of the consolidated subsidiaries out of the total assets of the company on the basis of its consolidated balance sheets, and/or the total revenues of the consolidated subsidiaries out of the total revenues of the company on the basis of its consolidated balance sheets.

c. Processes considered by the company to be important that were included in the scope of the project

- Entity Level Controls - (ELC)
- Process of finalization of the financial statements.
- Information Technology General Controls - (ITGC)

d. Processes considered by the company to be highly material in the financial reporting and disclosure

The highly material processes of the company were determined stemming from its viewpoint as a company dealing primarily in the holding of shares of investee companies. Following below is an outline of the principal processes that are highly material to the financial reporting and disclosure:

- Investments in investee companies and the realization of holdings - As a holding company, its operations include the acquisition and realization of investments, the management of companies and their amelioration. The said operations also necessitate the management of a portfolio of investments, appropriate reporting to the authorities and appropriate accounting records.
- Management of cash balances - The company possesses cash balances of material sums and large cash transactions. The management of the cash balances includes the current monitoring of these balances and the transactions therein, their deposit in investments channels according to the risk management policy of the company and the appropriate accounting records.



Management Discussion as of June 30, 2010

7. Details regarding the preparations and progress of the Corporation in implementing directives regarding the effectiveness of the internal control over the financial reporting and disclosure (continued)

- Management of the debt portfolio - The company possesses several series of debentures at material sums. The changes that occur occasionally in the said series include, inter alia, the issuing of new series of debentures, the repayment of existing series of debentures, the replacement of debenture series with new series, the expansion of existing debenture series and so on. The management of the debt portfolio includes the monitoring of the balances and transactions therein, conducting financial transactions at the relevant dates, appropriate reporting to the authorities and the appropriate accounting records.
- Dividend distribution - The company distributes dividends at material sums. The said distributions involve conducting preliminary examinations prior to making the decisions regarding the distribution, in accordance with examinations prescribed by law, actually managing the distribution and the appropriate accounting records.

The highly material processes in the financial statements that are managed at part of the material consolidated subsidiaries:

- Sales with an emphasis on price and order management, generating invoices and recognizing the revenues.
- Purchasing with an emphasis on paying for the purchase.
- Inventories and manufacturing, with an emphasis on pricing the manufacturing and finished goods, inventory counting and valuation, slow-moving inventories and dead inventories.

Following below is disclosure regarding operations performed by the company until the date of the interim report for the quarter ended June 30, 2010:

- The company performed a risk assessment process of the internal control and documented the existing business processes and internal controls over the financial reporting and disclosure.
- The company performed an analysis of existing discrepancies in the planning of the internal control over the financial reporting and disclosure.
- The company has analyzed the documentation of processes, risk assessment and control discrepancies and has determined a plan of action for rectifying the discrepancies according to the level of their importance.

The company is continuing to implement the necessary actions for meeting the milestones in 2010, according to Amendment 2010.

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

1. Events Subsequent to the Balance Sheet Date

See Note 8 to the financial statements dated June 30, 2010.

2. Contingent Liabilities

Regarding contingent liabilities, lawsuits filed and material developments during and subsequent to the reporting period - See Note 5b to the financial statements dated June 30, 2010.

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



Management Discussion as of June 30, 2010

3. Report of available-for-sale financial assets

- a. Impairment on account of the investment in Nova, allocated to equity on June 30, 2010, amounting to the sum of NIS 9 million and representing 13% of the cost of the investment, that amounts to NIS 68 million.
The total length of time during which the fair value of Nova was lower than its cost (while ignoring the decrease subsequent to the balance sheet date) was approximately two months.
- b. The reasons and considerations that lay at the basis of the determination that impairments in the fair value of financial assets were attributed directly to shareholders' equity rather than to profit and loss, are as follows:

The company takes into consideration, among others, the following criteria : The percentage of the difference between the fair value of the asset and its original cost, while considering the standard deviation of price of the instrument, the length of time during which the fair value of the asset was lower than its original cost, changes in the fair value of the asset subsequent to the balance sheet date (as at the date of approval of these financial statements, the value of the investment in Nova amounts to NIS 72 million), changes in the technological, economic or legal environment or in the market environment in which the entity that issued the instrument is active, material events that occurred at the entity that issued the instrument, the financial results of the entity that issued the instrument - up to the balance sheet date and thereafter.



