CLAL INDUSTRIES AND INVESTMENTS LTD.

SEPTEMBER 30, 2008

- **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The English version of the 3rd quarter of 2008 is a translation of part of the Hebrew version, and is made for convenience purposes only. Please note that the Hebrew version constitutes the binding version.

CLAL INDUSTRIES AND INVESTMENTS LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2008

UNAUDITED

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The Board of Directors
Clal Industries and Investments Ltd.

Re: Review of unaudited interim consolidated financial statements for the nine and three months ended September 30, 2008

At your request, we have reviewed the interim consolidated balance sheet of Clal Industries and Investments Ltd. ("the Company") as of September 30, 2008 and the related interim consolidated statements of income, recognized income and expenses and cash flows for the nine and three months then ended. Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain subsidiaries, whose assets constitute approximately 28% of total consolidated assets as of September 30, 2008 and whose revenues constitute approximately 40% and 43% of total consolidated revenues for the nine and three months then ended, respectively. In addition, we have been furnished with reports of other accountants in respect of the review of the interim financial statements of certain associates, the investment in which, at equity, amounted to NIS 597 million as of September 30, 2008 and the Company's equity in their results amounted to income of NIS 11 million and a loss of NIS 3 million for the nine and three months then ended, respectively.

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

Based on our review and the reports of other accountants referred to above, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with International Financial Reporting Standard IAS 34, "Interim Financial Reporting", and with the disclosure requirements of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

We draw attention to the matter discussed in Note 6 to the financial statements regarding claims filed against investees and motions to recognize these claims as class actions.

Tel-Aviv, Israel
November 19, 2008

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

CONSOLIDATED BALANCE SHEETS

	September 30, 2008	September 30, 2007	December 31, 2007
	Unaudited	Unaudited	Audited
	NIS in millions		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	1,169	1,713	1,355
Short-term investments	742	540	503
Trade receivables	710	487	528
Other receivables	100	86	79
Derivatives	44	14	29
Inventory	854	635	715
	3,619	3,475	3,209
NON-CURRENT ASSETS:			
Inventory of real estate properties	29	51	49
Loans and receivables	43	83	58
Available-for-sale financial assets	169	411	298
Derivatives	40	27	30
Prepaid operating lease expenses, net	41	35	38
Associates	1,047	1,054	1,273
Investment property	254	225	219
Fixed assets, net	2,123	1,783	1,820
Intangible assets, net	359	91	99
Assets in respect of employee benefits	23	18	20
Deferred taxes	23	22	25
	4,151	3,800	3,929
Total assets	7,770	7,275	7,138

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

CONSOLIDATED BALANCE SHEETS

	September 30, 2008	September 30, 2007	December 31, 2007
	Unaudited		Audited
	NIS in millions		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks	246	165	148
Current maturities of debentures	296	79	79
Trade payables	409	354	395
Taxes payable	87	122	117
Other payables	519	342	421
Derivatives	20	52	51
	1,577	1,114	1,211
LONG-TERM LIABILITIES:			
Loans from banks	426	165	184
Debentures	2,755	2,872	2,874
Derivatives	24	19	17
Other long-term liabilities	92	33	35
Liabilities in respect of employee benefits	201	188	197
Deferred taxes	304	273	269
	3,802	3,550	3,576
EQUITY (Note 3):			
Share capital	1,257	1,257	1,257
Share premium	574	574	574
Retained earnings (accumulated deficit)	(145)	190	(50)
Capital reserves	(46)	12	(2)
Total equity attributable to equity holders of the parent	1,640	2,033	1,779
Minority interests	751	578	572
Total equity	2,391	2,611	2,351
Total liabilities and equity	7,770	7,275	7,138

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

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Nochi Dankner	**Zvika Livnat**	**Avi Fischer**	**Yehuda Ben Ezra**
Chairman of the Board	Co-CEO	Director and Co-CEO	VP Comptroller

November 19, 2008
Date of approval of the financial statements

CONSOLIDATED STATEMENTS OF INCOME

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in millions (except per share data)				
Revenues:					
Sales and services	3,198	2,544	1,130	833	3,402
Equity in earnings (losses) of associates, net	14	93	(1)	32	118
Gain from sale of investments and assets	28	658	19	406	658
Other income	13	5	3	-	14
Financial income	136	104	11	30	*) 108
	3,389	3,404	1,162	1,301	4,300
Costs and expenses:					
Cost of sales and services	2,066	1,697	720	528	2,271
Selling and marketing expenses	310	269	111	93	357
General and administrative expenses	236	174	85	57	239
Loss from sale and amortization of investments and assets	44	103	7	93	141
Other expenses	13	21	4	21	14
Financial expenses	436	283	133	129	*) 333
	3,105	2,547	1,060	921	3,355
Income before taxes on income	284	857	102	380	945
Taxes on income	151	166	50	42	212
Net income	133	691	52	338	733
Attributable to:					
Equity holders of the parent	23	612	10	304	630
Minority interests	110	79	42	34	103
	133	691	52	338	733
Net earnings per share attributable to equity holders of the parent (in NIS):					
Basic net earnings	0.15	3.89	0.06	1.93	4.01
Diluted net earnings	0.12	3.87	0.06	1.83	3.99

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSES

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in millions				
Reserve from revaluation of investment following achievement of control	39	-	6	-	-
Loss from cash flow hedging transactions, net	(6)	-	(6)	-	-
Foreign currency translation reserve in respect of foreign operations	(86)	(17)	9	(24)	(16)
Net change in fair value of available-for-sale financial assets net of taxes	5	(35)	3	22	(54)
Actuarial losses in respect of defined benefit plan net of taxes	(2)	-	(2)	-	(8)
Net income	133	691	52	338	733
Comprehensive income for the period	83	639	62	336	655
Attributable to:					
Equity holders of the parent	(17)	563	20	307	559
Minority interests	100	76	42	29	96
Comprehensive income for the period	83	639	62	336	655

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in millions				
Cash flows from operating activities:					
Net income	133	691	52	338	733
Adjustments to reconcile net income to net cash provided by operating activities (a)	213	(135)	59	(4)	(326)
Net cash provided by operating activities	346	556	111	334	407
Cash flows from investing activities:					
Purchase of fixed assets and intangible assets	(273)	(260)	(74)	(157)	(229)
Purchase of investment property	(11)	-	-	-	-
Acquisition of newly consolidated subsidiaries net of acquired cash (b)	9	(7)	-	-	(23)
Acquisition of associates and available-for-sale financial assets	(50)	(92)	(11)	(63)	(251)
Proceeds from sale of fixed assets	26	29	11	14	48
Proceeds from sale of subsidiaries net of expensed cash (c)	-	(4)	-	-	8
Proceeds from sale of investments in associates and available-for-sale assets	85	682	2	673	717
Acquisition of minority interest in subsidiary	(36)	-	(10)	-	-
Securities measured at fair value through profit and loss, net	(127)	(190)	(15)	15	(185)
Long-term loans and other credit granted	(9)	(26)	(9)	-	(9)
Collection of long-term loans and other credit	2	5	-	5	21
Interest received	34	24	14	7	19
Collection (placement) of bank deposits, net	48	9	84	(48)	35
Net cash provided by (used in) investing activities	(302)	170	(8)	446	151

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in millions				
Cash flows from financing activities:					
Issuance of share capital to minority in subsidiaries	23	289	23	82	291
Dividend paid to Company shareholders	(126)	(240)	(126)	(240)	(490)
Proceeds from sale of derivatives	33	(3)	8	1	(3)
Interest paid	(164)	(103)	(14)	-	(110)
Dividend paid to minority	(123)	(52)	(62)	(26)	(69)
Issuance of stock options to minority in subsidiary	-	30	-	-	30
Receipt of long-term loans and other liabilities	369	953	49	13	977
Repayment of long-term loans and other liabilities	(156)	(315)	(51)	(46)	(319)
Short-term credit from banks and others, net	9	(161)	(45)	(121)	(54)
Net cash provided by (used in) financing activities	(135)	398	(218)	(337)	253
Effect of exchange rate fluctuations on cash and cash equivalents, net	(95)	(8)	(8)	(13)	(53)
Increase (decrease) in cash and cash equivalents	(186)	1,116	(123)	430	758
Cash and cash equivalents at the beginning of the period	1,355	597	1,292	1,283	597
Cash and cash equivalents at the end of the period	1,169	1,713	1,169	1,713	1,355

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in millions				
(a) Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation of fixed assets and deferred charges	144	121	51	25	171
Loss (gain) from sale and amortization of investments and assets, net	16	(555)	(12)	(313)	(517)
Income tax expenses	151	166	50	42	212
Income tax paid, net	(208)	(201)	(59)	(90)	(217)
Financial costs, net	300	179	122	99	225
Equity in losses (earnings) of associates, net	(14)	(93)	1	(32)	(118)
Change in fair value of investment property	-	-	1	1	(4)
Dividend received from associates	9	3	8	-	14
Cost of share-based payment	13	15	9	2	8
Change in liabilities in respect of employee benefits, net	(6)	(22)	4	(10)	(15)
	405	(387)	175	(276)	(241)
Changes in other balance sheet items:					
Decrease (increase) in trade and other receivables	(42)	(8)	56	24	(53)
Increase in inventories and inventory of real estate properties, net	(134)	(47)	(118)	(54)	(116)
Increase (decrease) in trade and other payables	(16)	307	(54)	302	84
	213	(135)	59	(4)	(326)
(b) Acquisition of newly consolidated subsidiaries net of acquired cash:					
Assets and liabilities of the subsidiaries at date of acquisition:					
Working capital (excluding cash and cash equivalents)	(44)	(7)	-	-	(10)
Fixed and other assets	(236)	-	-	-	(17)
Intangible assets	(179)	-	-	-	-
Other non-current assets	(48)	-	-	-	-
Long-term liabilities	89	-	-	-	4
Minority interest	175	-	-	-	-
Investment in associate	252	-	-	-	-
	9	(7)	-	-	(23)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2008	2007	2008	2007	2007
	Unaudited				Audited
	NIS in millions				
(c) Proceeds from sale of subsidiaries net of expensed cash:					
Assets and liabilities of the subsidiaries at date of sale:					
Working capital (excluding cash and cash equivalents)	-	(171)	-	-	(184)
Fixed assets, net	-	187	-	-	188
Long-term liabilities	-	(107)	-	-	(129)
Capital gain	-	87	-	-	133
	-	(4)	-	-	8
(d) Significant non-cash activities:					
Acquisition of fixed assets on credit	6	-	6	-	6
Transfer of inventories to fixed assets	9	13	4	2	14
Classification of liabilities in respect of share options	-	46	-	46	46
Acquisition of technological rights from another company against allocation of options	-	47	-	-	47

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

NOTE 1:- GENERAL

Initial adoption of IFRS:

These financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") in a condensed format as of September 30, 2008 and for the nine and three months then ended ("interim consolidated financial statements"). With respect to certain notes, such as disclosures regarding commitments, contingent liabilities and such, the interim consolidated financial statements should be read in conjunction with the Company's annual financial statements and accompanying notes as of December 31, 2007, and for the year then ended, which are the Company's latest annual financial statements ("annual financial statements") prepared in accordance with generally accepted accounting principles in Israel ("Israeli GAAP").

The IFRS on the basis of which the accounting policies were determined in the interim consolidated financial statements are the same IFRS that will be in effect or that may be adopted early in the first annual financial statements prepared in accordance with IFRS as of December 31, 2008 and for the year then ended, and are therefore subject to the relevant changes and their effective adoption in the annual financial statements. Accordingly, the accounting policies adopted in the annual financial statements, as far as they are relevant to these interim financial statements, will be definitively determined upon the preparation of the annual financial statements.

The Company first adopted IFRS in 2008 and accordingly, the date of transition to reporting pursuant to IFRS is January 1, 2007. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Israeli GAAP. The Company's latest annual financial statements prepared in accordance with Israeli GAAP were as of December 31, 2007 and for the year then ended.

See Note 8 for the reconciliations between reporting pursuant to Israeli GAAP and reporting pursuant to IFRS.

Basis of preparation of the interim consolidated financial statements:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

Below are the significant accounting policies followed by the Company in these financial statements upon the first-time adoption of IFRS that were consistently applied in all the presented periods:

a. Basis of presentation of the financial statements:

The Company's financial statements are prepared on a cost basis, except investment property, derivatives and financial instruments and liabilities for share-based payment arrangements, which are measured at fair value.

The value of non-monetary items and equity items measured on the basis of historical cost was adjusted to the changes in the Israeli Consumer Price Index ("CPI") through December 31, 2003.

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

As of	Israeli CPI Points *)	Known Israeli CPI Points *)	Exchange rate of one U.S. dollar NIS
September 30, 2008	118.6	118.6	3.421
September 30, 2007	112.4	113.0	4.013
December 31, 2007	113.6	113.0	3.846
Change during the period ended	**%**	**%**	**%**
September 30, 2008 (9 months)	4.4	5.0	(11.1)
September 30, 2007 (9 months)	2.3	2.8	(5.0)
September 30, 2008 (3 months)	2.0	2.1	2.1
September 30, 2007 (3 months)	1.3	2.5	(5.6)
December 31, 2007 (12 months)	3.4	2.8	(9.0)

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

Consolidation of the financial statements:

The consolidated financial statements include the accounts of companies over which the Company has control (subsidiaries). Control is fulfilled when the Company has the ability, directly or indirectly, to outline the financial and operating policy of the controlled company. When reviewing the control, the effect of the potential voting rights that are exercisable as of the balance sheet date, is taken into account. The consolidation of the financial statements commences from the date on which the control begins until the date the control ceases.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Significant inter-company balances and transactions and gains or losses arising from transactions carried out among the Group companies have been eliminated in full in the consolidated financial statements.

Minority interests represent the portion of profit or loss and net assets (at fair value upon the acquisition of the subsidiaries) not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

The minority in a subsidiary which has a shareholders' deficiency partly shares the losses of the subsidiary up to the amount of the loans and liabilities (including the interest accrued on these loans) and the undertakings for placing loans.

The consolidated financial statements include the financial statements of jointly controlled entities in which the shareholders have a contractual agreement for common control and which are consolidated with the Company's accounts using the proportionate consolidation method. The Company consolidates in the consolidated financial statements its share in the assets, liabilities, revenues and expenses of the jointly controlled entities with the appropriate financial statement items.

Significant inter-company balances and transactions and gains or losses arising from transactions between the Group and the jointly controlled entity are eliminated upon consolidation in accordance with the Company's interest in the jointly controlled entities.

The financial statements of the Company and of the subsidiaries are prepared for identical dates and periods. The accounting policy in the financial statements of the subsidiaries was applied consistently and uniformly with the policy applied in the financial statements of the Company.

b. Functional and foreign currencies:

1. Functional currency:

The financial statements are prepared in New Israeli Shekels ("NIS"), which is the Company's functional currency.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group member, including an associate presented at equity, and is used to measure its financial position and operating results. When the Group member's functional currency differs from the presentation currency, that company represents a foreign operation whose financial statements are translated in order to be included in the consolidated financial statements as follows:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a) Assets and liabilities for each balance sheet presented (including comparative data) are translated at the closing rate at the date of that balance sheet. Goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the date of that balance sheet.

b) Income and expenses for each period presented in the statement of income (including comparative data) are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing as of the date of incurrence.

d) Retained earnings are translated based on the opening balance at the exchange rate as of that date and other relevant transactions during the period are translated as described in b) and c) above.

e) All translation differences are recorded as a separate item in equity as foreign currency translation reserve.

Upon the partial or full sale of a foreign operation, the relevant amount in the capital reserve is transferred to the income statement on the date of sale.

2. Foreign currency transactions, assets and liabilities:

Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the date of the balance sheet. Exchange differences are recognized in the statement of income. Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency using the exchange rate at the date when the fair value was determined.

3. Index-linked monetary items:

Monetary assets and liabilities linked under various terms to the changes in the Israeli Consumer Price Index ("CPI") are adjusted at the relevant index at each balance sheet date according to the terms of the agreement. Linkage differences arising from the adjustment are carried to the income statement.

c. Cash equivalents:

The Company considers all highly liquid investments, including unrestricted short-term bank deposits purchased with original maturities of three months or less, to be cash equivalents.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Short-term deposits:

Short-term bank deposits are deposits purchased with original maturities of more than three months that are presented according to their different terms.

e. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. The Company also records a provision for a group of customers that is collectively assessed for impairment based on similar credit risk characteristics. Impaired debts are derecognized when they are assessed as uncollectible.

f. Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost of inventories includes the expenses incurred in acquiring the inventories and in bringing each product to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cost of inventories is determined as follows:

Raw materials - at acquisition cost on a first in, first out basis.

Materials and parts - using the weighted average cost method.

Work in progress - on the basis of average cost including materials, labor and other direct and indirect manufacturing costs.

Finished products - on the basis of average cost including materials, labor and other direct and indirect manufacturing costs.

Purchased merchandise and products - using the weighted average cost method or using the "first-in, first-out" method.

The Group periodically evaluates the condition and age of inventories and provides for slow moving inventories accordingly.

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

g. Inventory of real estate properties:

Inventory of real estate properties is measured at the lower of cost or net realizable value.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Financial instruments:

Financial assets under the scope of IAS 39 are initially recognized at fair value with the addition of directly attributable transaction costs, other than investments presented at fair value with the changes in fair value carried to profit and loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following groups:

- Financial assets measured at fair value through profit or loss.
- Loans and receivables.
- Available-for-sale financial assets.

The classification of the financial assets is reexamined at each reporting year end if necessary or when required.

1. Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or reselling in the near term, if they form part of a portfolio of identifiable financial instruments that are jointly managed to earn short-term profits or if they are a derivative not held for hedging purposes. Gains or losses on investments held for trading are recognized in profit and loss.

Embedded derivatives are separated from the host contract and treated separately if: (a) there is no close connection between the economic features and risks of the host contract and the embedded derivative, (b) a separate instrument with the same conditions as the embedded derivative would otherwise meet the definition of a derivative and (c) the embedded derivative is not measured at fair value through profit and loss.

Derivatives, including separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

In the event of a financial instrument that contains one or more embedded derivatives, the combined instrument in its entirety may be held upon initial recognition as a financial asset at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method taking into consideration the transaction costs and less any provision for impairment. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

3. Available-for-sale financial assets:

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the net unrealized gains reserve, excluding fair value adjustments arising from exchange rate differences that are carried to profit and loss to financing. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement. Interest earned or paid on the investments is reported as interest income or expense in profit and loss using the effective interest rate. Dividends earned on investments are recognized in the income statement as dividends received when the right of payment has been established.

4. Put option granted to minority shareholders:

The Group has granted minority shareholders Put options to sell a part or all of their holdings in several subsidiaries. The Group has recognized a financial liability measured at the fair value of the consideration determined based on the quoted market price of the shares at balance sheet date. Changes in the liability amount in subsequent periods are carried to the statement of income. If the option is exercised in subsequent periods, the proceeds from the exercise are treated as settlement of a liability.

5. Fair value:

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

6. Interest-bearing loans and borrowings:

Loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs (such as loan raising costs). After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the loan is disposed of and as a result of the systematic amortization.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

7. Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognized in profit or loss.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. In the event of a contract that contains one or more embedded derivatives, the combined contract in its entirety may be held as a financial liability measured at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

8. Compound financial instruments:

Issued debentures that are convertible into the Company's functional currency (NIS), are unlinked and not denominated in foreign currency, which consist of an equity component in respect of conversion options and a liability component are split into the equity component (net of taxes) and the liability component and each component is presented separately net of the respective transaction costs of each component. This split is calculated by determining the liability component based on the fair value of a similar liability without the conversion option. The value of the equity component is determined as the residual value and is measured as the difference between the total proceeds from the convertible debentures and the amount attributed to the liability component, as above, and therefore presented in consecutive periods. Direct transaction costs are allocated between the equity component (net of taxes) and the liability component based on the allocation of the consideration into equity and liability components as discussed above.

The liability component is accounted for after initial recognition as discussed above regarding interest-bearing loans and borrowings.

Convertible debentures that are not denominated in the issuing company's functional currency, such as convertible debentures linked to the Israeli Consumer Price Index/the exchange rate of the U.S. dollar/are denominated in U.S. dollars, consist of two components: the conversion component and the liability component. The conversion component is classified as a liability. The debenture is split into two liability components whereby the liability component is initially calculated upon recognition as a financial derivative at fair value and the gap between the consideration received for the convertible debentures and the fair value of the conversion component is attributed to the debt component. Direct transaction costs are allocated between the equity component and the liability component based on the allocation of the consideration into equity and liability components as discussed above.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The conversion component is treated as a financial derivative and is presented at fair value at each balance sheet date. Changes in fair value are systematically carried to the income statement to financing. The debt component is accounted for after initial recognition as discussed above regarding interest-bearing loans and borrowings.

9. Issuance of a unit of securities:

The issuance of a unit of securities involves the allocation of the proceeds received (before issuance expenses) to the components of the securities in the unit based on the following priority: fair value is initially determined for financial derivatives (such as stock options with an exercise increment in a currency other than the Company's functional currency) and other financial instruments presented at fair value in each period, then the fair value is determined for financial liabilities and compound instruments (such as convertible debentures) that are not presented at fair value in each period but rather at present value when the proceeds allocated in respect of equity instruments are determined as the residual value according to the difference that would be received between the overall proceeds and the relevant proceeds allocated as above. The issuance costs are allocated to each component pro rata to the amounts determined for each component net of income taxes, if any, in respect of equity instruments. After said allocation, each component is accounted for based on its contractual essence (financial liability or equity instrument).