Management Discussion as of June 30, 2010

e. Dedicated Disclosure to Debenture Holders

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

Name of Debenture	Issue date (*)	Issued par value	Par value balance	Linked par value balance	Accrued interest	Book value	Fair value	Interest type	Principal payment dates	Interest payment dates	Linkage
Series I	Aug-13-2001	86	37	45	2	45	49	Fixed 5.7%	7 annual installments starting Aug-30-06	Annual Aug-30	Index
Series K	Nov-12-2003	137	59	68	-	68	73	Fixed 5.95%	7 annual installments starting May-31-07	Annual May-31	Index
Series L	May-2-2005	333	339	390	8	390	419	Fixed 4.35%	5 annual installments starting Jan-10-09	Annual Jan-10	Index
	May-25-2005	140									
	Apr-11-2006	91									
	Total L	564									
Series M ⁷	Jun-2-2005	70	533	610	2	585	674	Fixed 4.5%	5 annual installments starting Jun-10-13	Annual Jun-10	Index
	Apr-11-2006	151									
	Jul-13-2006	342									
	Total M	563									
Series N ⁸	Jan-16-2007	500	477	535	12	533	599	Fixed 4.9%	5 annual installments starting Jan-16-18	Annual Jan-16	Index
Series O	Dec-6-2009	250	250	250	1	248	256	Fixed 5.59%	5 annual installments starting Jun-10-13	Annual Jun-10	Unlinked

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.

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



Management Discussion as of June 30, 2010

2. Details of trustee

- a. Series I, K: SAG Trust Company Ltd., contact person: David Gottlieb, Adv. 7 Menachem Begin Street, Ramat-Gan 5251; Tel: 03-7549926
- b. Series L: Hermetic Trust (1975) Ltd., contact person: Dan Avnon, Adv. 113 Hayarkon St.; Tel-Aviv 63573; Tel: 03-5274867
- c. Series M: Reznik Paz Nevo Trusts Ltd., contact person: Yossi Reznik, CPA. 14 Yad Harutzim Street, Tel Aviv; Tel: 03-6389200
- d. Series N: Kaldan Trust Company Ltd.; contact person: Moran Shachar, Adv. 7 Menachem Begin Street, Ramat Gan 52681
Tel: 03-6109000, regarding the resignation of the trustee, see Section F2, below.
- e. Series O: Strauss Lazar Trust Company (1992) Ltd.; contact person: Uri Lazar, Adv., 17 Itzhak Sadeh Street, Tel Aviv; Tel: 03-6237777

3. Rating

Rating of outstanding series of liability certificates:

Name of Debenture	שם החברה המדרגת	Rating Set Upon Issue (**)	Examination of Rating Update, July 2009 (***)
Series I	Maalot	(*)AA +	A+/Stable
Series K	Maalot	AA/Stable	A+/Stable
Series L	Maalot	AA/Stable	A+/Stable
Series M	Maalot	AA/Stable	A+/Stable
Series N	Maalot	AA/Stable	A+/Stable
Series O	Maalot	A+/Stable	A+/Stable

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

(**) Attached to the company's annual financial statements dated December 31, 2009 - Maalot report dated July 2009.

(**) Attached to the company's annual financial statements dated December 31, 2009 - Maalot report dated November 2009.

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

Series N

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

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

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

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



Management Discussion as of June 30, 2010

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

Nochi Dankner
Chairman of the Board of Directors

Avi Fisher
Director and Joint CEO

Zvika Livnat
Joint CEO



Management Discussion as of June 30, 2010

Appendix - Sensitivity analyses of financial instruments to changes in market factors

1. Assumptions and Comments:

- a. The fair value of marketable securities is measured at their quoted market prices as of June 30, 2010.
- b. The fair value of debentures was calculated using the current value of future cash flows including discounted interest, at the interest that the Company would have received and at a similar debt ranking had the Company raised/borrowed liabilities with a similar average life-span based on the effective interest in respect of the marketable debentures or a quotation received by the Company from a financial institution as of the balance sheet date. The fair value of debentures listed for trade on the stock exchange is measured based on their quoted market prices at June 30, 2010.
- c. The fair value of long-term loans and liabilities was calculated at the current value of the future cash flows including interest in respect of these liabilities, discounted by the interest that the Company would have received from a bank had it borrowed a similar amount with a similar maturity term.
- d. Changes in exchange rates possess an influence both on the reported results and on the shareholders' equity of the company as a result of the allocation of translation differences, originating from the translation of financial statements published in foreign currency of the investee companies.

2. Sensitivity analysis tables of financial instruments included in the consolidated financial statements dated June 30, 2010, to changes in market factors

Sensitivity analysis to changes in US dollar exchange rate					
Instrument	Profit (loss) from change		Fair value as at Jun-30-10	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	23	11	225	(11)	(23)
Accounts receivable	10	5	103	(5)	(10)
Short-term investments, excluding derivative financial instruments	13	6	132	(6)	(13)
Short-term loans and deposits	1	1	12	(1)	(1)
Other long-term investments, excluding derivative financial instruments	6	3	64	(3)	(6)
Other Accounts Payable	(9)	(4)	(89)	4	9
Other liabilities, including current maturities	(6)	(3)	(64)	3	6
Total	38	19	383	(19)	(38)
NIS/US\$ forward transaction	2	1	*	(1)	(2)
Total	40	20	383	(20)	(40)



Management Discussion as of June 30, 2010

Sensitivity analysis to changes in euro exchange rate					
Instrument	Profit (loss) from change		Fair value as at Jun-30-10	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	9	5	92	(5)	(9)
Accounts receivable	5	3	51	(3)	(5)
Short-term loans and deposits	5	2	47	(2)	(5)
Other Accounts Payable	(13)	(7)	(134)	7	13
Bank loans, including current maturities	(3)	(2)	(32)	2	3
Other liabilities, including current maturities	(2)	(1)	(21)	1	2
Total	1	-	3	-	(1)
NIS/€ forward transaction	3	2	*	(1)	(3)
Total	4	2	3	(1)	(4)

Sensitivity analysis to changes in NIS interest rate							
Instrument	Profit (loss) from change			Fair value as at Jun-30-10	Profit (loss) from change		
	Absolute rise of 2% in interest rate	10% rise in interest rate	5% rise in interest rate		5% decrease in interest rate	10% decrease in interest rate	Absolute decrease of 2% in interest rate
Loans and receivables, including current maturities	*	*	*	76	*	*	*
Debentures	289	50	25	(3,844)	(26)	(52)	(318)
Loans from banks and other creditors, including current maturities	51	13	6	(970)	(6)	(13)	(57)
Total	340	63	31	(4,738)	(32)	(65)	(375)

Sensitivity analysis to changes in stock market rates							
Instrument	Profit (loss) from change			Fair value as at Jun-30-10	Profit (loss) from change		
	35% rise in prices	10% rise in prices	5% rise in prices		5% decrease in prices	10% decrease in prices	31% decrease in prices
Current short term investments - marketable securities	-	81	40	808	(40)	(81)	-
Available-for-sale financial assets	-	9	4	89	(4)	(9)	-
Total	-	90	44	897	(44)	(90)	-

Sensitivity analysis to changes in the CPI					
Instrument	Profit (loss) from change		Fair value as at Jun-30-10	Profit (loss) from change	
	CPI rise 2%	1% rise in CPI		1% decrease in CPI	2% decrease in CPI
Short-Term Investments	8	4	385	(4)	(8)
Loans and receivables, including current maturities	1	1	51	(1)	(1)
Debentures	(63)	(31)	(3,137)	31	63
Bank loans, including current maturities	(3)	(1)	(150)	1	3
Other Accounts Payable	(5)	(2)	(230)	2	5
Total	(62)	(29)	(3,081)	29	62
Forward on unknown index as accounting hedge	14	7	3	(7)	(14)
Total	(48)	(22)	(3,078)	22	48

* Sum smaller than NIS 1 million.



Management Discussion as of June 30, 2010

3. Sensitivity analysis tables of financial instruments included in the consolidated financial statements dated June 30, 2010, to changes in market factors

Sensitivity analysis to changes in US dollar exchange rate					
Instrument	Profit (loss) from change		Fair value as at Jun-30-09	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	27	13	267	(13)	(27)
Accounts receivable	11	5	109	(5)	(11)
Short-term investments, excluding derivative financial instruments	11	6	111	(6)	(11)
Loans and receivables, including current maturities	2	1	16	(1)	(2)
Other long-term investments, excluding derivative financial instruments	2	1	24	(1)	(2)
Derivative financial instruments	11	6	109	(6)	(11)
Credit from Banks	(6)	*	(58)	*	6
Other Long-Term Liabilities	(3)	(1)	(25)	1	3
Derivative Financial Instruments	(2)	(1)	(19)	1	2
Total	53	30	534	(30)	(53)
NIS/US\$ options	(2)	(1)	1	1	2
NIS/US\$ forward transaction	1	*	1	*	(1)
Total	52	29	536	(29)	(52)