10. Financial guarantee liabilities:

Financial guarantee liabilities issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the amount initially recognized (net of the appropriate amortization over the period of the guarantee) and the best estimate of the amount required (if required) to be recorded at the balance sheet date in accordance with IAS 37 in respect of the guarantee agreement terms.

11. Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when:

- the contractual rights to the cash flows from the financial asset expire;
- the company retains the right to receive cash flows from the asset, but assumes an obligation to pay the cash flows in full without material delay to a third party under a 'pass through' arrangement; or
- the company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A transaction involving customer factoring and credit card vouchers is derecognized when the abovementioned conditions are met.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities:

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement. If the exchange or modification is immaterial, it is treated as a change in the terms of the original commitment and no gain or loss is recognized from the exchange.

12. Treasury shares:

Company shares held by the Company and/or subsidiaries are carried at cost and presented as a deduction from equity. Gains or losses from the purchase, sale, issuance or cancellation of treasury shares are carried directly to equity.

i. Impairment of financial assets:

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

1. Assets carried at amortized cost:

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss carried to the statement of income is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account (see also allowance for doubtful accounts discussed above). The amount of the loss is recognized in the statement of income.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Available-for-sale financial assets:

   If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the cost (net of any principal repayment and amortization) and current fair value, less any impairment loss previously recognized in the statement of income. This loss is removed from equity and recognized in the statement of income. Impairment loss for financial instruments is not reversed through the statement of income and if in a subsequent period the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed, with the amount of the reversal recognized in the statement of income.

j. Derivatives:

From time to time, the Group enters into contracts with derivative financial instruments such as forward currency contracts (forward) in respect of foreign currency and interest rate swaps (IRS) to hedge its risks associated with foreign exchange rates and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value and attributable transactions costs are carried directly to the statement of income. After initial recognition, the financial derivatives are remeasured at fair value. Derivatives are carried in the balance sheet as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are carried directly to the statement of income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

k. Operating leases:

The tests for classifying leases as finance or operating leases are performed at the date of engagement according to the provisions of IAS 17. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Leases from the Israel Lands Administration are treated as operating leases when the amount attributed to land under capitalized lease is presented in the balance sheet as prepaid operating lease expenses and recognized as an expense in the income statement using the straight-line method over the lease term, including the option.

l. Business combinations and goodwill:

Business combinations are treated using the acquisition method pursuant to IFRS 3. This method consists of identifying the assets and liabilities of the acquired business at fair value and the minority interests in the acquired entity are presented at the minority's share in the net fair value of these items.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The acquisition of a company involves the temporary attribution of the cost of acquisition to the assets and liabilities acquired in the business combination. The value of the acquired assets and liabilities may be adjusted within 12 months from the date of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not systematically amortized. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units.

Gains or losses from the realization of part of the cash generating unit include the part of goodwill that is measured according to the relative part that was realized out of the cash generating unit. Upon the sale of subsidiaries, the difference between the consideration and the net assets with the addition of accumulated exchange rate differences and the unamortized goodwill balance is carried to the income statement.

m. Investments in associates:

Associates are companies in which the Group exercises significant influence over the operating and financial policies without having control.

The investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets and the capital reserves of the associate.

Goodwill relating to the acquisition of an associate is initially measured as the difference between the acquisition cost and the Group's share in the net fair value of the associate's identifiable assets and liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is included at cost and is not systematically amortized. Goodwill is examined for impairment as part of the investment in an associate as a whole.

The income statement reflects the share of the results of operations of the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Losses of associates in amounts which exceed their shareholders' equity are recognized by the Company to the extent of its investment in the associates with the addition of any losses that the Company may incur as a result of a guarantee or other financial support provided in respect of these associates.

The reporting dates of the associate and the Company are identical and the associate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

n. Investment property:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Real estate rights held by a lessee (the Group) in an operating lease from the Israel Lands Administration are classified as investment property. The Group has applied the fair value model in respect of these rights.

Investment properties are measured initially at cost, including direct transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Investment properties are not systematically depreciated.

Transfers from fixed assets to investment property are made when there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers from investment property to fixed assets are made when there is a change in use, evidenced by the commencement of owner occupation or commencement of development of the property to be sold.

The cost of the asset transferred from investment property to fixed assets or to inventories is the fair value upon the transfer.

The difference between the fair value and the cost of a property transferred from inventories to investment property is recognized in the income statement upon the transfer whereas the difference between the fair value and the cost of a property transferred from fixed assets to investment property is treated as a revaluation according to IAS 16 and is recognized in revaluation capital reserve.

In order to determine the fair value of investment properties, the Group utilizes independent outside appraisals from expert real estate appraisers with the proper knowledge and experience.

Brokerage fees relating to agreements to lease real estate properties whose construction has not been completed are capitalized. Upon completion of the construction of real estate properties and upon the revaluation of real estate properties to their fair value, the balance of brokerage fees is carried to the income statement concurrently with the revaluation gain.

o. Fixed assets:

Fixed assets are stated at cost with the addition of direct acquisition costs, less accumulated impairment losses, less accumulated depreciation and less investment grants and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that can be used only in connection with the machinery and equipment.

The cost of internally generated assets includes the cost of materials, direct labor costs and financing costs as well as all other costs that can be directly attributable to bringing the asset to an operating location and position as intended by management and costs of dismantling and evacuating the items and the restoration of the site where the item is located (see below).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	Mainly %
Buildings	2 - 25	2
Leasehold improvements	4 - 25	20
Machinery, installations and equipment	4.5 - 20	5
Motor vehicles and transportation	15 - 20	15
Communication equipment	7 - 15	15
Office furniture and equipment	2 - 33	6

The cost of a fixed asset item includes the initial estimate of the costs for dismantling and evacuating the item and restoring the site where the item is located in respect of which the Company would have incurred an obligation upon the item's purchase or deriving from its use during a certain period not for purposes of manufacturing inventories in that period.

Components of fixed asset items with significant cost compared to the item's total cost are separately depreciated using the component method. Depreciation is calculated using the straight-line method in annual rates that are adequate for the depreciation of the assets over the term of their expected useful lives.

Leasehold improvements are depreciated using the straight-line method over the lease period (including the extension option held by the Group and intended to be exercised) or based on the expected life of the assets, whichever is shorter.

The residual value and useful life of an asset are tested at least once at year end and the changes are accounted for as a prospective change in accounting estimate. As for testing the impairment of fixed assets, see q below.

The Group recognizes the cost of replacing a part of a fixed asset item as part of the carrying amount of the fixed asset item when cost is incurred, if the economical benefits with respect to the item are expected to flow to the Group and if the cost of the item can be reliably measured. All other costs are carried to the income statement as incurred.

The depreciation of the assets is discontinued at the sooner of the date on which the asset is classified as held for sale and the date on which the asset is derecognized. An asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

The cost of a fixed asset received in an exchange for another fixed asset will be measured at fair value unless the transaction lacks commercial substance or if the fair value of the fixed asset received or given up cannot be reliably measured. A transaction has commercial substance if it results in a change in the amount, timing and risk of future cash flows from the asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The transfer from fixed assets to investment property is done when the owner internalizes the assets by own use or with the beginning of a new operating lease agreement or when the construction work on the asset is terminated.

p. Intangible assets:

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

According to management, the intangible assets have a finite life. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement.

The useful lives of intangible assets are as follows:

	Years
Customer base *)	4 - 15
Brand name	5 - 8
Order backlog	1 - 3
Computer software	3 - 5

*) Most of the amortization will be carried over a period of five years.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there are indications of impairment in their value. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis and on that date the impairment of the asset is tested and it is amortized systematically over its useful economic life.

Know-how and technology usage rights

Acquired know-how and technology usage rights are presented at historical cost less accumulated amortization.

Know-how in use is amortized using the straight-line method over its expected useful life (manly five years). Know-how and technology usage rights whose development is still in progress are not amortized, but rather tested for impairment annually. Once these assets are available for use, they are amortized using the straight-line method over their useful lives.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of required resources - technical, financial or other - to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales.

Licenses

Costs relating to the acquisition of licenses are amortized using the straight-line method over their expected period of benefits.

Costs of software development

Software development costs are only capitalized if the development costs can be reliably measured; the software has reached technical and commercial feasibility; future economic benefits are expected to derive from the development and the Group has the intent and sufficient resources to complete development and use the software. A capitalized expense includes the cost of materials, direct labor costs and overhead expenses that can be directly attributed to preparing the asset for its intended use. Other development costs are carried to the income statement as incurred.

Capitalized development costs are measured at cost less accumulated amortizations and impairment losses.

Software

The Group's assets include computer systems comprised of hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as fixed assets. In contrast, self-sufficient software licenses that add another dimension of functionality to the hardware are classified as intangible assets. The depreciation of software is carried to profit and loss using the straight-line method over the estimated useful life of the asset - three years.

q. Impairment of non-financial assets:

The Company assesses at each reporting date whether events or changes in circumstances indicate that an asset may be impaired. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the income-generating unit of that asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Impairment losses are carried to the statement of income in other expenses, net except impairment of previously revalued property and the revaluation is carried to capital reserve. In such event, the impairment is carried to capital reserve up to the amount of revaluation and the balance is carried to the income statement.

The following criteria are applied in assessing impairment of the following specific assets:

1. Goodwill:

   Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

   Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2. Associates:

   After application of the equity method of accounting, the Company determines whether it is necessary to recognize an additional impairment loss of the Group's investment in its associates. The Company determines at each balance sheet date whether there is any objective evidence that the investment in an associate is impaired. If this is the case the Company calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the income statement in equity in earnings (losses) of associates, net.

3. Intangible assets with an indefinite useful life:

   Intangible assets with an indefinite useful life are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

r. Non-current asset and/or assets held for sale:

A non-current asset and/or a group of assets held for sale are assets which are available for immediate sale in their present condition, as to which the Company has a commitment to sell and it is highly probable that their sale will be completed within a year from the date of classification. These assets are not depreciated and are presented at the lower of their carrying amount or fair value less selling costs.

s. Government grants:

Government grants are recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. A grant referring to an asset such as a fixed asset is presented net of the respective asset.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Government grants from Israel's Office of the Chief Scientist for funding research and development activities that include a liability to pay royalties to the State are contingent on future sales from the development of the products, are recognized upon receipt as a liability if economic benefits are expected to derive from the research activity to lead to sales entitling the State to royalties. Amounts paid as royalties are recognized as the settlement of the liability. When no such economic benefits are expected, the receipts from the grant are recognized as a decrease in research and development costs in the income statement and royalty payments are recognized in cost of sales in the income statement. In such event, the royalty liability is accounted for as a contingent liability pursuant to IAS 37.