Sensitivity analysis to changes in euro exchange rate					
Instrument	Profit (loss) from change		Fair value as at Jun-30-09	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	2	1	17	(1)	(2)
Accounts receivable	5	3	45	(3)	(5)
Other Accounts Payable	(7)	(4)	(65)	4	7
Bank loans, 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/€ forward transaction	*	*	(1)	*	*
Total	(7)	(4)	(66)	4	7



Management Discussion as of June 30, 2010

Sensitivity analysis to changes in interest rates					
Instrument	Profit (loss) from change		Fair value as at Jun-30-09	Profit (loss) from change	
	10% rise in interest rate	5% rise in interest rate		5% decrease in interest rate	10% decrease in interest rate
Loans and receivables, including current maturities	*	*	42	*	*
Debentures	52	26	(2,870)	(27)	(52)
Loans from banks and other creditors, including current maturities	8	4	(830)	(4)	(8)
Total	60	30	(3,658)	(31)	(60)

Sensitivity analysis to changes in stock market rates							
Instrument	Profit (loss) from change			Fair value as at Jun-30-09	Profit (loss) from change		
	35% rise in prices	10% rise in prices	5% rise in prices		5% decrease in prices	10% decrease in prices	31% decrease in prices
Current short term investments - marketable securities	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)

Sensitivity analysis to changes in the CPI					
Instrument	Profit (loss) from change		Fair value as at Jun-30-09	Profit (loss) from change	
	CPI rise 2%	1% rise in CPI		1% decrease in CPI	2% decrease in CPI
Short-Term Investments	6	3	296	(3)	(6)
Loans and receivables, including current maturities	1	*	49	*	(1)
Debentures	(57)	(29)	(2,870)	29	57
Bank loans, including current maturities	(2)	(1)	(112)	1	2
Total	(52)	(27)	(2,637)	27	52
Forward on unknown index as accounting hedge	25	13	2	(12)	(24)
Total	(27)	(14)	(2,635)	15	28

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

(**) The change in the fair value of available-for-sale financial assets is partially expressed in the statement of income and partially in a capital reserve in the consolidated statement of changes in shareholders' equity.



Management Discussion as of June 30, 2010

4. Sensitivity analysis tables of financial instruments included in the consolidated financial statements dated December 31, 2009, to changes in market factors

Sensitivity analysis to changes in US dollar exchange rate					
Instrument	Profit (loss) from change		Fair value as at Dec-31-09	Profit (loss) from change	
	10% rise in exchange rate	5% rise in exchange rate		5% decrease in exchange rate	10% decrease in exchange rate
Cash and cash equivalents	21	10	208	(10)	(21)
Accounts receivable	3	1	30	(1)	(3)
Short-term investments, excluding derivative financial instruments	2	1	21	(1)	(2)
Loans and receivables, including current maturities	5	3	50	(3)	(5)
Other long-term investments, excluding derivative financial instruments	4	2	40	(2)	(4)
Derivative financial instruments	-	-	-	-	-
Other Accounts Payable	(11)	(6)	(111)	6	11
Other Long-Term Liabilities	(4)	(2)	(41)	2	4
Derivative Financial Instruments	-	-	-	-	-
Total	20	9	197	(9)	(20)
NIS/US\$ options	-	-	-	-	-
NIS/US\$ forward transaction	3	1	-	(1)	(3)
Total	23	10	197	(10)	(23)

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



Management Discussion as of June 30, 2010

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

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

Sensitivity analysis to changes in the CPI					
Instrument	Profit (loss) from change		Fair value as at Dec-31-09	Profit (loss) from change	
	CPI rise 2%	1% rise in CPI		1% decrease in CPI	2% decrease in CPI
Short-Term Investments	1	-	45	-	(1)
Loans and receivables, including current maturities	4	2	201	(2)	(4)
Debentures	(67)	(34)	(3,634)	34	67
Bank loans, including current maturities	(3)	(1)	(130)	1	3
Current tax liabilities	-	-	-	-	-
Total	(65)	(33)	(3,518)	33	65
Forward on unknown index as accounting hedge	10	5	4	(5)	(10)
Total	(55)	(28)	(3,514)	28	55

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