At each balance sheet date, the Company evaluates if there is reasonable assurance that the liability, in whole or in part, will not be settled (since no royalties will have to be paid) based on the best estimate of future sales, if any, and if so, the appropriate liability is derecognized and a gain is recognized in the income statement. If in a later period, the estimated future sales indicate that there is no such reasonable assurance, the appropriate liability reflecting the anticipated royalty payments is recognized concurrently with a loss in the income statement.

t. Taxes on income:

Taxes on income in the income statement include current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the income statement other than if they relate to items that are directly carried to equity. In such cases, the tax effect is also carried to the relevant item in equity.

1. Current income taxes:

The current income tax liability is measured using tax rates and tax laws that are enacted or substantively enacted by the balance sheet date as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred income taxes:

Deferred taxes are computed in respect of temporary differences between the amounts included in the financial statements and the amounts allowable for tax purposes.

Deferred tax balances are measured using the enacted tax rates expected to be in effect when these taxes are carried to the income statement, based on the applicable tax laws at balance sheet date. The amount for deferred taxes in the statement of income represents the changes in said balances during the reported year.

Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as it is probable that the sale of the investments is not expected in the foreseeable future. Similarly, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since the distribution of dividends does not involve an additional tax liability.

Deferred taxes attributed to items carried directly to equity are also carried to equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax assets and deferred tax liabilities are presented as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legal enforceable right that allows offsetting a current tax asset against a current tax liability and the deferred taxes refer to the same taxpayer and the same tax authority.

u. Share-based payment transactions:

The Company's employees and other service providers are entitled to remuneration in the form of share-based payment transactions as consideration for equity instruments ("equity settled transactions").

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured according to the fair value of the equity instruments on the date of grant. The fair value is determined by an independent appraiser using a standard option-pricing model. As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received in return for equity instruments. In cases where the fair value of the goods or services received in return for equity instruments cannot be measured, they will be measured at the fair value of the granted equity instruments.

The cost of equity-settled transactions is recognized in profit and loss together with a corresponding increase in shareholders' equity over the period during which the performance and/or service conditions apply and ending on the date of the relevant employees' entitlement to compensation ("the vesting period"). The cumulative expense recognized in respect of equity-settled transactions for each reported period through the vesting date reflects the Group's best estimate of the number of equity instruments that will eventually vest. The charge or credit in the income statement for the period reflects the change in the cumulative expense recognized at the beginning and end of the period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee/other service provider as measured at the date of modification.

The cancellation of an equity-settled grant is treated as if the grant had vested as of the date of cancellation and the as yet unrecognized expense in respect of the grant is recognized immediately. However, if the cancelled grant is replaced by a new grant which is identified as a replacement grant as of the date of grant, both the cancelled grant and the replacement grant are treated as a change in the terms of the original grant as described in the preceding paragraph.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Liabilities in respect of employee benefits:

The Group has several post-employment benefit plans. The plans are usually financed by deposits in insurance companies and are classified as defined contribution plans and defined benefit plans.

1. Short-term employee benefits:

Short-term employee benefits include salaries, vacation pay, sick leave, recreation and deposits in respect of national insurance rights and are presented as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to pay this amount for a past service rendered by an employee and the amount can be reliably measured.

2. Post-retirement benefits:

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law according to which the Group makes current payments without incurring a legal or constructive obligation to pay additional amounts, even if adequate amounts did not accrue in the funds in order to settle all the employee benefits referring to services rendered by the employees in the current period and in prior periods. Deposits in the defined contribution plan are recorded as an expense upon the deposit simultaneously with receiving the employee's work services and no additional provision is required in the books.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. Severance pay is computed at the employee's last monthly salary upon termination of employment multiplied by the number of years of employment.

The Company makes current deposits in respect of its severance pay liabilities to certain of its employees in pension funds and insurance companies ("the plan's assets").

The cost of severance pay is determined using the projected unit credit method. The discount interest used to calculate severance pay is based on the interest returns on government bonds. As far as the Company knows, the issue of discount interest is under examination and it is possible that a decision will ultimately be passed whereby the appropriate discount interest in Israel should be based on corporate bonds.

All actuarial gains or losses are directly recognized in equity in retained earnings or accumulated deficit.

The liability for severance pay recorded in the balance sheet represents the present value of the defined benefit obligation less the fair value of the plan's assets. Assets arising from this calculation are limited to previous cost of providing services with the addition of the present value of available funds and amortization of future amounts to be contributed to the plan.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Other long-term employee benefits:

The Group's net obligation in respect of long-term employee benefits that do not relate to post-employment benefit plans is in respect of the future benefit amount payable to employees for services rendered in current and previous periods. This amount of benefits is capitalized to its present value and the fair value of the assets relating to this obligation is deducted from said amount. The discount rate is determined on the reporting date at the return on government debentures whose currency and redemption dates approximate the Group's obligation terms. The calculation is done using the projected unit credit method. Actuarial gains and losses are carried directly to equity in retained earnings or accumulated deficit.

4. Termination and voluntary retirement benefits:

Employee termination benefits are carried as an expense when the Group has irrevocably committed to terminate employees before reaching the standard retirement age according to a detailed formal plan. Benefits to employees in respect of voluntary retirement are carried when the Group has offered the employees a plan that encourages voluntary retirement, it is expected that the offer will be accepted and the number of respondents can be reliably measured.

w. Revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company, the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty.

Revenues from credit sales transactions that include a financing transaction are recorded at present value so that the difference between the fair value of the transaction and the par value of the consideration is recognized in the income statement as financial income using the effective interest method.

The following specific recognition criteria must also be met before revenue is recognized:

Revenues from sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, and the seller does not maintain continuing managerial involvement.

Revenues from rendering of services, including management fees

Revenue from the rendering of services is recognized by reference to the stage of completion as of balance sheet date. Stage of completion is measured according to the reporting periods during which the services were rendered. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from software transactions

Software transactions are multi-component sale transactions (software, assimilation, installation, upgrades, support, training, consultation etc.). The Company examines the transaction's components, including those supplied on an "if and when available basis", in order to determine if the components can be separately identified.

The Group recognizes revenues from the sale of software related goods only after the significant risks and rewards associated with ownership over the goods have been transferred to the buyer, when a necessary but insufficient condition involves the delivery of the software, whether physically, electronically, through the grant of a right to use the software or a license to duplicate existing copies. The Company recognizes revenues relating to the supply of software related services in respect of which the expense can be reliably measured, based on the stage of completion of the transaction at balance sheet date. If the services need to be completed in several steps, whose number cannot be determined and over a pre-defined period, the revenues are recognized over that period, unless there is evidence that a different method will best reflect the stage of completion.

Revenues from sale of real estate

Revenues from the sale of real estate are recognized when the principal risks and rewards relating to the ownership have been transferred to the buyer. Revenues are not recognized if there are significant uncertainties regarding the collection of the consideration and the related costs or if there is continuing managerial involvement of the Company with respect to the real estate sold.

Rental income

Rental income is accounted for on a straight-line basis over the lease terms.

Revenues from performance contracts

Revenues from performance contracts are recognized on the percentage of completion basis provided that the revenues are fixed or can be reasonably estimated, collection is probable, costs related to performing the work are determinable or can be reasonably determined, there is no substantial uncertainty regarding the ability of the Company/contractor to complete the contract and to meet the contractual terms, and the percentage of completion can be reasonably estimated. The percentage of completion is determined based on the ratio of actual cost to total estimated cost or based on completion of engineering stages of the work or based on delivery of units. As for contracts in which a loss is anticipated, a provision is recorded for the full amount of the expected loss.

If all the criteria for recognition of revenue from performance contracts are not met, then revenue is recognized up to the amount of costs incurred whose collection is probable ("zero profit margin" presentation).

Interest income

Interest income is recognized on a cumulative basis using the effective interest rate method.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from royalties

Revenues from royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

Revenues from dividends

Revenues from dividends from investments not accounted for at equity are recognized when the shareholder's right to receive payment is established.

Revenues from commissions

Revenues from commissions are recognized as incurred.

Recognizing revenues on a gross or net basis

In cases where the Group operates as a broker or agent without retaining the risks and rewards associated with the transaction, its revenues are presented on a net basis. However, in cases where the Group operates as a main supplier and retains the risks and rewards associated with the transaction, its revenues are presented on a gross basis.

x. Customer discounts:

Current customer discounts are recognized in the financial statements upon receipt and are deducted from sales revenues.

Customer discounts given at the end of the year and in respect of which the customer is not obligated to comply with certain targets, are recognized in the financial statements as the purchases which entitle the customer to said discounts are made.

Customer discounts for which the customer is required to meet certain targets, such as a minimum amount of annual purchases (either quantitative or monetary), an increase in purchases compared to previous periods, etc. are recognized in the financial statements in proportion to the purchases made by the customer during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated. The estimate as to meeting the targets is based, among others, on past experience, on the Company's relationship with the customers and on the expected amount of purchases by the customers in the remaining period.

y. Cost of supplier revenues and discounts:

Cost of sales includes expenses for loss, storage and conveyance of inventories to the end point of sale. Cost of sales also includes impairment losses in respect of inventories, inventory write offs and provisions for slow-moving inventories.

Supplier discounts are deducted from cost of purchase when the conditions entitling to those discounts are met. Certain of the discounts in respect of that portion of the purchases that are added to closing inventories are attributed to inventories and the balance reduces the cost of sales.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Supplier discounts received at the end of the year and in respect of which the Company is not obligated to comply with certain targets, are recognized in the financial statements as the purchases which entitle the Company to said discounts are made.

Supplier discounts for which the Company is required to meet certain targets, such as a minimum amount of annual purchases (either quantitative or monetary), an increase in purchases compared to previous periods, etc. are recognized in the financial statements in proportion to the purchases made by the Company during the year that qualify for the target, provided that it is expected that the targets will be achieved and the amount of the discount can be reasonably estimated. The estimate as to meeting the targets is based, among others, on past experience, on the Company's relationship with the suppliers and on the expected amount of purchases from the suppliers in the remaining period.

z. Earnings per share:

Earnings per share are computed by dividing the net income attributable to the equity holders of the parent by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares (convertible securities such as convertible debentures, warrants and employee options) are only included in the computation of diluted earnings per share if their effect dilutes earnings per share by reducing earnings per share upon conversion or by increasing loss per share from continuing operations. Furthermore, potential Ordinary shares that have been converted during the period are included in diluted earnings per share only until the conversion date and starting from that date in basic earnings per share. The investor's share of earnings of an investee is included based on the earnings per share of the investee multiplied by the number of shares held by the investor.

aa. Provisions:

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are discounted using a current pre-tax interest rate that reflects, where appropriate, the market's expectations of the time value of money and in certain cases, the risks specific to the liability.

Following are the types of provisions included in the financial statements:

Warranty

The Group recognizes a provision for warranty for sale of its products. Warranty is limited to technical failures that are defined by the Group and does not include warranty from damages incurred by the customer. In contrast, a separate asset is recognized as a result of compensation for the manufacturer's warranty for those instruments that is limited to technical failures as defined by the manufacturer.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Onerous contracts

A provision in respect of onerous contracts is recognized when the benefits expected to be received by the Group from these contracts are lower compared to the inevitable costs arising from meeting the contractual obligations. The provision is measured at the lower of the present value of the anticipated cost of cancelling the contract and the present value of the net anticipated cost of going ahead with the contract.

bb. Significant accounting estimates and judgments used in the preparation of the financial statements:

Estimates and judgments are tested on an ongoing basis and are based on past experience as well as other factors, including projections of future events deemed reasonable in view of existing circumstances.

1. Significant accounting estimates and assumptions:

The Company forms forward-looking estimates and assumptions. The estimates and assumptions in respect of which there is significant risk that material adjustments will be made to the carrying amount of assets and liabilities in the next fiscal year are specified below:

a) Estimated impairment of intangible assets:

The Group performs tests of impairment of intangible assets in accordance with the accounting policy presented in p above, every reporting period. The recoverable amount of cash-generating units is determined based on the calculation of their value in use, which requires using estimates. In addition, The Group performs an annual test impairment of goodwill in accordance with the accounting policy presented in p above.

b) The fair value of derivatives and other financial instruments:

The fair value of derivatives and other financial instruments (such as options granted or received and investment in shares), which are not traded in an active market, is determined using valuation methods. The Group exercises judgment in choosing from the various valuation methods and making assumptions, which are mostly based on prevailing market conditions at each balance sheet date. The Group has utilized the analysis of discounted cash flows in order to determine the fair value of derivatives and available-for-sale financial instruments it possesses, which are not traded in an active market.

2. Judgment with material impact on implementing the entity's accounting policies:

The Group follows the provisions of IAS 39 in order to determine if an available-for-sale financial asset has been impaired. This determination requires significant judgment. While exercising this judgment, the Group estimates, among other things, the period of time during which the fair value of the investment is lower than its cost and the amount of the difference between its fair value and its cost, the financial stability and proximate business forecasts of the issuing company, including factors such as the performances in the economic branch and sector, technological changes and operating and financing cash flows.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

cc. Disclosure of the effects of new IFRS in the period prior to their adoption:

1. IFRS 8 - Operating Segments:

IFRS 8 ("the Standard") discusses operating segments and replaces IAS 14. The Standard applies to companies whose securities are listed or undergoing listing for trade on any securities stock exchange. The Standard will be applicable to annual financial statements for periods commencing after January 1, 2009. The Standard can be applied early. The provisions of the Standard will be applied retrospectively, by restatement, unless the disclosure required is unavailable or impractical to obtain.

The Standard determines that an entity will adopt a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments.

Furthermore, disclosure is required regarding revenues deriving from the entity's products or services (or from a group of products and similar services), the countries in which these revenues are derived or the assets or principal customers are located, regardless of whether management uses this information for making operating decisions.

The Company believes that the effect of the new Standard on its current presentation of segments is not expected to be material.

2. IAS 23 (Revised) - Borrowing Costs:

In accordance with IAS 23 (Revised) ("the Standard"), borrowing costs that relate directly to the acquisition and establishment or manufacture of a qualifying asset must be capitalized. A qualifying asset is an asset that requires a significant period of time for its preparation for its intended use or sale and includes fixed assets, investment property and inventories whose preparation for sale requires a lengthy period of time. The possibility of immediately carrying these costs as an expense has been cancelled.

The revised Standard will become effective for the financial statements for the year commencing on January 1, 2009. Early adoption is permissible.

3. IAS 1 (Revised) - Presentation of Financial Statements:

IAS 1 (Revised) requires entities to present a separate statement of comprehensive income disclosing, other than the net income as stated in the income statement, all the items carried in the reported period directly to equity that do not derive from transactions with the shareholders in their capacity as shareholders (other comprehensive income) such as foreign currency translation adjustments of foreign operations, reclassification of fair value to available-for-sale financial assets, adjustments to revaluation reserve of fixed assets and such and the tax effect of these items carried directly to equity, while properly allocated between the Company and the minority interests.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Alternatively, the items of other comprehensive income may be disclosed along with the items of the income statement in one single statement entitled statement of comprehensive income. Only the items carried to equity deriving from transactions with the shareholders in their capacity as shareholders (such as capital issuances, dividend distribution etc.) will be disclosed in the statement of changes in equity as will the summary line carried forward from the statement of comprehensive income, while properly allocated between the Company and the minority interests.

IAS 1 (Revised) also prescribes that in cases of restatement of comparative figures as a result of the retroactive adoption of a change in accounting policy, the entity must include an opening balance sheet disclosing the restated comparative figures.

IAS 1 (Revised) is effective for annual financial statements for periods commencing on January 1, 2009 with early adoption permitted.

The Company does not expect the adoption of IAS 1(Revised) to have a material effect on its financial statements.

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

IFRS 3 (Revised) and IAS 27 (Revised) ("the Standards") will be applied in annual financial statements for periods commencing on January 1, 2010. The combined early adoption of the two Standards is permitted from the financial statements for periods commencing on January 1, 2008.

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

a) Accounting for transactions leading to deconsolidation according to full fair value so that the remaining interest after deconsolidation is revalued at fair value to profit and loss.

b) Accounting for transactions leading to consolidation of financial statements (which were not consolidated in the past) at full fair value so that the original investment prior to the consolidation is revalued at fair value to profit and loss.

c) Accounting for acquisitions of additional shares or sale of some of the existing shares without the Company ceasing to consolidate the financial statements of companies in which the transactions are carried out will be done so that all the differences arising from the transactions will be carried directly to equity (including differences that in the past would have been carried to profit and loss or goodwill).

d) Immediate recognition of transactions costs in profit and loss.

e) Measurement of contingent considerations in business combinations at fair value and carrying changes in the relevant estimates to profit and loss.

f) Not updating goodwill in respect of the utilization of carry-forward losses for tax purposes that existed on the date of business acquisition.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

These Standards will apply to annual financial reporting periods commencing January 1, 2010 or thereafter.

These Standards may be adopted early (jointly alone). Accordingly, the Company is examining the possible early adoption of the Standards which, if indeed practiced, might have a significant impact on the Company's operating results and financial position. In the event of early adoption starting from 2008, the transition provisions of IFRS 1 will apply and accordingly, the provisions of the Standards will apply retrospectively to transactions as of January 2007 and will require restatement of previously published financial statements.

As for adoption in 2010 or thereafter, the principal changes promulgated by the Standards will apply prospectively, namely for transactions carried out on the date of initial adoption.

5. IFRS 2 (Revised) - Share-based Payment:

Pursuant to the revised IFRS 2 ("the Standard"), the definition of vesting terms will only include service terms and performance terms and the settlement of a grant that consists of other than vesting terms, whether by the Company or by the counterparty, will be accounted for by way of vesting acceleration and not by forfeiture. The Standard will be applied retrospectively in financial statements for periods commencing on January 1, 2009. Early adoption is possible.

Vesting terms include service terms that obligate the counterparty to complete a defined service period and performance terms that require meeting defined performance targets. Conditions that are not service or performance terms will be viewed as other than vesting terms and must therefore be taken into consideration in estimating the fair value of the granted instrument.

The Company estimates that the revised Standard is not expected to have a material effect on its financial position, operating results and cash flows.

6. IAS 19 (Revised) - Employee Benefits:

Pursuant to IAS 19 (Revised), a group of other long-term benefits will also comprise employee benefits to which entitlement is established in a short period of time but whose expected utilization date occurs over one year from the period qualifying for the benefits, such as cumulative benefits in respect of vacation pay and sick leave that are expected to be utilized in the period exceeding one year subsequent to balance sheet date. Accordingly, these benefits are now required to be recognized in the financial statements based on an actuarial calculation given future salaries and as discounted to present value. The Standard will be retrospectively adopted starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

The Company is evaluating the effect of the revised Standard on its financial statements but is unable at present to estimate such effect.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

7. IAS 20 (Revised) - Accounting for Government Grants and Disclosures of Government Assistance:

   Pursuant to IAS 20 (Revised), a loan received by a company from the State at no interest or at an interest lower than market interest will be accounted for upon initial recognition and in subsequent periods pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, the loan will be initially measured at fair value discounted according to market interest. The difference between the loan amount received and the fair value will be accounted for as a Government grant according to the provisions of the Standard. The Standard will be prospectively adopted starting from the financial statements for periods commencing on January 1, 2009 for Government loans received subsequent to that date. Early adoption is permitted.

   The Company is evaluating the effect of the revised Standard on its financial statements but is unable at present to estimate such effect.

8. IAS 28 (Revised) - Investment in Associates:

   Pursuant to IAS 28 (Revised), the test of impairment of an investment in an associate will be carried out with reference to the entire investment. Accordingly, a recognized impairment loss will not be specifically attributed to goodwill included in the investment but rather attributed to the investment as a whole and therefore, the entire impairment loss recognized in the past may be reversed provided that the relevant conditions are met. The Standard may be adopted retrospectively or prospectively starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

   The Company is evaluating the effect of revised Standard on the financial statements but is presently unable to estimate such effect.

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

   Pursuant to IFRS 5 (Revised), when the parent company decides to sell part of its holdings in a subsidiary whereby following the sale, the parent company will maintain a percentage of holding that does not confer control, for example, rights entitling to significant influence, all the assets and liabilities attributed to the subsidiary will be classified as held for sale and the relevant provisions of IFRS 5 will apply, including presentation as discontinued operations. The amendment to IFRS 5 will be prospectively adopted starting from the financial statements for periods commencing on January 1, 2010. Early adoption is permitted.

   The Company estimates that IFRS 5 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

    Pursuant to IAS 16 (Revised), fixed assets used for rent and later routinely sold in the ordinary course of business will be classified as inventories when rental ceases and accordingly, their sale will be presented in the income statement as (gross) revenue and not merely as a (net) gain. Simultaneously, cash expensed, as cash received, in respect of an investment in such assets as above will be presented as cash flows from operating activities in the statement of cash flows rather than as cash flows from investing activities. The Standard will be retrospectively adopted starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

    The Company is evaluating the effect of the revised Standard on its financial statements but is unable at present to estimate such effect.

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

    IFRIC 16 ("the Interpretation") prescribes that a risk in respect of changes in foreign currency exchange rate in relation to the company's presentation currency cannot be hedged unless it relates to the company's functional currency. Moreover, a risk in respect of changes in foreign currency exchange rate in relation to the functional currency of any subsidiary in the Group can be hedged even if that subsidiary is indirectly controlled by another Group member. The Interpretation also prescribes that the hedging instrument may be held by any Group member. The Interpretation applies to annual financial statements for periods commencing on January 1, 2009 or thereafter. Early adoption is permitted.

    The Company is evaluating the effect of the new Interpretation on its financial statements but is unable at present to estimate such effect.

NOTE 3:- EQUITY

a. Dividend:

   On August 24, 2008, the Company's Board decided to distribute a cash dividend of NIS 126 million, representing NIS 0.800154 per NIS 1 par value. The dividend was distributed on September 16, 2008.

NOTE 3:- EQUITY (Cont.)

b. Details of changes in equity:

	Attributable to equity holders of the parent						
	Share capital	Share premium	Capital reserves *)	Retained earnings (accumulated deficit)	Total	Minority interests	Total equity
	Unaudited						
	NIS in millions						
Balance as of January 1, 2008 (audited)	1,257	574	(2)	(50)	1,779	572	2,351
Cost of share-based payment	-	-	-	-	-	13	13
Dividend paid	-	-	-	(126)	(126)	-	(126)
Exercise of employee options into shares in subsidiary	-	-	-	-	-	2	2
Acquisition of minority interests	-	-	-	-	-	(36)	(36)
Acquisition of newly consolidated subsidiaries	-	-	-	4	4	223	227
Reserve from revaluation of investment following achievement of control carried to retained earnings	-	-	(6)	6	-	-	-
Dividend paid to minority	-	-	-	-	-	(123)	(123)
Comprehensive income for the period	-	-	(38)	21	(17)	100	83
Balance as of September 30, 2008	1,257	574	(46)	(145)	1,640	751	2,391
Balance as of January 1, 2007 (audited)	1,257	574	61	(182)	1,710	342	2,052
Issuance of share capital	**) -	-	-	-	**) -		**) -
Issuance of share capital in subsidiaries	-	-	-	-	-	152	152
Cost of share-based payment	-	-	-	-	-	15	15
Dividend paid	-	-	-	(240)	(240)	-	(240)
Classification of equity liability in respect of stock options in subsidiary due to reversal of linkage of exercise increment	-	-	-	-	-	45	45
Dividend paid to minority	-	-	-	-	-	(52)	(52)
Comprehensive income for the period	-	-	(49)	612	563	76	639
Balance as of September 30, 2007	1,257	574	12	190	2,033	578	2,611
Balance as of July 1, 2008	1,257	574	(55)	(30)	1,746	770	2,516
Cost of share-based payment	-	-	-	-	-	9	9
Dividend paid	-	-	-	(126)	(126)	-	(126)
Exercise of employee options into shares in subsidiary	-	-	-	-	-	2	2
Acquisition of minority interests	-	-	-	-	-	(10)	(10)
Dividend paid to minority	-	-	-	-	-	(62)	(62)
Reserve from revaluation of investment following achievement of control carried to retained earnings	-	-	(3)	3	-	-	-
Comprehensive income for the period	-	-	12	8	20	42	62
Balance as of September 30, 2008	1,257	574	(46)	(145)	1,640	751	2,391

**) Represents an amount lower than NIS 1 million.

NOTE 3:- EQUITY (Cont.)

	Attributable to equity holders of the parent						
	Share capital	Share premium	Capital reserves *)	Retained earnings (accumulated deficit)	Total	Minority interests	Total equity
	Unaudited						
	NIS in millions						
Balance as of July 1, 2007	1,257	574	9	126	1,966	494	2,460
Issuance of share capital	**) -	-	-	-	**) -	-	**) -
Issuance of share capital in subsidiaries	-	-	-	-	-	34	34
Cost of share-based payment	-	-	-	-	-	2	2
Dividend paid	-	-	-	(240)	(240)	-	(240)
Classification of equity liability in respect of stock options in subsidiary due to reversal of linkage of exercise increment	-	-	-	-	-	45	45
Dividend paid to minority	-	-	-	-	-	(26)	(26)
Comprehensive income for the period	-	-	3	304	307	29	336
Balance as of September 30, 2007	1,257	574	12	190	2,033	578	2,611
Balance as of January 1, 2007 (audited)	1,257	574	61	(182)	1,710	342	2,052
Issuance of share capital	**) -	-	-	-	**) -	-	**) -
Issuance of share capital in subsidiary	-	-	-	-	-	154	154
Cost of share-based payment	-	-	-	-	-	8	8
Dividend paid	-	-	-	(490)	(490)	-	(490)
Expiration of stock options	-	-	-	-	-	(3)	(3)
Classification of equity liability in respect of stock options in subsidiary due to reversal of linkage of exercise increment	-	-	-	-	-	44	44
Dividend paid to minority	-	-	-	-	-	(69)	(69)
Comprehensive income for the period	-	-	(63)	622	559	96	655
Balance as of December 31, 2007 (audited)	1,257	574	(2)	(50)	1,779	572	2,351

*) Composition:

	September 30,		December 31,
	2008	2007	2007
	Unaudited		Audited
	NIS in millions		
Capital reserve from transactions with controlling shareholders	6	6	6
Capital reserve from revaluation of investment following achievement of control	33	-	-
Capital reserve from cash flow hedge	(6)	-	-
Capital reserves from available-for-sale financial assets	13	22	13
Foreign currency translation reserves of investees	(92)	(16)	(21)
	(46)	12	(2)

**) Represents an amount lower than NIS 1 million.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD

a. Principal changes in investments during the reported period:

1. The high technology and funds segment:

a) Fundtech Ltd. ("Fundtech"):

In 2007, during trade on the NASDAQ, the Company purchased shares of Fundtech representing about 8.7% of share capital in consideration of NIS 85 million. Consequently, the Company's stake in Fundtech increased to about 42.8%.

In March 2008, the Company published an outline of a special tender offer to acquire from Fundtech's shareholders up to 2,338,686 of Fundtech's shares representing 15% of the share capital in consideration of $ 12.5 per share. In April 2008, the tender offer was finalized and the Company acquired 2,104,720 shares representing some 13.5% of Fundtech's issued share capital and voting rights in consideration of approximately NIS 93 million. Consequently, the Company's stake in Fundtech increased to 56.3%.

Due to the increase in the holding rate, starting from April 1, 2008, Fundtech's financial statements were consolidated for the first time in the Company's financial statements (the investment in Fundtech was presented until March 31, 2008 at equity). The Company hired an independent outside appraiser for evaluating the fair value of Fundtech's assets and liabilities, including intangible assets, and for estimating the remaining useful life of these assets. As a result of the purchase as above, the Company recorded adjustments to the fair value of identifiable assets and liabilities, net of NIS 98 million, goodwill of NIS 50 million and a capital revaluation reserve of NIS 33 million. Following said purchase, the balance of goodwill (including for previous purchases) totals NIS 134 million.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

The fair value of Fundtech's identifiable assts and liabilities and their carrying amount on the date of purchase:

	Carrying amount before purchase	Adjustment to fair value	Recognized value upon purchase
		NIS in millions	
Current assets	267	-	267
Non-current assets	101	-	101
Intangible assets	26	112	138
Current liabilities	(127)	34	(93)
Non-current liabilities	(13)	(48)	(61)
Identifiable assets, net	254	98	352
Goodwill created upon purchase			50
			402
Cash flows from the purchase:			
Consideration paid in cash			(93)
Cash and cash equivalents in the acquired company on the date of sale			113
Cash derived from the purchase, net			20

Adjustments to fair value relating to Fundtech's tangible and intangible assets and liabilities are as follows:

	NIS in millions	
Customer relations	81	15 years
Order backlog	16	3 years
Trade name	15	5 years
Deferred revenues	34	1 year
Tax reserve	(48)	Based on the relevant items
	98	

If the business combination had taken place at the beginning of the year, the net income for the nine months ended September 30, 2008 would have amounted to NIS 125 million and the consolidated revenue turnover for that period would have amounted to NIS 3,411 million. Also, the Company's equity in Fundtech's results included in the financial statements for said period amounts to a loss of NIS 3 million.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

b) Saifun Semiconductors Ltd. ("Saifun"):

In furtherance to what was discussed in Note 9c(2)(a) to the annual financial statements, in March 2008, after all the perquisites were fulfilled, the transaction for the merger of Saifun was closed. As a result of the closing, the Company recorded in the first quarter of 2008 a loss of NIS 20 million. The shares of Spansion Inc. that were received as part of the transaction are included in the balance sheet under short-term investments and presented at market value.

2. The biotechnology segment:

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

1) In furtherance to what was discussed in Note 8f(3)(c) to the annual financial statements, in February 2008, Clal Biotechnology Industries Ltd. ("CBI"), a subsidiary of the Company held at 67%, and Teva Pharmaceutical Industries Ltd. ("Teva") signed an agreement that replaces the letter of understandings that the parties signed in June 2007 in connection with an option conferred to Teva to acquire CBI's entire interest in Andromeda.

According to the agreement:

Teva was granted an option to invest $ 10 million in Andromeda, within 60 days from receiving the interim report regarding the clinical trials conducted by Andromeda designed to develop a drug for treating type 1 diabetes (which was received during June 2008), and institutional investors were granted an option to invest simultaneously with Teva an additional amount of $ 7.5 million ("the institutional investment"), based on a pre-investment valuation of Andromeda of $ 90 million ("the first investment"). It is indicated that as of the date of the approval of the financial statements, an agreement with institutional investors has not yet been signed and it is uncertain that institutional investors will be a party to the agreement. If and as far as Teva exercises the option, the royalties that Teva was entitled to under former agreements between Andromeda and Teva will be cancelled.

If and as far as up to the date of the first institutional investment, investors do not join the agreement, CBI undertakes to provide Andromeda with financing up to the amount that had to be received from the institutional investment (whether by equity investment or by loans). CBI will be entitled to demand that Teva invest 25% of the amount that had to be received from the institutional investment (in installments and simultaneously with CBI's transfers, so that the amount of CBI investment in Andromeda is reduced by the amount of Teva's investment), and all according to the terms in the agreement.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

In addition to the first investment, Teva will give Andromeda a shareholders' loan of $ 3.5 million, which will be used to repay part of the shareholders' loans that CBI extend to Andromeda and upon receipt of the permit to market the product in EU countries (as defined below), Teva will give Andromeda another shareholders' loan in the amount of the balance of CBI shareholders' loan to Andromeda (including interest) on that date and the Teva loan will serve to fully repay the balance of CBI's loans to Andromeda ("Teva's loans"). Teva's loans are repayable to Teva only out of royalties on sales, net, according to the terms set out in the agreement.

Under the first investment, Teva and institutional investors will be granted an option to invest, within a certain time frame from receiving the final report regarding the clinical trials, an additional amount of $ 10 million and $ 7.5 million, respectively based on a pre-investment valuation of Andromeda of $ 170 million. If and as far as Teva exercises the option, the institutional investors or, alternatively, CBI and Teva will invest an additional amount of up to $ 7.5 million, all according to the terms set out in the agreement ("the second investment").

After the first investment, and subject to the amount invested by CBI in the first investment, CBI's stake in Andromeda will range between 84% and 91% (between 80% and 86% on a fully diluted basis) and Teva's stake will range between 9% and 12% (on a fully diluted basis).

If the option to make the second investment is exercised by Teva, and subject to the amount invested by CBI in the first and second investments, CBI's stake in Andromeda will range between 76% and 86% (between 68% and 78% on a fully diluted basis) and Teva's stake will range between 14% and 17% (between 12% and 15% on a fully diluted basis).

Andromeda maintains Put options for three additional investments of Teva in Andromeda in an aggregate amount of up to $ 15 million.

Andromeda's shareholders maintain two Put options to sell to Teva, based on their relative share, Andromeda's shares in an aggregate amount of approximately $ 96 million, subject to receipt of the permit to market the product in EU countries and in the U.S. in a respective value of $ 480 million and $ 555 million, respectively.

If all the options for an additional investment in Andromeda and all the Put options of shareholders are exercised, and subject to the amount invested by CBI in the first and second investments, CBI's stake in Andromeda will range between 58% and 66% (between 52% and 59% on a fully diluted basis).

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

With the completion of the first investment, Teva shall be granted an exclusive license to manufacture, develop, market and distribute the product around the world (all according to the terms set in the agreement), for all indications. In consideration for said license, Teva will pay to the Company royalties at a certain percentage out of product sales, additional royalties on cumulative sales and additional payments for other indications of the product (all as set in the agreement).

The difference between the value of the option conferred to Teva according to the letter of understandings from June 2007 and the net value of the new options conferred to Teva according to this agreement, as detailed above, in the amount of NIS 52 million, was reported as deferred revenues from the production license so that as a result of the replacement of the options and the grant of the production license, the Company did not derive an immediate gain or loss. The deferred revenue in respect of the manufacturing and marketing license will be recognized in the income statements until the end of the period during which CBI expects to generate royalties from said drug.

On June 16, 2008, Andromeda received the interim report for the clinical trial, as stated in (a) above, which concluded, among other things, that another interim report is needed and is expected towards the end of 2008.

2) In August 2008, Teva informed the Company of its decision to exercise the option mentioned in 1) above and invest in Andromeda under the terms specified in the amendment to the agreement signed by the parties in August 2008, as stated in 1) above.

According to the amendment, Teva will invest in Andromeda $ 3 million out of the overall investment amount stated in the option granted to it ($ 10 million) at a company value of Andromeda of $ 90 million before the investment.

After receiving another interim report regarding the phase III trial on DiaPep277, Andromeda's leading product designed to treat type 1 diabetics (juvenile diabetes), which is expected to be received in the last quarter of 2008, Teva will continue to invest in Andromeda the remaining sum of $ 7 million ("the remaining investment") unless Teva informs Andromeda in writing within 60 days from receiving the interim report, at its sole discretion, that it does not intend to provide the remaining investment. This decision rests, among other things, on a series of prerequisites including obtaining the approvals required by law.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

The remaining terms of the agreement that would have applied in connection with the exercise of the option, including the grant of a shareholders' loan of $ 3.5 million to Andromeda by Teva for repaying part of the previous shareholders' loans extended by CBI to Andromeda and including the cancellation of the royalties to which Teva is entitled under previous agreements signed with Andromeda will be deferred until the date of completing the remaining investment, as far as it will be according to the above.

Nevertheless, it should be noted that there is no certainty that the abovementioned options are exercised by Teva. The exercise of the options by Teva is contingent, among other things, on a series of prerequisites including obtaining the approval of the authorized organizations of each party, obtaining the approvals required by any law and Teva's decision, at its sole discretion, to exercise the options.

The Company's equity in CBI's gain from the decrease in its holding rate in Andromeda following Teva's investment in Andromeda to 96.8% amounts to NIS 7 million and was carried to the income statement in the third quarter of 2008.

b) Curetech Ltd. ("Curetech"):

1) In July 2008, the boards of directors of Curetech and Teva approved an amendment to the share purchase agreement of February 1, 2006 ("the agreement" and "the amendment", respectively) in order to settle Teva's financing of expanding Curetech's activity and in this context, commence the execution of another phase II trial of its advanced product, the CT-011, for assisting in colon cancer treatment to include some 170 patients in addition to the phase II trial currently being conducted in lymphoma patients. The completion of the amendment is contingent on obtaining the approvals required by law and the approval of the general meeting of Curetech's shareholders.

According to the amendment, Teva will make an additional investment in Curetech's share capital in excess of the amounts stipulated in the agreement of up to approximately $ 10.5 million based on the payment mechanism determined in the amendment and to the extent needed to complete the additional trial, to complete the current trial and to finance Curetech's ongoing activities according to Curetech's pre-determined budget.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

In return for the additional investment, Curetech will allocate to Teva Ordinary shares of Curetech. Teva's investment will be based on the same price per share as in the initial investment from 2006, reflecting a value of Curetech of $ 46 million (before the money), or at a higher price per share based on mechanisms established in the agreement, so that if Teva invests all the funs to which it undertook based on the agreement and the amendment, Teva will hold up to 38% of Curetech's share capital on a fully diluted basis and under the same principle, the Company will hold about 44% (directly and indirectly) of Curetech's share capital on a fully diluted basis.

2) In September 2008, Teva invested in Curetech an amount of approximately $ 1.4 million out of the additional investment. Consequently, the Company's stake in Curetech decreased to 69.7%. The Company also derived a gain of approximately NIS 3 million from the decrease in stake, which was carried to the income statement in the third quarter of 2008.

3) Upon the completion of Teva's additional investment in Curetech in full (if it is completed), the Company will record a gain of at least NIS 15 million. This gain is calculated based on Curetech's share capital as of September 30, 2008, the known U.S. dollar exchange rate on the date of reporting and the allocation of shares to Teva according to Curetech's value as detailed above.

It should be noted that the consideration determined in the agreement of up to NIS 160 million to the remaining share and option holders in Curetech, including the Company and excluding Teva, in the event that Teva exercises the option granted to it to acquire the holdings of Curetech's shareholders, will remain unchanged.

3. The communication services segment:

a) Clalcom Ltd. ("Clalcom"):

In the first half of 2008, the Company acquired from the other shareholders in Clalcom, a subsidiary held until that date at 72%, their shares in consideration of NIS 26 million. Consequently, the Company holds 100% of Clalcom. The excess of the acquired carrying amount over the cost of the investment in the amount of NIS 6 million was carried as revenue to the income statement.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

b) Netvision Ltd. ("Netvision"):

1) On May 4, 2008, Netvision entered into an agreement with Bank Leumi LeIsrael Ltd. ("the bank") for acquiring the bank's holdings (some 15%) in the share capital of HOT Media Systems Ltd. ("HOT"), a publicly-traded company on the Tel-Aviv Stock Exchange. According to the agreement, in consideration for the acquired shares, Netvision shall pay the bank an overall sum of NIS 480 million, of which NIS 320 million will be paid at closing and the balance of NIS 160 million ("the deferred payment") will be paid to the bank no later than within 18 months from closing. The deferred payment will bear annual nominal interest of 4% starting from the date of closing through actual payment. To secure payment, Netvision will pledge one third of the acquired shares by a single first priority pledge with no other recourse of the bank towards Netvision.

Closing was expected to take place by August 15, 2008 and was subject to the fulfillment of the following conditions: (a) waiver or non exercise of the right of refusal regarding the acquisition of shares by eligible HOT shareholders; (b) obtaining the approvals required by any law for acquiring the shares.

On May 28, 2008, the exercise period of the right of refusal regarding the purchase of said shares from the eligible HOT shareholders was terminated and to the best of Netvision's knowledge, no exercise notice was provided by any of these shareholders. In the process of obtaining the necessary regulatory approvals for closing, Netvision was contacted by the Anti-trust Authority which claimed that upon initial examination, the transaction may constitute a binding arrangement pursuant to the Anti-trust Law, 1988. On May 6, 2008, Netvision received a demand from the Anti-trust Commissioner to produce documents in connection with said transaction. In furtherance to this demand, on July 6, 2008, Netvision received an additional demand for producing data and on July 31, 2008, it filed a response to the second demand.

On July 10, 2008, the Petach Tikva District Court granted its decision whereby it allowed Mr. Ever Zussman ("the plaintiff") to add Netvision as a party to the claim he had filed against the principal shareholders in HOT, particularly against the banks holding HOT shares. In the claim, the plaintiff is asking the Court to declare his right to purchase the HOT shares currently held by the banks, including the acquired shares that had been transferred in the past to the banks by Tevel Israel International Transmissions Ltd. ("Tevel"). The plaintiff is also asking the Court to determine that the transfer of HOT shares from Tevel to the banks is invalid. Netvision is studying the claim and is unable, at this stage, to assess its chances. It should be noted that in the agreement, the bank undertook toward Netvision that if the acquired shares are not free and clear, the bank will indemnify Netvision for any damage incurred to it in respect of the above, subject to limitations.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

On August 12, 2008, Netvision and the bank signed a letter of consent for extending the term of completing the transaction by September 30, 2008. If the transaction is not completed before August 25, 2008, the right of refusal regarding the purchase of said shares granted to the eligible HOT shareholders will be renewed. In such event, waiving said right of refusal or its non fulfillment will be re-established as one of the transaction's prerequisites.

As for the cancellation of the transaction subsequent to balance sheet date, see Note 7.

2) In the reported period, the quoted market price of Netvision's share dropped below its carrying amount (the investment in a total of NIS 322 million reflects a price per share of NIS 43.7). In view of the continued decline in Netvision's share price, the Company obtained an independent appraiser's evaluation assessing the value of Netvision's share at NIS 49.1 per share (reflecting an investment value of NIS 362 million). Given that the value of the investment in Netvision as reflected from the evaluation is higher than the investment's carrying amount in the Company's books, no provision for impairment is required.

4. The real estate segment:

a) In March 2008, KBA Townbuilders Group Ltd. ("KBA") sold most of its rights to a plot of land in Ashdod in consideration of NIS 126 million. Accordingly, in the financial statements of the first quarter of 2008, the Company recorded a net gain of NIS 38 million. It should be noted that under the transaction, the buyer was granted an option to acquire another plot of land in consideration of approximately NIS 9 million. The option was exercised in June 2008 and consequently, the Company included a gain of NIS 3 million in the second quarter of 2008.

b) On July 25, 2008, the Company (through a wholly controlled company), Properties and Building Company Ltd. and Shikun Ovdim Ltd. ("the sellers") signed an agreement for the sale of their entire (direct and indirect) holdings in KBA for NIS 160 million (the Company's share is NIS 85 million) to Abu Yehiel Construction Company Ltd. ("Abu Yehiel") ("the sale agreement" and "the sale", respectively). The sale agreement further determines that prior to the completion of the sale, KBA is expected to distribute a dividend of NIS 41 million to the sellers (as its shareholders). If for whatever reason such dividend is not distributed, it will be added to the consideration bringing it to approximately NIS 201 million. On August 21, 2008, KBA paid a dividend of NIS 41 million to the shareholders (of which the Company's share is approximately NIS 22 million).

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

On September 18, 2008, the sale agreement was cancelled by mutual agreement. Concurrently, KBA entered into an agreement with Abu Yehiel for the sale of a plot of land in Ashdod for total consideration of NIS 80 million and in an agreement with a related party to Abu Yehiel for the sale of another property in Ashdod for a total of approximately NIS 10 million (collectively, "the properties"). Upon closing of the agreements fro the sale of the properties, the trustee on KBA's behalf received an advance for the purchase of the properties of NIS 30 million) of which a total of NIS 20 million was advanced in the original transaction and which will remain with the trustee on behalf of KBA). On September 28, 2008, the transaction for the sale of the real estate was consummated. Consequently, in the third quarter of 2008, the Company recorded a net gain of approximately NIS 23 million.

5. The commerce and related services segment:

In September 2008, the Company signed a general master agreement for the exclusive import of automobiles made by the Chinese manufacturer, BYD Auto CO Ltd. The import of automobiles to Israel is contingent on obtaining the approvals required by any law, including the approvals required for importing cars into Israel.

6. The transport, infrastructures and logistics services segment:

Until February 2008, Taavura Holdings Ltd. ("Taavura"), a jointly controlled entity held at 37.5%, held about 44.7% of the issued share capital of Maman. Maman is a publicly-traded company which is mainly engaged, through its subsidiary, in managing and operating a cargo terminal. In February 2008, Taavura increased its stake in Maman after completing a special purchase offer in the context of which it acquired another 5% of Maman's issued share capital ("the purchase offer") in consideration of NIS 14 million. At the end of March 2008, Taavura increased its stake in Maman following the exercise of the call option granted to it by Naftali S.S. Investments Ltd. ("Naftali") under an option agreement signed between the two (as amended). In the context of the exercise of said call option, Taavura acquired from Naftali the latter's entire interest in Maman, representing on said date some 18.2% of Maman's issued and outstanding share capital, in consideration of NIS 51 million. In the third quarter of 2008, Taavura purchased another 9% of Maman's share capital in consideration of NIS 15 million.

As of the date of these financial statements, Taavura holds some 77% of Maman's issued and outstanding share capital.

In its financial statements as of March 31, 2008, Taavura consolidated Maman's assets and liabilities for the first time. Taavura has engaged an independent appraiser for evaluating the fair value of Maman's assets and liabilities, including intangible assets, and for assessing the remaining useful lives of these assets. Said evaluation found that the fair value of the assets and liabilities is not materially different from their carrying amount. Accordingly, Taavura did not make any adjustments regarding said purchase.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

Following are details of the carrying amount of Maman's assets and liabilities on the date of initial consolidation as included in the Company's consolidated financial statements:

	NIS in millions
Current assets	98
Non-current assets	182
Current liabilities	(73)
Non-current liabilities	(65)
Net assets	142
Cash flows upon the acquisition:	
Consideration paid in cash	(33)
Cash and cash equivalents in the acquiree at date of sale	22
Cash used in the acquisition, net	(11)

If the business combination had taken place at the beginning of the year, the Company's net income for the nine months ended September 30, 2008 would have remained unchanged and the Company's consolidated revenue turnover for that period would have amounted to NIS 3,259 million. Also, the Company's equity in Maman's results included in the financial statements for said period amounts to income of NIS 5 million.

7. The other segment:

Cargal Ltd. ("Cargal"):

In March 2008, the Company entered into an agreement with Sky Fund and Cargal, which is 27.4% owned by the Company, according to which Sky Fund shall invest NIS 50 million in return for the issuance of Cargal's shares and the Company will invest NIS 19 million in return for the issuance of Cargal's shares in such a manner that the Company's holding rate in Cargal will not change ("the investment").

Cargal was also granted an option according to which it is entitled to compel the Company and Sky Fund to sell it the shares issued to them in consideration of a price per share that reflects up to between 1.56 and 2 of the price per share in the investment.

Cargal's option is exercisable over two years after the elapse of two years from closing. In the period of two years from closing, the Company and Sky Fund will not sell the shares. After the elapse of two years, the Company and Sky Fund are entitled to sell the shares under certain conditions. The Company addressed an independent outside appraiser who assessed the fair value of the option at approximately NIS 2 million. The transaction was closed in April 2008.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

b. Investments in listed companies:

	Amount of investment in shares as presented in the balance sheet at September 30, 2008	Market value at September 30, 2008	Market value at November 17, 2008
	NIS in millions		
Associates:			
Netvision Ltd.	322	241	190
Hadera Paper Ltd.	290	391	226
Beit Shemesh Engine Holdings (1997) Ltd.	34	20	7
ECTel Ltd.	28	13	9
Nova Measuring Instruments Ltd.	20	21	9
BioCancell Inc.	11	5	2
Subsidiaries:			
Golf & Co. Group Ltd.	170	394	268
Fundtech Ltd.	298	421	285
Clal Biotechnology Industries Ltd.	149	248	95
Maman - Cargo Terminals and Handling Ltd.	89	67	67

c. Income tax:

On February 26, 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985 - Income Tax (Inflationary Adjustments) Law (Amendment No. 20) (Limitation of Scope), 2008 ("the Amendment"). Under the Amendment, the Inflationary Adjustments Law will no longer apply in the 2008 tax year. The Amendment also prescribes transition provisions regarding certain adjustments for changes in the Consumer Price Index ("CPI") carried out in the period up to December 31, 2007. Under the amendment, starting the 2008 tax year and thereafter, the adjustment of income for tax purposes to a real basis will cease. Moreover, the linkage to the CPI of depreciation on fixed assets and carry-forward losses for tax purposes will be discontinued such that these amounts will be adjusted until the CPI of the end of 2007 and their adjustment will be discontinued as of that date and thereafter.

NOTE 4:- EVENTS DURING THE REPORTED PERIOD (Cont.)

d. Attaching the financial statements of associates:

The financial statements of Jaf-Ora Ltd. and Jordan Valley Semiconductors Ltd. were not attached to the financial statements as significant associates although the equity in each of their earnings for the nine months ended September 30, 2008 represents more than 10% of net income attributable to equity holders of the parent for said period ("the profit test") since in the previous reported year, the profit test was not conducted and it is not expected to be conducted in all of 2008.

NOTE 5:- BUSINESS SEGMENTS

a. General:

The Group companies are engaged in different operating segments, primarily in cement, textiles, high technology and funds, biotechnology, communication services, real estate and commerce and related services. Certain operations are fully reflected in the consolidated financial statements, while others are carried out through associates that are presented in the consolidated financial statements as investments and equity in their results of operations. Segment revenues, segment expense and segment results include transfers between the segments. The Company's management estimates that those transfers are reported at arm's length prices for similar products sold to external customers. Those transfers are eliminated in consolidation. As a result of the increase in the activity in the area of transport, infrastructures and logistics resulting from the initial consolidation of an investee of Taavura, as of the first quarter of 2008, the Company presents an additional reporting segment - transport, infrastructures and logistics services, see Note 4a(6) above.

NOTE 5:- BUSINESS SEGMENTS (Cont.)

b. Business segments reporting:

	Cement	Textiles	High-technology and funds	Bio-technology	Communication services	Real estate	Commerce and related services	Transport, infra-structures and logistics	Adjustment and other	Total
	Unaudited									
	NIS in millions									
Nine months ended September 30, 2008:										
Segment revenues:										
From external entities:										
Revenues from sales and services	1,206	704	218	2	-	240	481	341	6	3,198
Equity in earnings (losses) of associates, net	-	-	(15)	(13)	2	-	-	1	39	14
Gain from sale of investments and assets	-	3	3	16	-	-	4	2	-	28
Other income	-	-	-	-	9	-	-	3	1	13
Inter-segment revenues	-	-	-	-	-	-	19	54	(73)	-
Total revenues	1,206	707	206	5	11	240	504	401	(27)	3,253
Segment results	298	90	(52)	(69)	1	199	43	34	40	584
Nine months ended September 30, 2007:										
Segment revenues:										
From external entities:										
Revenues from sales and services	1,141	729	10	3	61	31	360	203	6	2,544
Equity in earnings (losses) of associates, net	-	-	60	(13)	(4)	-	-	6	44	93
Gain from sale of investments and assets	1	25	316	166	137	-	3	3	7	658
Other income	-	-	-	-	4	-	-	1	-	5
Inter-segment revenues	-	-	-	-	-	-	23	46	(69)	-
Total revenues	1,142	754	386	156	198	31	386	259	(12)	3,300
Segment results	290	106	264	86	152	23	32	34	49	1,036

NOTE 5:- BUSINESS SEGMENTS (Cont.)

	Cement	Textiles	High-technology and funds	Bio-technology	Communication services	Real estate	Commerce and related services	Transport, infra-structures and logistics	Adjustment and other	Total
	Unaudited									
	NIS in millions									
Three months ended September 30, 2008:										
Segment revenues:										
From external entities:										
Revenues from sales and services	407	228	110	-	-	87	154	138	6	1,130
Equity in earnings (losses) of associates, net	-	-	(13)	(4)	1	-	-	-	15	(1)
Gain from sale of investments and assets	-	3	2	12	-	-	1	1	-	19
Other income	-	-	-	-	2	-	-	3	(2)	3
Inter-segment revenues	-	-	-	-	-	-	4	17	(21)	-
Total revenues	407	231	99	8	3	87	159	159	(2)	1,151
Segment results	113	23	(18)	(15)	3	73	15	15	15	224
Three months ended September 30, 2007:										
Segment revenues:										
From external entities:										
Revenues from sales and services	400	244	3	1	-	4	113	64	4	833
Equity in earnings (losses) of associates, net	-	-	12	(2)	(9)	-	-	2	29	32
Gain from sale of investments and assets	1	-	315	80	-	-	1	2	7	406
Other income	-	-	-	(1)	2	-	-	-	(1)	-
Inter-segment revenues	-	-	-	-	-	-	5	19	(24)	-
Total revenues	401	244	330	78	(7)	4	119	87	15	1,271
Segment results	123	25	226	45	-	3	12	10	35	479

NOTE 5:- BUSINESS SEGMENTS (Cont.)

	Cement	Textiles	High-technology and funds	Bio-technology	Communication services	Real estate	Commerce and related services	Transport, infra-structures and logistics	Adjustment and other	Total
	Audited									
	NIS in millions									
Year ended December 31, 2007:										
Segment revenues:										
From external entities:										
Revenues from sales and services	1,524	982	10	4	61	51	493	273	4	3,402
Equity in earnings (losses) of associates, net	-	-	60	(14)	15	-	-	8	49	118
Gain from sale of investments and assets	-	25	319	166	134	-	4	5	5	658
Other income	4	-	-	-	6	-	1	-	3	14
Inter-segment revenues	-	-	-	-	-	-	28	65	(93)	-
Total revenues	1,528	1,007	389	156	216	51	526	351	(32)	4,192
Segment results	378	147	250	70	150	41				